

## **Mitie FM Limited**

**Annual report and financial statements**

**Registered number 03253304**

**31 March 2022**



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## Company information

### Directors

P J G Dickinson  
N J Goodridge  
S Johnston  
B Talbot  
J M Williams

### Secretary

Mitie Company Secretarial Services Limited

### Registered office

Level 12  
The Shard  
32 London Bridge Street  
London  
SE1 9SG

### Auditor

BDO LLP  
Statutory Auditor  
55 Baker Street  
London  
W1U 7EU

## Strategic report

Mitie FM Limited (the "Company") is an indirect subsidiary of Mitie Group plc. Mitie Group plc, together with its subsidiaries, comprise the "Group".

The directors of the Company (the "Directors"), in preparing this Strategic report, have complied with Section 414c of the Companies Act 2006.

### Review of the business

The principal activity of the Company is the provision of facilities management services to a range of clients in the public and private sector. There has not been any significant changes in the Company's principal activities in the year under review.

The results for the comparative period ended 31 March 2021 and the balance sheet at that date constitute a shortened accounting period of 4 months.

As shown in the income statement on page 18, the Company's revenue for the year ended 31 March 2022 was £937,513,000 (4 months ended 31 March 2021: £262,872,000) and the profit for the year was £32,477,000 (4 months ended 31 March 2021: £1,327,000).

### Key performance indicators

The Group manages its operations on a divisional basis. For this reason, the Company's Directors do not believe further key performance indicators are necessary for an appropriate understanding of the performance and position of the Company. The performance of the Group's divisions is discussed in the Mitie Group plc annual report and accounts 2022 which does not form part of this report.

## Strategic report (continued)

### Principal risks and uncertainties

The Company is part of the Group and manages its risks in line with the Group's enterprise risk management framework. Details of this framework and information on the principal risks and uncertainties are given in the Mitie Group plc annual report and accounts 2022. The Directors have reviewed the Company's financial objectives alongside the risk profile for the Company and the significant risks and uncertainties have been detailed below.

### Strategic risks

#### *Economic and political uncertainties*

The Company's performance may be affected by general economic conditions and other financial and political factors outside the Company's control. An economic slowdown may result in decreased project work and discretionary spend or descope of services by customers, which can lead to an impact on the Company's financial performance.

Post COVID-19, demand for goods and services and economic growth has started to recover. However, this recovery has caused prices to increase due to global supply and demand issues, and such pressures may continue in the medium term. Recent political conflicts have compounded the risk further with additional price increases being experienced, for example in relation to fuel and energy.

The Group, of which the Company is a part, drives most of its revenue from a client base in the UK, with limited exposure to the wider global economy in respect of demand for services. However, the costs of delivery are exposed to global inflationary impacts. The Group continues to monitor the impact of the current economic and political challenges on the cost of delivering its services to ensure mitigating actions, such as using contractual protections to pass on such cost increases, minimise the Group's exposure to this and associated risks.

Controls and mitigation plans have been put in place by the Group to mitigate such risks. These include but are not limited to:

- mix of long-term contract portfolio in both the public and private sectors;
- continual development of new and innovative solutions via Connected Workspace;
- focus on higher margin growth opportunities;
- regular reviews of the sales pipeline;
- increasing spread of client base, reducing reliance on individual customers;
- strategic account management programme;
- dedicated Finance, Risk and Intelligence Hub specialists scanning environment;
- utilising contract mechanisms to recharge cost increases;
- digital supplier platform providing greater visibility of, and ability to manage, supply chain; and
- leveraging buying power to help mitigate the increase in cost of goods and services.

#### *Competitive advantage*

The Company's performance could be impacted by a failure to maintain competitive advantage resulting in the loss of key clients, an over reliance on a particular sector, or a failure to produce bids which are financially viable.

The year has witnessed many achievements for the Company, including but not limited to, the completion of Project Forte and the proactive management to support the COVID-19 recovery.

Despite such achievements, the Company recognises the importance of staying focussed and continually reviewing ongoing challenges, such as the threats posed from new entrants, market saturation across the sectors, growing competition as well as the ongoing effects from COVID-19, all of which have the potential to impact profit margins and disrupt the Company's operations.

In the next financial year, the Company will continue to monitor the changing external environment as well as market coverage. Furthermore, it will continue to develop and deliver competitive bids, along with maintaining obligations towards the delivery of a quality service for existing clients.

## Strategic report (continued)

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- Bid Committee approval for complex bids;
- robust risk assessment of bids – Commercial, Legal and Operational;
- detailed contracting guidelines in place;
- clear delegated authorities register;
- strategic account management programme;
- KPI/SLA formal reviews with customers;
- sales and CRM teams focused on developing pipeline across all major sectors;
- improved CRM capabilities with active relationship management;
- focus on Customer Satisfaction (Net Promoter Score and soliciting feedback);
- review of any loss-making contracts to ensure learnings are identified and applied to future bids;
- sales and pipeline management information to track and measure growth, wins and losses;
- win/loss debriefing process to take learnings for future bidding activities;
- Chief Government & Strategy Officer coordinating all interfaces with the Cabinet Office;
- focus on high-margin opportunities with growth potential, for example technology-led solutions;
- development of new and innovative service offerings; and
- Sales Academy.

### **Financial risks**

#### *Reliance on material counterparties*

In accordance with Group policies, before accepting a new customer, the Company uses external credit scoring systems to assess the potential customer's credit quality and define an appropriate credit limit which is reviewed regularly.

### **Operational risks**

#### *Third-party management*

The Company's performance could be impacted by a failure to manage strategic third-party relationships, or a catastrophic event and/or failure involving a third-party partner.

During the year, many sectors have been impacted by shortfalls in key products and materials. This in turn has led to delayed or reduced deliveries, mis-picks of products, short notice substitutions and short-term unavailability of key products and materials. During this period, the Company has continued to work closely with supply chain partners to ensure it was operating at its most effective to reduce the impact from this disruption. At an account level there were ongoing reviews of key products and materials, and clients were continually kept abreast of developments.

During the year, the Company integrated onto the new Group digital supply chain platform ("DSP") to better manage supply chain and associated risks. This has resulted in a structured review of all suppliers and subcontractors, which has seen subcontractors (by spend) fully accredited on a best-in-class Quality, Health, Safety and Environment ("QHSE") accreditation platform (Safe Contractor). A further Procurement and Supply Chain ("PSC") Insight's initiative was also introduced to keep both clients and the Company informed of the changing environment.

The Company will continue to proactively monitor developments with both the internal and external landscapes, paying particular attention to the ongoing issues still being experienced from both COVID-19 and Brexit, combined with the impact of inflation, which continues to affect all businesses. Particular focus will continue to remain on Supplier Risk Management and Supplier Health facilitated by data delivered via the DSP.

## Strategic report (continued)

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- key policies and associated operating procedures, including Supply Management Framework;
- dedicated Procurement and Commercial teams;
- Mitie First approach adopted;
- Project Forté driven improvements under Supply Chain Management workstream, including enhanced supplier audits, improved invoicing capabilities, master service agreements and job automation;
- rigorous on-boarding framework integrated into business utilising the DSP;
- defined service level agreements and key performance indicators;
- ongoing spending review;
- dedicated risk management and assurance procedures (including targeted QHSE assurance programme and internal audit) to ensure internal controls are operating effectively;
- ongoing review of third-party business continuity arrangements with regular reporting to the Group Risk team;
- DSP facilitating supplier health and risk checks as well as invoice processing; and
- PSC Insights introduced.

### **Regulatory risks**

#### **Regulatory**

The Company's performance could be impacted by a failure to comply with applicable laws and regulations.

During the year, there were notable changes to the Company's external environment in terms of regulatory updates, and in the main these continued to be related to COVID-19 (e.g. mandatory vaccination requirements and end of furlough), Brexit (e.g. new immigration laws), and corporate governance requirements. As a consequence, a number of related activities took place throughout the year to ensure the Company and the Group remained legally compliant.

Next year, the Company does not envisage the pace of legislative change altering and will continue to proactively scan the external operating environment as well as assess the impact of changes, as they arise. Uncertainty still remains around legislation yet to be passed and the impact of this on the Company. There are still unknowns associated with both the knock-on impact of Brexit as well as COVID-19 from a regulatory perspective.

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- specialist legal and QHSE expertise aligned to business units;
- Code of Conduct for all employees;
- independent whistleblowing system available to all employees to report any concerns;
- Group-wide policies updated for changes to laws and regulations and maintained in the online Information Management System;
- regular and thorough internal and external regulatory audits;
- training and awareness materials communicated to employees via the Group's digital Learning Hub and monitoring of completion performed, especially for mandatory courses;
- regular monitoring of legal and regulatory changes by Group functions including Company Secretariat, Legal and QHSE;
- financial governance and controls in place;
- commercial governance and controls in place; and
- establishment of Internal Control Declaration framework ongoing to align with potential UK legislation requirements.

## Strategic report (continued)

### *People risks*

#### *Health, Safety and Environment*

The Company's performance could be impacted by a failure to maintain high standards in relation to health, safety, and environmental ("HSE") practices.

The Company's HSE key performance indicators have been broadly positive.

The Company continues to monitor developments in relation to COVID-19 to ensure business interruptions are kept to a minimum and productivity in a safe environment is maximised. The Company contributes to the Group's live COVID-19 risk register, which is regularly reviewed and consulted on. Focus remains on ensuring that appropriate steps are taken to safeguard the physical and mental wellbeing of colleagues, suppliers and others involved in the Company's operations. The recovery phase of the pandemic has been welcomed across the Group with the Company proactively prioritising and supporting colleagues, clients, and subcontracting partners with getting Britain back to business.

The Company remains vigilant in terms of flexible responses should a change in direction be required due to a COVID variant triggering a new wave or should there be a requirement for other courses of action relating to the pandemic. Continual horizon scanning, reviewing and assessment via our Intelligence Hub continues to play a pivotal role in helping to maintain the Company's resilience.

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- a comprehensive QHSE strategy in place and under continual review for effectiveness;
- major cultural HSE programme, LiveSafe, continuing, with clear rules, engagement and training for staff;
- regular training and communication delivered throughout the Group, in accordance with the LiveSafe principles. LiveSafe e-learning training programme sets out HSE expectations including 'stop the job' supported by key safety message from the Group's Chief Executive, Phil Bentley;
- health and safety management system certified to ISO 45001 and environmental system to ISO 14001;
- fully integrated incident recording, monitoring and reporting system;
- regular HSE reviews conducted at Group and business unit level;
- clear and standardised KPIs to monitor progress and improvements;
- targeted QHSE procedural audit programme;
- themes and root causes monitored from the results of audits to target specific actions, including training;
- QHSE function 'Plan Zero Champions' as part of the Plan Zero programme to promote strategy and good practice in environmental management;
- health and wellbeing framework integrated into the business;
- COVID-19 Working Group;
- COVID-19 risk assessment and technical compliance processes in place and regularly reviewed;
- ultraviolet light disinfection system and thermal imaging in place to mitigate against spread of COVID-19;
- insurance cover in place to cover employers' liability, public liability and motor fleet insurance;
- focused zero harm weeks concentrating on pertinent subjects to further strengthen the Group's QHSE culture; and
- ongoing review of QHSE team ensuring maintenance of competencies and correct provision of support and guidance across the Group.

### *Employees*

The Company's performance could be impacted by an inability to recruit, retain and reward suitably talented employees.

During the year, the Company has witnessed large-scale impacts to the UK labour market as the economy began to recover from COVID-19. This was compounded by the broader implications of Brexit which had the potential to compromise the availability of labour and key skills. During the reporting period, the Company has continued to work hard to minimise disruption caused by this evolving external landscape. During the year, the Company took positive action to retain talent, through the provision of enhanced benefits for all colleagues including free shares, enhanced maternity pay, the addition of sabbaticals/career breaks, life assurance, virtual GP, and a salary advance scheme (the ability to draw down pay earned ahead of pay day). Additionally, to ensure compliance with the EU Settlement Scheme, the Company worked closely with impacted colleagues to ensure that they were assisted and guided through the process effectively.



## Strategic report (continued)

The Company will continue to proactively monitor developments in relation to the labour market as well as any further implications resulting from COVID-19, such as workforce fatigue. The Group will be seeking to launch a company-wide employee value proposition campaign, a career band framework as well as a cost-of-living campaign.

Controls and mitigation plans have been put in place by the Group to mitigate the risks in this area. These include but are not limited to:

- consistent HR resourcing process and system across the Group;
- process in place for online training and development, with access to online learning for all colleagues;
- consistent process to manage both temporary and permanent recruitment;
- training and development programmes for senior leadership;
- developed talent identification, management and development framework;
- improved performance management framework;
- HR structure streamlined and working in close partnership with the business;
- induction programme, mandatory for new starters;
- regular communications from leadership team, including Executive Management country-wide roadshows;
- specific plans developed to address results of employee survey;
- competitive remuneration, terms and conditions;
- regular employee offers;
- succession plans in place for critical roles, especially for senior leadership;
- attraction strategy developed and deployed;
- enhanced benefits such as free shares, life assurance, virtual GP, and a salary advance scheme; and
- new careers site launched during the year attracting more than 128,000 new and unique viewers.

### Financial risk management

The Company does not enter into any hedging instruments, or any financial instruments for speculative purposes.

Appropriate trade terms are negotiated with suppliers and customers. Management reviews these terms and the relationships with suppliers and customers and manages any exposure on normal trade terms. The Company's requirement for additional funding is managed as part of the overall Group financing arrangements.

## Strategic report (continued)

### Section 172 statement

The following disclosure describes how the Directors have had regard to the matters set out in Section 172(1) (a) to (f) and forms the statement required under Section 414CZA of the Companies Act 2006.

### Stakeholders

The Directors consider the groups set out in the table below as its key stakeholders, which align with those of the Group. Through various methods, including information gathered and cascaded by both the divisional and senior leadership teams, and Group-wide engagement, both direct and indirect, the Directors aim to understand the interests of each stakeholder.

Stakeholder	Engagement activity	Important issues discussed
Customers	<ul style="list-style-type: none"> <li>- Management of customer relationships by divisional leadership</li> </ul>	<ul style="list-style-type: none"> <li>- Customer satisfaction</li> <li>- Labour market constraints</li> <li>- Governance and transparency</li> <li>- Social value</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>- Regular senior leadership meetings</li> </ul>	<ul style="list-style-type: none"> <li>- Financial performance</li> <li>- Integration programme following completion of the Group's acquisition of Interserve Facilities Management ("Integration Programme")</li> <li>- Environmental, Social and Governance matters</li> </ul>
Communities and the environment	<ul style="list-style-type: none"> <li>- Mitie Foundation</li> <li>- Local community events</li> <li>- Employee volunteering</li> </ul>	<ul style="list-style-type: none"> <li>- Social value</li> <li>- Reduction in carbon emissions</li> </ul>
Employees	<ul style="list-style-type: none"> <li>- All employee teams meetings</li> <li>- Internal communications updates through weekly Recap and monthly Download updates</li> <li>- Pulse surveys</li> <li>- Designated non-executive director, Jennifer Duvalier</li> </ul>	<ul style="list-style-type: none"> <li>- Integration Programme</li> <li>- Reward and recognition</li> <li>- Remuneration and benefits</li> <li>- Career opportunities and development</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>- Global supplier portal</li> </ul>	<ul style="list-style-type: none"> <li>- Integration Programme</li> <li>- Responsible procurement</li> </ul>

### Consequences of any decision in the long-term

The Directors are aware that strategic decisions can have long-term implications on the Company and its stakeholders, and these decisions are carefully considered.

The Group acquired Interserve Facilities Management ("Interserve"), of which the Company was part, on 30 November 2020.

During the year, the Directors were involved in establishing an experienced integration team which implemented a robust governance structure to ensure all aspects of the Integration Programme were closely managed and measured. Risk areas were highlighted and escalated as appropriate. The Integration Programme completed at the end of November 2021 as planned.

### Having regard to the interests of employees

The Group has several mechanisms to engage with employees and the Directors are committed to ensuring that the results are considered in decision making.

The Directors regularly engaged with employees during the year on employee-related matters including reward and recognition matters and the Integration Programme through various mechanisms, including an annual employee survey, regular pulse surveys and the work carried out by Jennifer Duvalier, as the designated Group non-executive director for the workforce.

## Strategic report (continued)

### ***Fostering business relationships with suppliers, customers and others***

#### ***Suppliers***

The Directors support the Group's responsibility targets which are focused on increasing the percentage of the Group's spend that goes to small and medium-sized enterprises, and voluntary, charity and social enterprise suppliers.

A new digital supplier platform was deployed during the year, which enabled a more strategic approach to surveying the Group's suppliers on a proactive basis.

#### ***Customers***

Customers are at the heart of the business and therefore the Directors consider that getting closer to customers and thus becoming more responsive to their needs, is important.

The Directors monitor the Net Promoter Score, a customer loyalty metric that measures how likely a customer is to recommend a product or service to a friend, to ensure customers' sentiment remains positive.

### ***Impact of operations on the community and the environment***

The Directors are supportive of the Group's initiatives to improve the impact of the operations of the Company on the community and the environment. One of the Group's directors is a member of the Group's Social Value and Responsible Business Committee. The committee provides oversight and governance for all of the Group's social value and responsible business initiatives, ensuring that they are aligned to the Group's purpose, promises and values. The committee was in place throughout the year.

### ***Maintaining a high standard of business conduct***

#### ***Ethical business practice***

The Company has a duty to act responsibly and to show the highest levels of ethical and moral stewardship. A Group ethical business practice policy is in place which applies to all employees in relation to dealings with its people, agents, clients, suppliers, subcontractors, competitors, government officials, the public and investors.

To support this, there are a wide range of policies and training modules available including modern slavery, whistleblowing, anti-bribery and anti-corruption, business expenses and entertaining and Mitie's employee handbook.

#### ***Good governance***

The Company operates within a robust governance framework which includes processes and procedures set by the board of Mitie Group plc. This framework is applied throughout the Group and is adhered to by the directors of all of the Group's subsidiaries. This ensures consistency in decision-making which is crucial for achieving long-term success and creating sustainable value.

Details of how the Group complies with the UK Corporate Governance Code can be found in the Mitie Group plc annual report and accounts 2022.

### ***The need to act fairly as between members of the company***

The Company is a wholly owned subsidiary of the Group. The Directors operate within the governance framework for the Group and hold regular senior leadership meetings where items such as financial performance and people are discussed.

## Strategic report (continued)

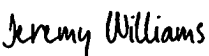
### Future developments

The Directors expect the general level of activity to remain consistent in the forthcoming year.

### Subsequent events

There have been no significant events since the balance sheet date.

Approved by the Board and signed on its behalf by:

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**J M Williams**  
*Director*  
27 July 2022

## Directors' report

The Directors present the annual report and audited financial statements of Mitie FM Limited for the year ended 31 March 2022.

In preparing this Directors' report, the Directors have complied with S414C(11) of the Companies Act 2006 by including certain disclosures required by S416(4) within the Strategic report.

### Going concern

The Company's business activities, together with the factors likely to affect its future development and position are set out in the Strategic report. The financial statements have been prepared on a going concern basis. See Note 1c.

### Directors

The Directors who held office during the year and up to the date of signing the financial statements were:

	Date of appointment	Date of resignation
P G Clark		1 April 2021
P J G Dickinson		
N J Goodridge	29 November 2021	
S Johnston		
S C Kirkpatrick		27 August 2021
B Talbot		
J M Williams	7 April 2021	

### Directors' indemnity

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of certain of the Directors listed above in respect of liabilities incurred as a result of their office to the extent permitted by law.

### Dividends

No dividend was declared or paid in the year (4 months ended 31 March 2021: £nil).

### Corporate governance

The statement below sets out how the UK Corporate Governance Code (the "Code") applies to governance arrangements in the Company and its Directors.

The Company is a wholly owned subsidiary of Mitie Group plc. Mitie Group plc applies the Code and these principles are applied, as appropriate, throughout the Group. The Company has therefore not applied a separate code. Mitie Group plc complied with all relevant provisions of the Code during the year ended 31 March 2022 except for provision 38 (alignment of executive director pension contribution rates with those available to the workforce). Further detail can be found in Mitie's Corporate Governance statement of compliance on page 86 of the Mitie Group plc annual report and accounts 2022.

### Board leadership and company purpose

- The purpose of the Company is to provide management and provision of business support services.
- The directors of the Company are senior managers in the Group and are members of the two key leadership teams supporting the board of Mitie Group plc. The senior leadership teams form part of the Group's internal governance structure and are to whom authority for carrying out decisions and actions to effect the overall Group strategy are delegated.
- The Group's purpose and values are communicated widely throughout the Group and through various engagement and feedback methods the Directors can assess alignment of the purpose and values with culture. How the Group assesses and monitors culture is set out on pages 96–99 of the Mitie Group plc annual report and accounts 2022.
- The Group operates a groupwide independent whistleblowing service to enable employees, suppliers and third parties to report any concerns or wrongdoing anonymously without any fear of retaliation.
- Directors' interests are declared and recorded in the minutes of the meetings of the Company.

### Composition, succession and evaluation

- As described above, the Directors are senior managers in the Group and are determined to have an appropriate combination of skills, experience and knowledge to carry out the purpose of the Company. One Director has recent and relevant financial experience.

## Directors' report (continued)

### **Audit, risk and internal control**

- The Group has an internal audit function that is responsible for providing assurance that the risk management, governance and internal controls processes within the Group are adequate and operating effectively. The function targets its work at areas of the business where risk management and internal controls are suspected of requiring improvement.
- A core set of business policies are available to all employees via the Group's Intranet setting out management expectations to enable effective risk management.
- The annual accounts are prepared and reviewed by the Finance teams and appropriate representations are gathered before being presented to the Directors for signature.
- See pages 66–77 of the Strategic report in the Mitie Group plc annual report and accounts 2022 for details on the principal risks and uncertainties of the Group.

### **Remuneration**

- The Group's annual employee appraisal process (Mi-Review) incorporates the expected behaviours that support its values and allows for the allocation of pay reviews related directly to individual performance.
- The Group operates a discretionary annual bonus plan that allows eligible employees to share in the profits achieved by the Group at the end of the year. The bonus is dependent on individual performance (as noted above) and how the Group performs against financial measures and targets set at the beginning of the financial year.

### **Employees**

The Company recognises the importance of good communications and employee relationships. The Group communicates with employees via multiple channels, including: regular employee engagement surveys, periodic pulse surveys and feedback on actions taken; communications platforms including Minet, MitiePeople.com, and social media; Group-level board and management engagement including Townhall meetings and local site visits, and Voice of the People sessions led by a Group-level non-executive director; global company updates; promotion of improved share incentive plan through different communication channels, including Recap, Download and Minet; annual individual performance reviews and training; confidential whistleblowing service; and direct access to the Group's CEO.

The Company remains committed to developing a culture that encourages the inclusion and diversity of all of the Company's employees through respecting and appreciating their differences and promoting the continuous development of employees through skills enhancement and training programmes.

The Company's employment policies are designed to attract, retain, train and motivate the very best people, recognising that this can be achieved only through offering equal opportunities regardless of gender, race, religion, age, disability, sexual orientation or any other aspect of diversity. Applications from disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. It is the policy of the Company that the training, career development and promotion of disabled persons (including those who become disabled whilst employees of the Company) should, as far as reasonably possible, be identical to that of other employees.

Further information on employees has been provided in the Section 172 statement in the Strategic report.

### **Overseas branches**

The Company has branches in Austria, Belgium, Czech Republic, Denmark, France, Germany, Hungary, Luxembourg, the Netherlands, Poland, Republic of Ireland, Slovakia, Spain and Switzerland.

### **Other information**

An indication of likely future developments in the business, discussion of financial risk management, and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic report.

### **Disclosure of information to auditor**

Each Director in office at the date of approval of these financial statements confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

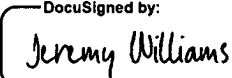
This confirmation is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

## Directors' report (continued)

### Auditor

Pursuant to Section 487 of the Companies Act 2006, BDO LLP have been appointed as the auditor.

Approved by the Board and signed on its behalf by:

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**J M Williams**  
*Director*  
27 July 2022

## **Statement of Directors' responsibilities in respect of the Annual report and financial statements**

The Directors are responsible for preparing the Annual report and 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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



## Independent auditor's report to the members of Mitie FM Limited

### Opinion

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mitie FM Limited (the "Company") for the year ended 31 March 2022, which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements 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. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Independent auditor's report to the members of Mitie FM Limited (continued)**

### **Other Companies Act 2006 reporting**

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.

In the light of the knowledge and understanding of the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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 Statement of Directors' Responsibilities, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### ***Extent to which the audit was capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We gained an understanding of the legal and regulatory framework applicable to the entity and the industry in which it operates, through discussion with management and our knowledge of the industry. We focussed on significant laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice), Health and Safety, the Bribery Act 2010 and tax legislations.
- We considered compliance with these laws and regulations through discussions with management and, where applicable Mitie Group plc in-house legal counsel. Our procedures also included reviewing minutes from Mitie Group plc board meetings, reviewing minutes of Mitie Group plc audit committee meetings and reviewing Mitie Group plc internal audit reports to identify any instances of non-compliance with laws and regulations.

## Independent auditor's report to the members of Mitie FM Limited (continued)

- We assessed the susceptibility of the entity's financial statements to material misstatement, including how fraud might occur. In addressing the risk of fraud including management override of controls and improper revenue recognition, we tested the appropriateness of journal entries made throughout the year by applying specific criteria.
- We performed detailed testing of the entity's year end adjusting entries and journals throughout the year, investigated any that appeared unusual as to nature or amount; assessed whether the judgements made in accounting estimates were indicative of a potential bias and tested the application of cut-off and revenue recognition.
- We identified areas at risk of management bias and challenged key estimates and judgements applied by Management in the financial statements to assess their appropriateness.
- We remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, 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, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the 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 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

*Charles Ellis*

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**Charles Ellis (Senior Statutory Auditor)**  
for and on behalf of BDO LLP, Statutory Auditor  
London  
27 July 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Income statement

	Note	Year ended 31 March 2022 £000	4 months ended 31 March 2021 £000
<b>Revenue</b>	2	<b>937,513</b>	262,872
Cost of sales		(863,295)	(247,033)
Other income	3	646	877
		<hr/>	<hr/>
<b>Gross profit</b>		<b>74,864</b>	16,716
Administrative expenses		(52,698)	(15,020)
Other items	3	2,585	(1,453)
Share of profit of associates	14	992	260
		<hr/>	<hr/>
<b>Operating profit</b>	3	<b>25,743</b>	503
Finance income	7	4,002	888
Finance costs	8	(174)	(70)
		<hr/>	<hr/>
<b>Net finance income</b>		<b>3,828</b>	818
		<hr/>	<hr/>
<b>Profit before tax</b>		<b>29,571</b>	1,321
Tax	9	2,906	6
		<hr/>	<hr/>
<b>Profit for the year/period</b>		<b>32,477</b>	1,327
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 23 to 58 form an integral part of the financial statements.

The results for the year/period are wholly attributable to the continuing operations of the Company.

## Statement of comprehensive income

	<i>Note</i>	<b>Year ended 31 March 2022 £000</b>	<b>4 months ended 31 March 2021 £000</b>
<b>Profit for the year/period</b>		<b>32,477</b>	<b>1,327</b>
<b>Items that will not be reclassified to profit or loss in subsequent years</b>			
Remeasurement of net defined benefit pension liability	21	(1,952)	(926)
Remeasurement of pension reimbursement asset		(248)	250
Tax credit/(charge) relating to items that will not be reclassified to profit or loss	19	247	(91)
Other tax on remeasurement of retirement benefit surplus	21	651	473
<b>Other comprehensive expense for the year/period</b>		<b>(1,302)</b>	<b>(294)</b>
<b>Total comprehensive income for the year/period</b>		<b>31,175</b>	<b>1,033</b>

The notes on pages 23 to 58 form an integral part of the financial statements.

Mitie FM Limited  
Annual report and financial statements  
31 March 2022

## Balance sheet

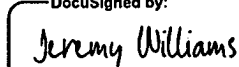
	<i>Note</i>	<b>2022</b> <b>£000</b>	2021 £000
<b>Non-current assets</b>			
Goodwill	10	10,392	10,392
Other intangible assets	11	558	2,564
Property, plant and equipment	12	5,101	3,711
Investment in subsidiaries	13	8	8
Interest in associate	14	660	513
Other receivables	17	1,948	5,248
Retirement benefit assets	21	1,394	2,603
Deferred tax assets	19	15,645	5,626
<b>Total non-current assets</b>		<b>35,706</b>	30,665
<b>Current assets</b>			
Inventories	16	2,344	2,441
Trade and other receivables	17	315,627	247,704
Current tax receivable		-	1,067
Cash and cash equivalents		41,053	18,746
<b>Total current assets</b>		<b>359,024</b>	269,958
<b>Current liabilities</b>			
Trade and other payables	18	(252,376)	(184,325)
Deferred income		(30,238)	(25,614)
Current tax payable		(5,735)	(158)
Lease liabilities	22	(885)	(529)
Provisions	20	(18,656)	(16,103)
<b>Total current liabilities</b>		<b>(307,890)</b>	(226,729)
<b>Net current assets</b>		<b>51,134</b>	43,229
<b>Non-current liabilities</b>			
Trade and other payables	18	(32)	(68)
Deferred income		(4,598)	(19,317)
Lease liabilities	22	(2,922)	(2,024)
Provisions	20	(36,487)	(42,118)
Retirement benefit liabilities	21	(2,256)	(1,821)
<b>Total non-current liabilities</b>		<b>(46,295)</b>	(65,348)
<b>Net assets</b>		<b>40,545</b>	8,546

**Balance sheet (continued)**

	<i>Note</i>	<b>2022</b> <b>£000</b>	<b>2021</b> <b>£000</b>
<b>Equity</b>			
Share capital	23	15,000	15,000
Retained earnings/(losses)	23	25,545	(6,454)
<b>Total equity</b>		<b>40,545</b>	<b>8,546</b>

The notes on pages 23 to 58 form an integral part of the financial statements.

The financial statements of Mitie FM Limited, company number 03253304, were approved by the Board of Directors and authorised for issue on 27 July 2022 and were signed on its behalf by:

DocuSigned by:  
  
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**J M Williams**  
*Director*

## Statement of changes in equity

	Share capital £000	Retained (losses)/ earnings £000	Total equity £000
At 1 December 2020	15,000	(7,487)	7,513
Profit for the period	-	1,327	1,327
Other comprehensive expense	-	(294)	(294)
<b>Total comprehensive income</b>	-	1,033	1,033
<b>At 31 March 2021</b>	<b>15,000</b>	<b>(6,454)</b>	<b>8,546</b>
Profit for the period	-	32,477	32,477
Other comprehensive expense	-	(1,302)	(1,302)
<b>Total comprehensive income</b>	-	31,175	31,175
<b>Transactions with owners</b>			
Share-based payments	-	805	805
Deferred tax	-	19	19
<b>Total transactions with owners</b>	-	824	824
<b>At 31 March 2022</b>	<b>15,000</b>	<b>25,545</b>	<b>40,545</b>

The notes on pages 23 to 58 form an integral part of the financial statements.



## Notes

### 1 Accounting policies, judgements and estimates

#### a) General information

Mitie FM Limited (the "Company") is a private company limited by shares and is incorporated and domiciled in the United Kingdom. Details of the Company's activities are set out in the Strategic report.

The Company is exempt, by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. The Company's ultimate parent undertaking, Mitie Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Mitie Group plc have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006. They are available to the public and may be obtained from [www.mitie.com](http://www.mitie.com).

#### b) Statement of compliance with FRS 101

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK ("UK-adopted International Accounting Standards"), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, International Financial Reporting Standards ("IFRS") as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the Company transitioned to UK-adopted International Accounting Standards (as described above) in its financial statements for the year ended 31 March 2021. This change constituted a change in accounting framework. However, there was no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### c) Basis of preparation

##### Going concern

The financial statements have been prepared on a going concern basis. The Company participates in the centralised treasury arrangements and shared banking arrangements of Mitie Group plc, its ultimate parent, and of its fellow subsidiaries (together the "Group"). The Directors have received a letter of support from the directors of Mitie Group plc to confirm provision of adequate financial resources to the Company for a period of not less than twelve months from the date of approval of the Company's statutory financial statements for the year ended 31 March 2022 to ensure that the Company can meet its liabilities as they fall due.

The directors of Mitie Group plc have carried out an assessment of the Group's ability to continue as a going concern for a period of at least 12 months from the date of approval of these financial statements (the "Going Concern Assessment Period"). This assessment was based on the latest medium-term cash forecasts from the Group's cash flow model (the "Base Case Forecasts"), which are based on the Group's board-approved budget. These Base Case Forecasts indicate that the debt facilities currently in place are adequate to support the Group over the Going Concern Assessment Period.

The Group's principal debt financing arrangements as at 31 March 2022 were a £150m revolving credit facility, of which £141.5m was undrawn as at 31 March 2022, and £151.5m of US private placement ("USPP") notes (being the repayment amount after taking account of the cross-currency swaps hedging the principal amount), of which £121.5m is due to mature in December 2022. The revolving credit facility was put in place in October 2021, maturing in October 2025 (with an option to extend for a further year, subject to lenders' approval), on significantly more favourable terms than the previous facility. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis.

The Issue of £120.0m of new USPP notes has also been agreed, under a delayed funding arrangement in December 2022, avoiding any overlap with the existing £121.5m of notes that mature in the same month. The new notes are split equally between 8-year, 10-year and 12-year maturities, and will be issued with an average coupon that is significantly below the current coupon. The remaining £30m of USPP notes are due to mature in December 2024, which is outside the Going Concern Assessment Period.

The Group currently operates within the terms of its agreements with its lenders, with consolidated net cash (i.e. net cash adjusted for covenant purposes, with appropriate adjustments for leases) of £147.7m as at 31 March 2022. The Base Case Forecasts indicate that the Group will continue to operate within these terms and that the headroom provided by the Group's strong cash position and the debt facilities currently in place is adequate to support the Group over the Going Concern Assessment Period.

The directors of Mitie Group plc have also completed a reverse stress test using the Group cash flow model to assess the point at which the covenants, or facility headroom, would be breached. The sensitivities considered have been chosen after considering the Group's principal risks and uncertainties.

The primary financial risks related to adverse changes in the economic environment and/or a deterioration in commercial or operational conditions are listed below. These risks have been considered in the context of any potential further impact of COVID-19, as well as the potential impact of the Russian invasion of Ukraine.

- A downturn in revenues: this reflects the risks of not being able to deliver services to existing customers, or contracts being terminated or not renewed.
- A deterioration of gross margin: this reflects the risks of contracts being renegotiated at lower margins, or planned cost savings not being delivered.
- An increase in costs: this reflects the risks of a shortfall in planned overhead cost savings, including the margin enhancement initiatives not being delivered, or other cost increases such as sustained higher cost inflation.
- A downturn in cash generation: this reflects the risks of customers delaying payments due to liquidity constraints, the removal of ancillary debt facilities or any substantial one-off settlements related to commercial issues.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

As a result of completing this assessment, the directors of Mitie Group plc concluded that the likelihood of the reverse stress scenarios arising was remote. In reaching the conclusion of remote, the directors of Mitie Group plc considered the following:

- all stress test scenarios would require a very severe deterioration compared to the Base Case Forecasts. Revenue is considered to be the key risk, as this is less within the control of management. Revenue would need to decline by approximately 34% in the year ending 31 March 2023, compared to the Base Case Forecasts, that are based on mid-single digit underlying revenue growth (which excludes COVID-19 related revenues). A 34% decline in revenue is considered to be very severe given the high proportion of the Group's revenue that is fixed in nature and the fact that even in a COVID-19 impacted year, the Group's revenue excluding Interserve declined by only 1.6%; and
- in the event that the Group's results started to trend significantly below those included in the Base Case Forecasts, additional mitigation actions have been identified that would be implemented, which are not factored into the reverse stress test scenarios. These include the short-term scaling down of capital expenditure, overhead efficiency/reduction measures including cancellation of discretionary bonuses and reduced discretionary spend, asset disposals and reductions in cash distributions and share buybacks.

Based on these assessments, the directors of Mitie Group plc have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of these financial statements. In addition, the directors of Mitie Group plc have concluded that the likelihood of the reverse stress scenarios arising is remote and therefore no material uncertainty exists.

Based on this assessment, and their enquiries of the directors of Mitie Group plc, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of the Company's financial statements for the year ended 31 March 2022. Accordingly, the financial statements have been prepared on a going concern basis.

#### FRS 101 exemptions

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliations for intangible assets, property, plant and equipment, and share capital;
- the statement of compliance with UK-adopted International Accounting Standards;
- certain disclosures required by IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15");
- disclosures in respect of capital management;
- the effects of new but not yet effective UK-adopted International Accounting Standards;
- disclosures in respect of the compensation of Key Management Personnel; and
- disclosures in respect of related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

As the consolidated financial statements of Mitie Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share-based Payment* in respect of Group settled share-based payments;
- certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets; and
- certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments: Disclosures*.

#### Accounting standards that are newly effective in the current period

There are no new and mandatorily effective standards in the period that would have a material impact on the financial statements.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### Measurement convention

The financial statements are prepared on the historical cost basis.

#### Other items

In the financial statements, the Company has elected to provide some further disclosures, reported as '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 management believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Company. The Company separately reports items such as gain or loss on disposals of investments, impairments of investments, cost of restructuring programmes, certain impairments, and other exceptional items 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 Company 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 3.

#### d) Significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### Revenue recognition

The Company 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.

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 Company 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.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### *Duration of contract*

The Company 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 Company 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*

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 Company 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 Company to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers such as in the Company's integrated facilities management contracts, the Company 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 Company 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 Company 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 Company 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 Company determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Company applies the relevant output or input revenue recognition method for measuring progress that depicts the Company'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 Company 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.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

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 Company's efforts in delivering the service.

Where deemed appropriate, the Company will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Company has the right to invoice, where that amount corresponds directly with the value to the customer of the Company'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 Company 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.

Management considers the majority of services provided within integrated facilities management contracts meet the definition of a series of distinct goods and 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 Company treats the series of such services as one performance obligation.

The Company 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 Company has a legally enforceable right to remuneration for the work completed to date, or at milestone periods, and therefore revenue will be recognised in line with the associated transfer of control or milestone dates.

#### Repeat service-based contracts (single and bundled contracts)

The Company 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. 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 Company therefore treats the series of such services as one performance obligation.

#### Short-term service-based arrangements

The Company delivers a range of other short-term service based performance obligations and professional services work 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.

#### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all conditions attaching to the grant will be complied with. Government grants that compensate the Company for expenses incurred are recognised in the income statement over the periods necessary to match the grant with the related costs. Where the expenses incurred are recognised in cost of sales, the associated Government grants are recognised as Other income. Where the expenses incurred are recognised in administrative expenses, the Government grants are recognised as Other operating income. Any repayment of grants is charged to the income statement to reverse the associated amounts recognised, at the point when management has taken the decision to repay the amount to the government and the intention to repay has been communicated to the government.

#### 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.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### Accrued income and deferred income

The Company'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 Company recognises accrued income for the difference. Where revenue recognised at the period end date is less than amounts invoiced, the Company recognises deferred income for the difference.

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 Company 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 are prepared in the functional currency applicable to the 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. 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.

Non-monetary items are measured in terms of historical cost in a foreign currency and are not retranslated.

#### Taxation

Tax in the income statement represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from accounting profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company'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 Company intends to settle its current tax assets and liabilities on a net basis.

#### Goodwill

Goodwill arising on acquisitions before the date of transition to FRS 101 has been retained at the previous UK GAAP value at that date, subject to being subsequently tested for impairment. 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.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### Other intangible assets

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.

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 are 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:

Land and buildings:	50 years or lease term if shorter
Plant and vehicles:	2-10 years

The Company 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.

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 is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

#### Investments in subsidiaries

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.

#### Joint operations

The Company's share of the results, assets and liabilities of contracts carried out in conjunction with another party are included under each relevant heading in the income statement and balance sheet.

#### Interest in associate

Associates are those entities over whose financial and operating policies the Company has significant influence, but not control or joint control. The results, assets and liabilities of associates are incorporated in the Company's financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the balance sheet at cost and adjusted thereafter to recognise the Company's share of the profit or loss and other comprehensive income of the associate.



## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### **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**

##### ***Classification and measurement***

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument. The Company derecognises financial assets and liabilities only when the contractual rights and obligations are transferred, discharged or expire.

Financial assets comprise cash and cash equivalents, and trade and other receivables. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Cash and cash equivalents include 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. All of the Company'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 Company's revenue streams are therefore initially measured at their transaction price and are subsequently remeasured at amortised cost.

Financial liabilities comprise trade and other payables, and financing liabilities. These are measured at initial recognition at fair value and subsequently at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

##### ***Impairment of financial assets***

The Company recognises a loss allowance for expected credit losses ("ECLs") on all receivable balances from customers subsequently measured at amortised cost, using the simplified approach. Under this approach, the Company recognises a loss allowance based on lifetime ECLs at each reporting date. ECLs are calculated on the basis of historic and forward-looking data on default risk which is applied to customers with common risk characteristics such as sector type.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### Leases

The Company has various lease arrangements. At inception of a lease contract, the Company assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Company recognises a lease liability and a corresponding right-of-use asset with respect to all lease arrangements in which it is a lessee, except low-value leases and short-term leases of 12 months or less, costs for which are recognised as an operating expense within the income statement as they are incurred.

A right-of-use asset is capitalised on the balance sheet at cost which comprises the present value of future lease payments determined at the inception of the lease adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred in addition to an estimate of costs to remove or restore the underlying asset. Where a lease incentive is receivable, the amount is offset against the right-of-use asset at inception. Right-of-use assets are depreciated using the straight-line method over the shorter of the estimated life of the asset or the lease term and are reviewed for impairment to account for any loss when events or changes in circumstances indicate the carrying value may not be fully recoverable.

The lease liability is initially measured at amortised cost using the effective interest method to calculate the present value of future lease payments and is subsequently increased by the associated interest cost and decreased by lease payments made. The effective interest rate is based on estimates of relevant incremental borrowing costs. Lease payments made are apportioned between an interest charge and a capital repayment amount. Lease payments comprise fixed lease rental payments only, with the exception of property leases for which the associated fixed service charge is also included. Lease liabilities are classified between current and non-current on the balance sheet.

The lease term comprises the non-cancellable period in addition to the determination of the enforceable period which is covered by an option to extend the lease, where it is reasonably certain that the option will be exercised, and the period covered by the option to terminate the lease to a point in time where no more than an 'insignificant penalty' is incurred. The Company assesses an insignificant penalty with reference to the wider economics of the lease including any investment in non-transferable leasehold improvements which may result in an impairment charge should the lease be terminated.

A modification to a lease which changes the lease payment amount (e.g. due to a renegotiation or market rent review) or amends the term of the lease, results in a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

#### Intra-group financial instruments

Where the Company enters into financial guarantee contracts, to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### Retirement benefit costs

The Company participates in a number of defined benefit schemes. The Company 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 by qualified actuaries. 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.

Current service cost and past service cost are recognised in the income statement, in administrative expenses, whilst the net interest cost is recognised in net finance costs. The retirement benefit obligation 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 Company's net obligation in respect of defined benefit schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount using market yield on a high-quality corporate bond and deducting the fair value of any scheme assets. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan, where the Company has the unconditional right to the surplus, or reductions in future contributions to the plan. Any asset recognised is net of tax as the associated tax is not considered to be an income tax.

The Company also participates in a multi-employer defined benefit pension scheme. The Plumbing & Mechanical Services (UK) Industry Pension Scheme (the "Plumbing Scheme") is 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 has been unable to identify the assets and liabilities of the scheme which are attributable to the Company. The Plumbing Scheme trustee has issued a Section 75 employer debt notice in respect of the participation of the Company in the Plumbing Scheme (refer to Notes 20 and 21).

The Company 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.

#### Share-based payments

The Company participates in a number of Group executive and employee share option schemes. For grants of share options and awards, the fair value as at the date of grant is calculated using the appropriate valuation model and the corresponding expense is recognised on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. Further details of the Group's share option schemes are contained in the Mitie Group plc annual report.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### Provisions and contingent liabilities

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 management 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.

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 Company'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.

No provisions are recognised and only a disclosure in the financial statements is made for contingent liabilities. Contingent liabilities are possible obligations dependent on whether some uncertain future event occurs, or where a present obligation exists but payment is not probable, or the amount of payment cannot be measured reliably.

#### e) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements under 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.

#### Critical judgements in applying the Company's accounting policies

The following are the critical judgements, made by management in the process of applying the Company's accounting policies, that have the most significant effect on the amounts recognised in the Company's financial statements.

##### *Revenue recognition*

The Company's revenue recognition policies, which are set out under Revenue recognition in Note 1d), are central to how the Company measures the work it has performed in each financial year.

Due to the size and complexity of the Company's contracts, management is required to form a number of key judgements 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. This includes an assessment of the costs the Company 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.

For certain contracts, key judgements were made concerning contract renewals 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. 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.

Some of the Company's contracts include variable consideration where management assesses the extent to which revenue is recognised. For certain contracts, key judgements were made on whether it is considered highly probable that a significant reversal of revenue will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

#### *Other items*

'Other items' are items of financial performance which management believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Company. 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 Company. An analysis of the amounts included in Other items is detailed in Note 3.

#### *Recoverability of trade receivables and accrued income*

The Company has material amounts of billed and unbilled work outstanding at 31 March 2022. Receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Company recognises a loss allowance for ECLs on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Company will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date which includes information about past events, current conditions and forecasts of the future economic condition of customers.

#### *IFRS 16 – Determining the lease term of contracts with renewal and termination options*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any period covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. Management applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for the Company to exercise either the renewal or termination option. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease.

#### **Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Provisions and contingent liabilities*

The Company is, 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 Company recognised provisions at 31 March 2022 of £55,143,000 (2021: £58,221,000). Further details are included in Note 20.

#### *Cyber incident*

On 13 May 2020, Interserve Group Limited ("IGL") announced that it was subject to a cyber-attack, which affected elements of the Interserve Group's IT systems (including enterprise resource planning and human resource systems), including elements related to the Interserve entities acquired by the Group (the "Cyber Incident").

The Cyber Incident was reported to the Information Commissioner's Office ("ICO") on 5 May 2020. The ICO subsequently advised IGL that it considered it likely that IGL had breached certain articles of the GDPR. It was therefore possible that IGL or members of the Interserve Group could be subject to any regulatory action in respect of the Cyber Incident which, if they were found in breach of their obligations under the GDPR, could result in a remedial order or fine.

## Notes (continued)

### 1 Accounting policies, judgements and estimates (continued)

On 27 April 2022, the ICO subsequently issued a Notice of Intent ("NOI") to IGL, advising that it is minded to issue IGL with a penalty notice under Section 155 of the UK's Data Protection Act 2018. The NOI contains a confirmation that the ICO is satisfied that IGL is the controller with primary responsibility for the matters which gave rise to the breach of certain articles of the GDPR.

In accordance with the share purchase agreement dated 25 June 2020 (the "SPA"), pursuant to which the Group acquired the Interserve entities from How Group Limited ("HGL"), HGL agreed to indemnify the Group against any penalty that the ICO might impose on the Interserve entities acquired by the Group in relation to the Cyber Incident (the "Cyber Indemnity"). The Cyber Indemnity was, alongside other indemnities given by HGL, secured by escrow arrangements, pursuant to which £40.0m was held in an escrow account for a period of two years (until 30 November 2022).

Management reasonably believes that, having regard to the NOI (including the confirmation that IGL is the relevant controller for the purposes of the ICO's investigation), the former Interserve entities, acquired on 30 November 2020, will not be subject to any regulatory action in respect of the Cyber Incident which could result in a remedial order or fine. Further details are included in Note 24.

#### *Onerous contract provisions*

Onerous contract provisions totalling £13,280,000 have been recognised at 31 March 2022 (2021: £11,157,000).

Onerous contract assessments are performed by the Company at an individual contract level at each reporting date. Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Company's contracts. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the measurement of a provision booked, is linked to the complexity of the underlying contract.

The major sources of judgement when measuring the level of provision to book are:

- the level of accuracy in forecasting future variable revenue and costs to complete the contract;
- the ability of the Company to maintain or improve operational performance to ensure cost assumptions are in line with expected levels, including contract specific key performance indicators;
- identifying cost saving initiatives that are considered to be probable in terms of timing and scale; and
- expectations around the resolution of contract specific disputes and the likelihood of incurring future costs associated with remediation or reactive work.

The range of possible future outcomes in respect of judgements and assumptions made to determine the carrying value of the Company's onerous contract provisions could result in a material increase or decrease in the value of the provisions, and hence on the Company's profitability in the next financial year. To mitigate this, management regularly compares actual contract performance against previous forecasts used to measure the onerous contract provisions and considers if revised judgements are required.

The Directors have assessed the range of possible outcomes on contracts requiring an onerous contract provision, based on facts and circumstances that were present and known at the balance sheet date. To the extent that sensitivities around the major sources of estimation identified above in measuring the provision, in aggregate, the assessed range of possible future outcomes on these contracts in the next financial year could potentially lead to a reduction in the provision of up to £10m or a further increase of up to £19m being recognised.

An onerous contract provision has not been recognised on a certain contract which made a loss of £8.7m in the year ended 31 March 2022 (4 months ended 31 March 2021: £3.9m) and has 18 years remaining on the contract. A detailed turnaround plan is in the process of being implemented. Based on the plan, management expects that the contract will return to profitability and will record a cumulative profit for the remaining term of the contract.

**Notes (continued)****1 Accounting policies, judgements and estimates (continued)***Other contract specific provisions*

In addition to the onerous contract provisions, the Company has recognised £31,581,000 of contract specific provisions at 31 March 2022 (2021: £33,024,000). These have been recognised primarily to cover costs required to meet specific contractual obligations.

Within this total, £14,735,000 relates to a certain contract where a significant liability has been estimated in relation to a commercial dispute. Management sought external assistance to value the potential risk exposure to the Company. The actual exposure to the Company may differ from the amount provided at 31 March 2022 due to the compounding effect of multiple variables associated with the particular issues involved in the dispute. The value of the provision represents management's best estimate. Management considers that to the extent that it is agreed or determined that the Company is found to have a liability, the assessed range of possible future outcomes could potentially lead to a reduction in the provision of up to £3m or a further increase of up to £9m being recognised, and other possible outcomes could increase the liability further. Management will continue to assess the provision recorded in arriving at its best estimate of any potential resolution at each subsequent reporting date.

Provisions in relation to certain contracts are also subject to independent adjudication and negotiation with the customers.

*Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of its value in use. The value in use calculations involves an estimation of the future cash flows and the selection of appropriate discount rates to use in order to calculate present values.

The carrying value of goodwill at the balance sheet date has been disclosed in Note 10. A sensitivity analysis has been performed and management have concluded that no reasonably foreseeable change in the key assumptions would result in an impairment.

*Measurement of defined benefit pension obligations*

The net pension liability as at 31 March 2022 was £862,000 (2021: £782,000 net pension asset), which includes a retirement benefit asset of £1,394,000 (2021: £2,603,000). 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 21 for further details and a sensitivity analysis for the key assumptions.

The Company also participates in a multi-employer defined benefit pension scheme, the Plumbing Scheme. The Company has recognised provisions of £1,700,000 as at 31 March 2022 (2021: £1,700,000) for Section 75 employer debts in respect of its participation in this scheme.

*Deferred tax assets*

The Company has recognised deferred tax assets of £15,645,000 (2021: £5,626,000), refer to Note 19. Management has assessed recovery of these assets with reference to the Group's medium-term forecasts. Recovery of these assets is subject to the generation of taxable profits by the Group in future years.

## Notes (continued)

### 2 Revenue

The Company derives all of its revenue from the provision of services to customers based in the UK.

### 3 Operating profit

Operating profit is stated after (crediting)/charging:

	Year ended 31 March 2022 £000	4 months ended 31 March 2021 £000
Other items	(2,585)	1,453
Integration costs	952	1,453
Commercial settlements and contract provisions	(4,686)	-
Impairment of intangible assets (Note 11)	1,149	-
Depreciation of property, plant and equipment (Note 12 and Note 22)	1,356	439
Amortisation of other intangible assets (Note 11)	873	584
Other income	(646)	(877)

During the year ended 31 March 2022, costs of £952,000 were incurred associated with the Group's integration programme (4 months ended 31 March 2021: £1,453,000).

During the year ended 31 March 2022, as a result of commercial negotiations with a certain customer, certain liabilities of £9,831,000 have been de-recognised, resulting in a gain to the income statement. This was offset by £5,145,000 of charges relating primarily to additional provisions on onerous contracts.

An impairment loss of £1,149,000 was recognised during the year in respect of certain intangible assets no longer expected to generate future economic benefits for the Company.

For the year ended 31 March 2022, £646,000 (4 months ended 31 March 2021: £877,000) was received, which represents UK Government grants received under the Coronavirus Job Retention Scheme relating to furloughed employees working for the Company.

### 4 Auditor's remuneration

The auditor's remuneration was borne by Mitie Group plc (4 months ended 31 March 2021: Mitiefm (Holdings) Limited) and no allocation or recharge (4 months ended 31 March 2021: £nil) was made to the Company.

Fees paid to the Company's auditor and its associates in respect of services other than the statutory audit of the Company have not been disclosed as the information is required to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Mitie Group plc.



## Notes (continued)

### 5 Staff numbers and costs

During the period an average of 10,067 (4 months ended 31 March 2021: 9,691) employees (including Directors) were employed by the Company.

The aggregate payroll costs incurred by the Company were as follows:

	Year ended 31 March 2022 £000	4 months ended 31 March 2021 £000
Wages and salaries	292,895	94,127
Share-based payments	805	-
Social security costs	23,013	7,607
Termination and redundancy payments	1,280	-
Pension costs	10,917	4,363
Total	<u>328,910</u>	<u>106,097</u>

## Notes (continued)

### 6 Directors' remuneration

	Year ended 31 March 2022 £000	4 months ended 31 March 2021 £000
Directors' emoluments	369	150
Amounts receivable under long term incentive schemes	223	-
Company contributions to money purchase pension plans	18	19

In respect of the highest paid Director:

	Year ended 31 March 2022 £000	4 months ended 31 March 2021 £000
Emoluments and amounts receivable under long term incentive schemes	592	80
Company contributions to money purchase pension plans	18	12

**Number of Directors**  
2022 2021

Retirement benefits are accruing to the following number of Directors under:

Money purchase schemes	1	2
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The following Directors were also directors or employees of another Group company. They were remunerated by the company shown. It is not practicable to allocate their remuneration between their services as Directors of this Company and as directors or employees of other Group companies.

Director	Remunerated by	Disclosed by
P G Clark	Mitiefm Services Limited	Mitiefm Services Limited
P J G Dickinson	Mitie Limited	Mitie Limited
N J Goodridge	Mitie (Defence) Limited	Mitie (Defence) Limited
S Johnston	Mitiefm Services Limited	Mitiefm Services Limited
S C Kirkpatrick	Mitie Limited	Mitie Limited
B Talbot	Mitie (Defence) Limited	Mitie (Defence) Limited

## Notes (continued)

### 7 Finance income

	Year ended 31 March 2022 £000	4 months ended 31 March 2021 £000
Interest receivable from Group undertakings	3,954	869
Net interest on defined benefit pension scheme assets and liabilities (Note 21)	48	19
Total	<u>4,002</u>	<u>888</u>

### 8 Finance costs

	Year ended 31 March 2022 £000	4 months ended 31 March 2021 £000
Interest on bank loans and overdrafts	1	-
Interest payable and similar expenses	1	-
Interest on lease liabilities (Note 22)	122	70
Unwinding of discounts on provisions	50	-
Total	<u>174</u>	<u>70</u>

## 9 Tax

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## Notes (continued)

### 9 Tax (continued)

	Year ended 31 March 2022 £000	4 months ended 31 March 2021 £000
<i>Analysis of credit in the period</i>		
Profit before tax	29,571	1,321
Tax using the UK corporation tax rate of 19% (4 months ended 31 March 2021: 19%)	5,618	251
Items not deductible/(taxable) for tax purposes	1,052	(6)
Adjustment in respect of employee share options	95	(77)
Impact of capital allowances super deduction	(17)	-
Recognition/utilisation of previously unrecognised tax losses	(7,627)	-
Overseas tax	48	-
Restatement of opening deferred tax balances	(1,554)	-
Change in statutory tax rate	(1,396)	-
Adjustments in respect of prior periods	875	(174)
Total tax credit	<u>(2,906)</u>	<u>(6)</u>

The UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This change has been substantively enacted at the balance sheet date and is therefore incorporated into the amounts contained in these financial statements.

## Notes (continued)

### 10 Goodwill

	<b>£000</b>
<b>Cost</b>	
At 1 April 2021	18,465
<b>At 31 March 2022</b>	<b>18,465</b>
<b>Amortisation</b>	
At 1 April 2021	8,073
<b>At 31 March 2022</b>	<b>8,073</b>
<b>Net book value</b>	
At 1 April 2021	10,392
<b>At 31 March 2022</b>	<b>10,392</b>

### 11 Other intangible assets

	<b>Software £000</b>
<b>Cost</b>	
At 1 April 2021	13,896
Additions	26
Disposals	(4,620)
<b>At 31 March 2022</b>	<b>9,302</b>
<b>Amortisation</b>	
At 1 April 2021	11,332
Charge for the year	873
Impairment	1,149
Disposals	(4,610)
<b>At 31 March 2022</b>	<b>8,744</b>
<b>Net book value</b>	
At 1 April 2021	2,564
<b>At 31 March 2022</b>	<b>558</b>

Intangibles are amortised over their useful life of between 3 and 5 years.

## Notes (continued)

### 12 Property, plant and equipment

Property, plant and equipment comprise owned and leased assets.

	2022 £000	2021 £000
Owned property, plant and equipment	1,334	1,610
Right-of-use assets (Note 22)	3,767	2,101
<b>Total</b>	<b>5,101</b>	<b>3,711</b>

The table below relates to owned property, plant and equipment.

	Land and Buildings £000	Plant and vehicles £000	Total £000
<b>Cost</b>			
At 1 April 2021	520	14,517	15,037
Additions	-	311	311
Disposals	-	(97)	(97)
<b>At 31 March 2022</b>	<b>520</b>	<b>14,731</b>	<b>15,251</b>
<b>Accumulated depreciation</b>			
At 1 April 2021	511	12,916	13,427
Charge for the period	5	582	587
Disposals	-	(97)	(97)
<b>At 31 March 2022</b>	<b>516</b>	<b>13,401</b>	<b>13,917</b>
<b>Net book value</b>			
At 1 April 2021	9	1,601	1,610
<b>At 31 March 2022</b>	<b>4</b>	<b>1,330</b>	<b>1,334</b>

## Notes (continued)

### 13 Investment in subsidiaries

The Company has the following investments in Group undertakings.

	Shares in Group undertakings £000
<b>Cost</b>	
At 1 December 2020	8
At 31 March 2021	8
<b>At 31 March 2022</b>	<b>8</b>
<b>Net book value</b>	
At 31 March 2021	8
<b>At 31 March 2022</b>	<b>8</b>

Details of all investments in subsidiary undertakings have been provided below. Investments held directly by the Company have been indicated.

Company	Country of incorporation	Class of shares held	Proportion of nominal value of class
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Interserve Saudi Arabia LLC <sup>1</sup> (in liquidation)	Kingdom of Saudi Arabia	Ordinary	10%
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Note:

1. Held directly by the Company.

The registered office is PO Box 26982, Riyadh, 11595, Kingdom of Saudi Arabia.

### 14 Interest in associate

The Company has a 35% interest in Sussex Estates and Facilities LLP. Sussex Estates and Facilities LLP provides total facilities management to the University of Sussex and associated companies. It is incorporated in the UK, and its registered office is Level 12, The Shard, 32 London Bridge Street, London, SE1 9SG.

	£000	£000
At 1 April 2021/December 2020	513	253
Share of profit	992	260
Dividends	(845)	-
<b>At 31 March 2022/2021</b>	<b>660</b>	<b>513</b>



## Notes (continued)

### 15 Joint operations

The Company has the following joint operations.

Joint operations	Country of incorporation	Principal activity	Percentage interest
OneAim	United Kingdom	Siteworks	50%

As at 31 March 2022, included within cash and cash equivalents is £5,909,000 (2021: £5,180,000) which is subject to various constraints on the Company's ability to utilise these balances. These constraints relate to cash held through a joint operation, where cash is not available for use by the Company.

### 16 Inventories

	2022 £000	2021 £000
Raw materials and consumables	2,344	2,441
	<u>2,344</u>	<u>2,441</u>

### 17 Trade and other receivables

	2022 £000	2021 £000
Trade receivables	75,370	62,928
Amounts owed by Group undertakings	165,547	133,073
Prepayments	3,605	3,112
Accrued income	60,053	45,480
Other receivables	13,000	8,359
Total	<u>317,575</u>	<u>252,952</u>
Current	315,627	247,704
Non-current	<u>1,948</u>	<u>5,248</u>

In the opinion of the Directors, the fair value does not materially differ from the carrying value.

Amounts owed by Group undertakings are repayable on demand.

Included within amounts owed by Group undertakings above is £79,719,000 (2021: £55,069,000) relating to interest-bearing loans at 5% per annum (2021: 5% per annum).

## Notes (continued)

### 18 Trade and other payables

	2022 £000	2021 £000
Trade payables	11,928	10,261
Amounts owed to Group undertakings	87,263	56,822
Other taxes and social security	17,318	13,265
Accruals	127,560	103,419
Other payables	8,339	626
<b>Total</b>	<b>252,408</b>	<b>184,393</b>
Current	252,376	184,325
Non-current	32	68

Amounts owed to Group undertakings are repayable on demand.

Included within amounts owed to Group undertakings above is £6,650,000 (2021: £nil) relating to interest-bearing loans at 5% per annum (2021: n/a).

### 19 Deferred tax assets

Deferred tax assets are attributable to the following.

	2022 £000	2021 £000
Accelerated capital allowances	4,119	3,707
Losses	10,073	1,496
Share options	202	77
Short-term timing differences	822	346
Retirement benefit liabilities	429	-
	<b>15,645</b>	<b>5,626</b>

Movements in deferred tax were as follows.

	1 April 2021 £000	Recognised in income £000	Recognised in equity £000	31 March 2022 £000
Accelerated capital allowances	3,707	412	-	4,119
Losses	1,496	8,577	-	10,073
Share options	77	106	19	202
Short-term timing differences	346	476	-	822
Retirement benefit liabilities	-	182	247	429
	<b>5,626</b>	<b>9,753</b>	<b>266</b>	<b>15,645</b>

## Notes (continued)

### 19 Deferred tax assets (continued)

	1 December 2020 £000	Recognised in income £000	Recognised in equity £000	31 March 2021 £000
Accelerated capital allowances	3,615	92	-	3,707
Losses	1,661	(165)	-	1,496
Share options	-	77	-	77
Short-term timing differences	271	166	(91)	346
	<u>5,547</u>	<u>170</u>	<u>(91)</u>	<u>5,626</u>

Deferred tax has been calculated using tax rates that were substantively enacted at the balance sheet date (see Note 9).

The Company has £nil tax losses (2021: £40,140,000) upon which no deferred tax has been recognised.

### 20 Provisions

	Insurance reserve £000	Contract specific costs £000	Other provisions £000	Total £000
At 1 April 2021	5,957	44,181	8,083	58,221
Charged to the income statement	1,118	8,449	954	10,521
Utilised in the year	(2,702)	(7,019)	(2,490)	(12,211)
Released to the income statement	-	(750)	(688)	(1,438)
Unwinding of discount	-	-	50	50
<b>At 31 March 2022</b>	<u><b>4,373</b></u>	<u><b>44,861</b></u>	<u><b>5,909</b></u>	<u><b>55,143</b></u>
Current	1,282	13,184	4,190	18,656
Non-current	3,091	31,677	1,719	36,487

The Company retains a portion of the exposure in relation to insurance policies for employer liabilities and motor and fleet liabilities. The provision includes claims incurred but not yet reported and is based on information available at the balance sheet date. The provision is expected to be utilised over five years.

Included within contract specific costs of £44,861,000 as at 31 March 2022 (2021: £44,181,000) are onerous contract provisions of £13,280,000 (2021: £11,157,000) and contract specific provisions of £31,581,000 (2021: £33,024,000).

Onerous contract provisions are made where the forecast costs of completing a contract exceed the forecast income generated over the life of the project. The main contracts to which these provisions relate to are in relation to certain long term PFI contracts. It is expected that the majority of these provisions will be utilised over a number of years. Given the long-term nature of these contracts, any changes to key assumptions made when estimating their future losses might have an impact on the Company's results. See Note 1e) for a discussion on the key assumptions made to measure the provisions.

Other provisions of £5,909,000 (2021: £8,083,000) include £1,700,000 (2021: £1,700,000) in relation to a Section 75 employer debt liability of the Company as a result of its participation in the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the "Plumbing Scheme"). The provision has been recorded as a current provision, however the timing of outflows is dependent on agreement with the trustee of the Plumbing Scheme and may occur over a longer period than one year (see Note 21). The balance of the provision relates to dilapidations and other specific provisions that expect to be processed or paid in a future period.

## Notes (continued)

### 21 Retirement benefit schemes

#### Interserve Scheme Part C ("IPS-C")

The Interserve Scheme Part C was formed to transfer Support Services members out of the Interserve Group Pension Scheme to Interserve Scheme Part C as part of the acquisition. The transfer was completed via a Flexible Apportionment Arrangement on 28 February 2020, which was approved by The Pensions Regulator. From this date the Company has no further obligations or commitments in respect of the other elements of the Interserve Pension Scheme.

There are active members within the Interserve Scheme Part C, but no deferred or pensioner members. Contributions are set based upon funding valuations carried out every three years. Following the Flexible Apportionment Arrangement, the first triennial valuation is being carried out at 31 December 2020. An initial funding valuation as at 31 December 2020 for the Interserve scheme was received during the year, which indicated an actuarial deficit of £1.6m, subject to approval by the scheme's trustees. Following the Flexible Apportionment Arrangement, the first triennial valuation will be carried out at 31 December 2020. If there is a shortfall in Scheme assets against the funding target, then the Group and Trustees will agree on deficit contributions to meet this deficit over a period.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by FRS 101, actuarial gains and losses are recognised outside profit or loss and presented in other comprehensive income. The asset recognised in the balance sheet represents the Company's share of the fund's assets less the present value of its defined benefit obligations in the fund. The cost of providing benefits is determined using the projected unit credit method. The Company has an unconditional right to a refund of the surplus assuming the gradual settlement of the Interserve Scheme liabilities over time until all members have left the section. Accordingly, there is no restriction on the surplus.

The Company made contributions to the IPS-C schemes of £889,000 during the year (4 months ended 31 March 2021: £327,000). The Company expects to make contributions of around a similar value for the year ending 31 March 2023. The weighted average duration of the defined benefit obligation at the end of the reporting period was around 19 years (4 months ended 31 March 2021: 19 years).

#### LGPS schemes

There are a number of schemes to which the Company 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 the Company under TUPE. The valuations of these 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 ("LGPS"), the Company will only participate for a finite period up to the end of the relevant contract. The Company 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 Company will be required to pay any deficit (as determined by the scheme actuary) that is assessed for its notional section of the scheme.

The regulatory framework in the UK requires the Trustees of the fund to agree upon the assumptions underlying the funding target, and then to agree upon the necessary contributions required to recover any deficit at the valuation date.

This pension commitment has been valued for the purposes of FRS 101 by Lane Clark & Peacock LLP, independent actuaries, using information projected from the pension fund's triennial valuation as at 31 March 2019. The Company's share of the fund's assets has been estimated at each accounting date from projections of the fund's triennial valuations as at 31 March 2019.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by FRS 101, actuarial gains and losses are recognised outside profit or loss and presented in other comprehensive income. The liability recognised in the balance sheet represents the Company's share of the fund's assets less the present value of its defined benefit obligations in the fund. The cost of providing benefits is determined using the projected unit credit method.

The Company made contributions to the LGPS schemes of £384,000 during the year (4 months ended 31 March 2021: £26,000). The Company expects to make contributions of around a similar value for the year ending 31 March 2023. The weighted average duration of the defined benefit obligation at the end of the reporting period was around 20 years (4 months ended 31 March 2021: 20 years).

## Notes (continued)

### 21 Retirement benefit schemes (continued)

#### Multi-employer

As a result of acquisition activity and staff transfers following contract wins, the Company participates in 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. The Company has received a Section 75 employer debt notice for £1,700,000 in respect of its participation in the Plumbing Scheme. See Note 20.

#### Principal accounting assumptions at the balance sheet date

Key assumptions used for IAS 19 valuation:	IPS-C		LGPS	
	2022	2021	2022	2021
	%	%	%	%
Discount rate	2.80	2.10	2.75	2.10
CPI price inflation	3.30	2.50	2.85	2.50
RPI price inflation	3.30	3.25	3.60	3.25
General salary increases	3.80	3.30	3.60	3.80
Pension increase assumptions			2.85	2.50
- CPI (min 0%)	3.30	2.50		
- CPI (min 0%, max 5%)	3.20	2.50		
- CPI (min 0%, max 2.5%)	2.20	1.90		

Post-retirement life expectancy:	IPS-C		LGPS	
	2022	2021	2022	2021
	Years	Years	Years	Years
Male currently aged 65	86.2	86.3	86.9	86.9
Female currently aged 65	88.7	88.3	89.7	89.7
Male aged 65 in 20 years' time	87.2	87.3	87.6	87.6
Female aged 65 in 20 years' time	89.8	89.6	90.8	90.8

#### Sensitivity of defined benefit obligations to key assumptions

The sensitivity of defined benefit obligations to changes in principal actuarial assumptions is shown below.

Change in assumption:	IPS-C	
	2022	2021
	Increase/ (decrease) £000	Increase/ (decrease) £000
0.5% increase in price inflation	2,232	2,207
0.5% increase in discount rate	(2,356)	(2,181)
1 year increase in life expectancy	814	730

Change in assumption:	LGPS	
	2022	2021
	Increase/ (decrease) £000	Increase/ (decrease) £000
0.1% increase in RPI inflation*	639	1,483
0.1% increase in CPI inflation (excluding pay)	639	1,483
0.1% increase in discount rate	(635)	(1,369)
1 year increase in life expectancy	1,439	1,119

\* Including other inflation-linked assumptions (CPI inflation, pension increases, salary growth).

**Notes (continued)****21 Retirement benefit schemes (continued)****Amounts recognised in the financial statements**

Amounts recognised in the income statement are as follows.

	Year ended 31 March 2022			4 months ended 31 March 2021		
	IPS-C £000	LGPS £000	Total £000	IPS-C £000	LGPS £000	Total £000
Current service cost	(792)	(615)	(1,407)	(303)	(87)	(390)
Past service cost	-	(257)	(257)	-	-	-
Net interest income/(cost)	94	(46)	48	29	(10)	19
Recognised in profit before tax	<u>(698)</u>	<u>(918)</u>	<u>(1,616)</u>	<u>(274)</u>	<u>(97)</u>	<u>(371)</u>

Amounts recognised in the statement of comprehensive income are as follows.

	Year ended 31 March 2022			4 months ended 31 March 2021		
	IPS-C £000	LGPS £000	Total £000	IPS-C £000	LGPS £000	Total £000
Actuarial gains/(losses) arising due to changes in financial assumptions	222	(646)	(424)	566	223	789
Actuarial losses arising from liability experience	(1,555)	-	(1,555)	(73)	-	(73)
Return on scheme assets, excluding interest income	(23)	808	785	(1,899)	450	(1,449)
Actuarial losses due to changes in demographic assumptions	(695)	-	(695)	-	-	-
Movement in asset ceiling	-	(63)	(63)	-	(193)	(193)
Recognised in other comprehensive income before tax	<u>(2,051)</u>	<u>99</u>	<u>(1,952)</u>	<u>(1,406)</u>	<u>480</u>	<u>(926)</u>

Amounts included in the balance sheet are as follows.

	2022			2021		
	IPS-C £000	LGPS £000	Total £000	IPS-C £000	LGPS £000	Total £000
Fair value of scheme assets	28,520	14,803	43,323	26,943	13,439	40,382
Present value of defined benefit obligations	<u>(27,126)</u>	<u>(17,059)</u>	<u>(44,185)</u>	<u>(24,340)</u>	<u>(15,260)</u>	<u>(39,600)</u>
Net pension asset/(liability)	<u>1,394</u>	<u>(2,256)</u>	<u>(862)</u>	<u>2,603</u>	<u>(1,821)</u>	<u>782</u>

## Notes (continued)

### 21 Retirement benefit schemes (continued)

Movements in the present value of defined benefit obligations in the period were as follows.

	IPS-C £000	LGPS £000	Total £000	IPS-C £000	LGPS £000	Total £000
At 1 April 2021/December 2020	24,340	15,260	39,600	24,495	15,171	39,666
Current service cost	792	615	1,407	303	87	390
Past service cost	-	257	257	-	-	-
Interest cost	499	343	842	123	75	198
Contributions from scheme members	73	44	117	27	12	39
Actuarial (gains)/losses arising due to changes in financial assumptions	(222)	646	424	(566)	(223)	(789)
Actuarial losses due to changes in demographic assumptions	695	-	695	-	-	-
Actuarial losses arising from experience	1,555	-	1,555	73	-	73
Movement in asset ceiling	-	63	63	-	193	193
Benefits paid	(606)	(169)	(775)	(115)	(55)	(170)
At 31 March 2022/2021	27,126	17,059	44,185	24,340	15,260	39,600

Movements in the fair value of scheme assets were as follows.

	IPS-C £000	LGPS £000	Total £000	IPS-C £000	LGPS £000	Total £000
At 1 April 2021/December 2020	26,943	13,439	40,382	27,978	12,941	40,919
Interest income	593	297	890	152	65	217
Actuarial (losses)/gains on assets	(23)	808	785	(1,899)	450	(1,449)
Other tax on remeasurement of retirement benefit surplus	651	-	651	473	-	473
Contributions from sponsoring companies	889	384	1,273	327	26	353
Contributions from scheme members	73	44	117	27	12	39
Benefits paid	(606)	(169)	(775)	(115)	(55)	(170)
At 31 March 2022/2021	28,520	14,803	43,323	26,943	13,439	40,382

## Notes (continued)

### 21 Retirement benefit schemes (continued)

Movements in the asset ceiling were as follows.

	IPS-C £000	LGPS £000	Total £000	IPS-C £000	LGPS £000	Total £000
At 1 April 2021/December 2020	-	193	193	-	-	-
Interest cost on asset ceiling	-	3	3	-	-	-
Change in asset ceiling excluding interest	-	63	63	-	193	193
At 31 March 2022/2021	-	259	259	-	193	193

Fair values of the assets held by the schemes were as follows.

	2022			2021		
	IPS-C £000	LGPS £000	Total £000	IPS-C £000	LGPS £000	Total £000
Equities	-	9,061	9,061	-	8,225	8,225
Government bonds	13,240	695	13,935	12,770	631	13,401
Corporate bonds	2,952	3,257	6,209	2,900	2,956	5,856
Property	2,207	15	2,222	1,847	13	1,860
Diversified growth fund	9,681	1,435	11,116	8,660	1,304	9,964
Cash	440	340	780	766	310	1,076
Total fair value of assets	28,520	14,803	43,323	26,943	13,439	40,382



## Notes (continued)

### 22 Leases

#### Right-of-use assets

	Properties £000	Plant and vehicles £000	Total £000
At 1 December 2020	2,766	210	2,976
Disposals	-	(32)	(32)
Depreciation	(145)	(40)	(185)
Impairment	(658)	-	(658)
At 31 March 2021	1,963	138	2,101
Additions	1,144	-	1,144
Modifications to lease terms	1,291	-	1,291
Depreciation	(727)	(42)	(769)
At 31 March 2022	<b>3,671</b>	<b>96</b>	<b>3,767</b>

#### Lease liabilities

	£000	£000
At 1 April 2021/December 2020	2,553	3,091
Additions	1,144	-
Modifications to lease terms	795	(207)
Interest expense related to lease liabilities	122	70
Disposals	-	(34)
Repayment of lease liabilities (including interest)	(807)	(367)
At 31 March 2022/2021	<b>3,807</b>	<b>2,553</b>
Current	885	529
Non-current	2,922	2,024

#### Maturity analysis-contractual undiscounted cash flows

	2022 £000	2021 £000
Less than one year	1,003	693
One to five years	1,931	1,366
More than five years	1,421	1,485
Total	<b>4,355</b>	<b>3,544</b>

## Notes (continued)

### 22 Leases (continued)

	Year ended 31 March 2022 £000	4 months ended 31 March 2021 £000
<b>Amounts recognised in the income statement</b>		
Depreciation of right-of-use assets	(769)	(185)
Impairment of right-of-use assets	-	(658)
Low-value lease expense	-	(332)
<b>Operating profit impact</b>	<b>(769)</b>	<b>(1,175)</b>
Interest on lease liabilities	(122)	(70)
<b>Profit before tax impact</b>	<b>(891)</b>	<b>(1,245)</b>

### 23 Equity

Share capital	2022 Number	2021 Number	2022 £000	2021 £000
<b>Ordinary shares</b>				
Ordinary shares at £1 each	15,000,000	15,000,000	15,000	15,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

#### Retained earnings/(losses)

This comprises the retained earnings and losses of the Company, less amounts distributed to the Company's shareholder.

**Notes (continued)****24 Contingent liabilities**

The Company is party with other Group undertakings to cross-guarantees of certain of each other's liabilities.

	<b>2022</b>	2021
	<b>£000</b>	£000
Bank overdrafts and loans	<b>179,827</b>	-
Performance bonds	<b>348</b>	348

**Cyber incident**

On 13 May 2020, Interserve Group Limited ("IGL") announced that it was subject to a cyber-attack, which affected elements of the Interserve Group's IT systems (including enterprise resource planning and human resource systems), including elements related to the Interserve entities acquired by the Group (the "Cyber Incident").

The Cyber Incident was reported to the Information Commissioner's Office ("ICO") on 5 May 2020. The ICO subsequently advised IGL that it considered it likely that IGL had breached certain articles of the GDPR. It was therefore possible that IGL or members of the Interserve Group could be subject to any regulatory action in respect of the Cyber Incident which, if they were found in breach of their obligations under the GDPR, could result in a remedial order or fine.

On 27 April 2022, the ICO subsequently issued a Notice of Intent ("NOI") to IGL, advising that it is minded to issue IGL with a penalty notice under Section 155 of the UK's Data Protection Act 2018. The NOI contains a confirmation that the ICO is satisfied that IGL is the controller with primary responsibility for the matters which gave rise to the breach of certain articles of the GDPR.

In accordance with the share purchase agreement dated 25 June 2020 (the "SPA"), pursuant to which the Group acquired the Interserve entities from How Group Limited ("HGL"), HGL agreed to indemnify the Group against any penalty that the ICO might impose on the Interserve entities acquired by the Group in relation to the Cyber Incident (the "Cyber Indemnity"). The Cyber Indemnity was, alongside other indemnities given by HGL, secured by escrow arrangements, pursuant to which £40.0m was held in an escrow account for a period of two years (until 30 November 2022).

Management reasonably believes that, having regard to the NOI (including the confirmation that IGL is the relevant controller for the purposes of the ICO's investigation), the former Interserve entities, acquired on 30 November 2020, will not be subject to any regulatory action in respect of the Cyber Incident which could result in a remedial order or fine.

On 26 May 2022, the Group and HGL agreed to settle all and any liabilities arising out of the SPA, including, without limitation, all and any sums due from HGL to the Group pursuant to the completion account process contained in the SPA (and the expert determination process related thereto) by the payment of £6.0m from HGL to the Group.

As part of those settlement arrangements, the Group and HGL agreed that £32.5m would be released from the escrow arrangements, of which £6.0m would be paid directly to the Group (in satisfaction of HGL's obligation to the Group). It was agreed that the Cyber Indemnity would continue in full force and effect and that the balance of the escrow monies, £7.5m, would remain in the escrow account until the earlier of: (i) any enforcement notice made by the ICO in connection with the Cyber Incident having been settled, determined or agreed; (ii) the ICO having confirmed that it will not take any formal enforcement action in connection with the Cyber Incident; or (iii) 30 November 2023.

**Contractual disputes**

The Company is, from time to time, party to contractual disputes that arise in the ordinary course of business. Management does not anticipate that the outcome of any of these disputes will have a material adverse effect on the Company's financial position, other than as already provided for in the financial statements. 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 Company is currently aware of potential liabilities relating to certain of the PFI contracts in the business. Management is in the process of investigating the extent to which a liability to provide rectification works exists, the result of which may or may not involve legal proceedings. Whilst management is collating the required information to assess the potential exposure, no reliable estimate of the contingent liability, or the likely timing of any settlement amount, can be made at the reporting date.

## Notes (continued)

### 24 Contingent liabilities (continued)

#### Employment claims

The Company is, from time to time, party to employment disputes, claims, and other potential liabilities which arise in the ordinary course of business. Management does 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 Company's financial position.

### 25 Related parties

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries within the Group.

The Company has a 35% holding in Sussex Estates and Facilities LLP. During the year the Company charged Sussex Estates and Facilities LLP £705,000 (4 months ended 31 March 2021: £391,000). As at 31 March 2022, £94,000 (31 March 2021: £91,000) was due from Sussex Estates and Facilities LLP. This amount has been included in trade and other receivables.

### 26 Subsequent events

There were no material post balance sheet events that require adjustment or disclosure.

### 27 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Mitiefm Services Limited, which is the immediate parent company incorporated in the United Kingdom. The ultimate controlling party is Mitie Group plc, a company incorporated in the United Kingdom with its registered office at 35 Duchess Road, Rutherglen, Glasgow, G73 1AU. Mitie Group plc is the parent company of the largest and smallest groups into which the accounts of the Company are consolidated. The consolidated financial statements of Mitie Group plc are available to the public and may be obtained from the Company Secretary at Level 12, The Shard, 32 London Bridge Street, London, SE1 9SG or from [www.mitie.com](http://www.mitie.com).