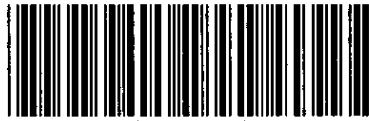


The Exceptional, Every Day



Mitie Group plc
Annual Report
and Accounts 2021

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Registration number: SC19230

Welcome to Mitie
Annual Report and Accounts 2021

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

During this year,
we have worked hard to be...

The voice of the frontline

Our people give their best when we show them that we care. We are creating a great working environment. We are seeking to be the employer of choice.

A standard bearer of the industry

We work best with our customers when we collaborate. We aim to be the trusted partner for our customers, helping them create exceptional workplaces.

A technology leader

Technology is changing our industry. Mitie's vision is to harness its 'science of service' to generate social value through everyday operations.

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Financial highlights

Financial highlights

(for the year ended 31 March 2021)

—
£2,589m

Revenue including share of joint ventures and associates¹
19.1% higher than the prior year

—
£2,560m

Group revenue¹
(FY20 £2,174m)

—
£63.4m

Operating profit before other items^{1,2,3}
(FY20 £86.1m)

—
£8.3m

Operating profit^{1,3}
(FY20 £64.6m)

—
£47.1m

Average daily net debt
(FY20 £327.6m)

- Good trading resilience through COVID-19: revenue including share of joint ventures and associates¹ of £2,589m, up 19.1%; excluding the contribution from Interserve, revenue was 1.6% lower
- Group revenue¹ of £2,560m (FY20 £2,174m)
- Operating profit before other items^{1,2,3} of £63.4m (FY20 £86.1m) – impacted by revenue mix and reduced project work due to COVID-19
- Operating profit^{1,3} of £8.3m, reflecting the additional impact of other items for the year
- Order book now stands at £7,202m (FY20 £4,294m)
- Interserve Facilities Management (“Interserve”) acquisition performing better than expected, accelerating value creation. £6.2m cost and revenue synergies achieved in FY21. Cost synergies raised to £42m (from £35m) achieved by FY23 – at same cost
- Strengthened balance sheet: £190m rights issue; £250m RCF refinanced; and BBB Investment Grade credit rating achieved
- Average daily net debt significantly reduced to £47.1m (FY20 £327.6m) post-IFRS 16

¹ From continuing operations.

² Other items are as described in Note 4 to the consolidated financial statements.

³ Operating profit includes share of profit after tax from joint ventures and associates.

The voice of the frontline

Our people give their best when we show them that we care. We are creating a great working environment. We are seeking to be the employer of choice.

—
55%

Employee engagement

—
+50

Net Promoter Score (NPS)

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At a glance

Group information

Our vision

The Exceptional, Every Day.

Our purpose

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

What we do

Mitie is the UK's leading facilities management company. Mitie offers a range of services to the public and private sectors including engineering services, energy, security, cleaning and specialist services including immigration and healthcare services, landscaping services and waste management services.

Following the acquisition of Interserve on 30 November 2020, from 1 April 2021, Mitie is transitioning towards a five-division business model: Business Services, Central Government & Defence, Communities, Technical Services and Specialist Services. Central Government & Defence and Communities are divisions acquired from Interserve. The contracts within the Business & Industry division acquired from Interserve have been incorporated into Business Services and Technical Services.

Our customers range from banks and retailers, to hospitals, schools and government entities. We have an order book of £7.2bn and a pipeline of opportunities of £12.9bn.

We deliver the exceptional through a range of services

Business Services

The Business Services division keeps some of the UK's biggest companies across a variety of diverse sectors (including transport, retail, government, critical national infrastructure and manufacturing), secure, clean and with Front of House provision.

Communities

Communities is a leading provider of mostly integrated facilities management services to devolved public sector customers, with a focus on community environments in healthcare, schools and universities, emergency services, and local authorities.

Specialist Services

Care & Custody

Care & Custody provides high-quality, critical public services in immigration, criminal justice and secure healthcare.

Landscapes

Mitie Landscapes is a top five UK provider of landscaping, focused on both horticultural and winter services.

Waste Management

Mitie Waste is a leading national waste management business providing innovative waste reduction and treatment solutions.

Central Government & Defence (CG&D)

CG&D is a market leader in the provision of facilities management services to central government departments in the United Kingdom and Europe, and the Ministry of Defence in the United Kingdom and deployments overseas.

Technical Services

Technical Services provides the full range of key technology backed engineering, maintenance, repair and mechanical and electrical systems project activities, energy, carbon and water management services, air conditioning/disinfection solutions and digital workplace services.

⊕ Read more on our divisional performance from pages 22 to 25.

Customer type

	%	FY21
● Government		43
● Non-government		57
FY21 Revenue from continuing operations		

Forward order book

	£m	FY21
● Less than 1 year		2,090
● More than 1 year		5,112
FY21 Total secured revenue for continuing operations		

Revenue including share of joint ventures and associates

	£m	FY20
● Technical Services		947
● Cleaning		340
● Security		563
● Office Services		84
● Care & Custody		110
● Landscapes		48
● Waste		82
FY20 Revenue from continuing operations by division		

	£m	FY21
● Technical Services		821
● Cleaning		349
● Security		669
● Office Services		67
● Care & Custody		109
● Landscapes		50
● Waste		74
● Interserve		450
FY21 Revenue from continuing operations by division		

Shaping Mitie for the future

—
£2,560m

Group revenue¹

—
£63.4m

Operating profit before
other items^{1,2}

—
3.5p

Basic EPS before
other items^{1,2}

—
1,080

Electric vehicles

¹ From continuing operations.

² Other items are as described in Note 4 to the consolidated financial statements.

“

I am so proud of the Mitie team, and pay special tribute to our 65,000 front-line heroes who have gone to work every day throughout the pandemic, delivering exceptional customer service, keeping the places where Britain works – hospitals, schools, food retailers, manufacturing plants and many strategic assets – clean, safe and secure. A heartfelt thank you to everyone.

Derek Mapp
Chairman

Dear Mitie Shareholder,

Many company Chairs' letters to shareholders end by thanking the staff. In an unprecedented year, I want to start my letter by thanking all our 75,000 Mitie colleagues for all they have done for our Company, for our clients and indeed for our Country. They have been magnificent.

I am so proud of the Mitie team, and pay special tribute to our 65,000 front-line heroes who have gone to work every day throughout the pandemic, delivering exceptional customer service, keeping the places where Britain works – hospitals, schools, food retailers, manufacturing plants and many strategic assets – clean, safe and secure. A heartfelt thank you to everyone.

When I wrote to you this time last year we were in unprecedented times. We were concerned for the safety of our people, and our ability to deliver essential services to our customers.

Our main aim during COVID-19 was to ensure all colleagues felt safe, supported, and recognised for their efforts. We created regular communications to all and we introduced new benefits ranging from an extra day's holiday for front line employees, Life Assurance and access to a virtual GP. More recently we gave free shares to everyone so that all colleagues can share in the future success of Mitie.

Our investment in our people has seen lower staff turnover, more investment in apprentices, more uptake of Learning & Development modules, and more recognition awards. Some 30,000 of our colleagues recently completed an employee engagement survey, which showed that the number of colleagues feeling fully engaged rose by 9ppts to 55%.

And despite the pandemic, I'm delighted to say that customer service improved to world class levels, with a net promoter score of +50. We won some significant contracts this year including HMRC, Department of Health & Social Care, Heathrow Airport, MBNA, Bravissimo, Magnox Ltd, East & North Herts NHS Trust and many others. And we renewed some of our largest accounts including Cornerstone Telecommunications, Rolls Royce, Deloitte and the Scottish Government and losing none of note.

The last 12 months also gave us the opportunity to showcase our technology solutions of remote monitoring and sensors for building efficiency and workplace Apps and anti-viral cleaning methods to instil confidence for those returning to work.

In addition, we made two important strategic moves. Last summer we strengthened our balance sheet through a rights issue and on 30 November 2020 we acquired Interserve. I am personally grateful for the support all our shareholders gave to these transactions.

The acquisition of Interserve is transformational in creating the UK's largest Facilities Management company and accelerates the delivery of shareholder value. In the first four months of ownership, good progress was made.

Financial performance

Revenue including joint ventures and associates and including a four-month contribution from Interserve, was £2,589m and represented an increase of 19.1% when compared to the same period last year. Excluding the contribution from Interserve, revenue was £2,139m, only 1.6% lower than last year despite the impact of COVID-19.

Operating profit before other items was £63.4m (FY20 £86.1m) 26% lower than the prior year as the additional profit from contract wins, Interserve and associated synergies was offset by the COVID impact on trading, and the reinstatement of incentives and share based payments. Operating margin before other items reduced to 2.4% (FY20 4.0%).

Earnings per share for FY20 has been restated for the bonus element of the rights issue. Basic earnings per share before other items from continuing operations, decreased by 58% to 3.5p (FY20 restated: 8.3p). This is a result of the decline in profits combined with a higher weighted average number of shares in issue following the rights issue and shares issued as part of the acquisition of Interserve.

Board composition

The Board met significantly more than usual during COVID-19, and to discuss the merits of the Rights Issue and the acquisition of Interserve. The balance of skills and experience stood the Board in good stead during this challenging time. The Board is balanced with 50% male/female representation.

On 17 March 2021, we announced the appointment of Simon Kirkpatrick as Chief Financial Officer. Simon, who held the position of Director of Group Finance prior to his appointment, joined the Board with effect from 1 April 2021. Further details on Simon's appointment can be found on page 93.

Environment, social value and Governance

Environmental, Social and Governance (ESG) considerations are a key part of the way we do business.

We are making progress against our ambitious 2025 net zero emissions target, with a 29% reduction in carbon emissions in the year. Mitie operates the largest electric vehicle fleet in the UK with over 1,200 vehicles on the road. We have signed up to EV/EP/RE100 and are committed to science-based targets to decarbonise our supply chain by 2035.

Our focus on ESG this year has resulted in improved ESG ratings from CDP to A-, MSCI to AA and Sustainability to 9.8, positioning Mitie as a global leader and the highest ranked facilities management company globally.

Reflecting the importance of ESG there are now targets relating to ESG in the senior management's long term incentive plan.

Engaging and supporting our stakeholders

As a board we are committed to stakeholder engagement, ensuring that all stakeholder interests are considered when making decisions.

The COVID pandemic required a significantly higher level of engagement between the Board, Executive Directors and Senior Management. The Board received regular updates to help monitor the performance of the Group and the morale of colleagues.

Furthermore there was increased engagement with our shareholders and with our largest clients – particularly Central Government departments and the Cabinet Office. We also supported our supply chain – especially small and medium sized enterprises – ensuring they were paid sooner than the previous year.

Dividend

In light of the unprecedented events caused by the COVID-19 pandemic in FY21, the Board does not recommend the payment of a final dividend for the year. The Board will keep under review the possibility of a resumption of dividends in FY22 as confidence in the delivery of free cash flow and acquisition synergies grows.

AGM

Mitie's Annual General Meeting (AGM) will be held on 27 July 2021 at 11.30am at Level 12, The Shard, 32 London Bridge Street, London SE1 9SG and on an electronic platform.

Mitie is closely monitoring the impact of the COVID-19 pandemic and public health concerns and will review attendance restrictions if the UK Government's guidance has changed by the date of the meeting. Shareholders should carefully consider whether to attend the physical meeting in the current circumstances.

The Board recognises that the AGM is an important event in the Company's corporate calendar, providing an opportunity to engage with shareholders. Therefore, to maximise engagement whilst respecting any restrictions and guidance on public gatherings, the Company will for the first time hold the AGM as a combined physical and electronic meeting (a hybrid meeting). This will enable shareholders to attend the AGM remotely and to vote and ask questions in real time. Shareholders will be able to attend and vote at the AGM using electronic facilities and ask questions using either the telephone or electronic facilities – instructions on how to do this are set out in the Notice of AGM.

The Board also encourages shareholders to appoint the chairman of the AGM as their proxy and provide voting instructions in advance of the meeting in accordance with the instructions set out in the Notice of AGM.

Derek Mapp
Chairman

DocuSigned by:

Derek Mapp

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Our business model

Creating value for all our stakeholders

Our vision

'The Exceptional, Every Day'

Our purpose

We exist to create exceptional work environments. We are the UK's leading facilities management company, providing a range of critical engineering, security, cleaning, and sustainability services to customers across government and the private sector.

Our people's expertise and insight, combined with our innovative and technology-led approach, enables tailored solutions that anticipate and meet our customers' needs to create safe, secure and sustainable work environments for colleagues, customers and communities.

Our values

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

Customer expectations

Our customers expect us to deliver exceptional working environments. We are a trusted partner offering value-added, innovative and cost-effective solutions that build enduring relationships.

Our inputs

We have created a **One Mitie** approach to everything we do to deliver a seamless, unrivalled service. We offer a breadth of services underpinned by exceptional people, expertise, a flexible approach and proprietary market-leading technology.

1. Our people

Our success is underpinned by the way Mitie leads and engages with its people, who in turn deliver exceptional service to our customers. We are flexible and adaptable to our customers' needs with a personal pride in our work.

2. Our technology

Smart technology delivers benefits when it is used intelligently, kept simple and embedded into everything we do. Our technology suite includes MiTec, service operations centre (SOC) and global security operations centre (GSOC).

3. Our expertise

We have been delivering exceptional service for our customers for decades which more recently, has been backed by technology driven data analytics enhancing a personalised service. By applying our experience to improve efficiency and make a valuable, measurable difference, we support our customers to run their businesses more smoothly and effectively.

4. Our scale

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

5. Our nationwide reach

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

What we do

At Mitie, our main job is to look after the places where UK works. In a post-COVID world this has never been more important, as our clients are seeking reassurance around the safety and efficiency of their work spaces. We deliver exceptional service and there is a 'Science' to the service we offer. We provide our customers with integrated, bundled or single service facilities management across services where we are the market leader.

Technical Services | Cleaning | Security | Landscaping | Waste | Care & Custody

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

1. Diligence and design

We start by engaging with new or existing customers to understand their needs or any changes to requirements. We design a solution using our expertise, knowledge and technology.

2. Mobilisation and running operations

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

3. Insights to drive value

Using our proprietary technology, data analysis and open source data lake, as well as traditional methods, we collate information on customers' buildings and assets and the activities of their employees. We convert data and feedback into actionable recommendations for our customers, enabling them to improve the environments in which their employees work and improve their wellbeing.

Creating stakeholder value

Shareholders and debt holders

We seek to create value through growth, cash generation and the efficient allocation of capital.

Customers

We work best with our customers when we collaborate. We aim to be a trusted partner for our customers, helping them create exceptional workplaces.

People

Our people give their best when we show them that we care. We are creating a great working environment and learning and development opportunities for our employees. We empower our people and recognise great work, in seeking to be the employer of choice.

Suppliers

We are committed to ensuring a responsible supply chain that benefits the wider community in which we work. We only trade with suppliers that comply with our Procurement Policy and Supplier Social Value Policy.

Communities and environment

Technology is changing our industry. Mitie's vision is to harness its 'science of service' to generate social value through everyday operations, leaving a legacy for the communities in which we work to support a brighter future for both people and the planet.

One Mitie – How we do it

We are One Mitie

We work as one to deliver a seamless, unrivalled service. We are all in it together, if we can help a customer or colleague in any way, we will. We are One Mitie.

Our diversity makes us stronger

We are very proud of our rich and diverse culture and backgrounds. Our diversity creates ideas and insights. Everyone at Mitie has a voice and is treated as an equal.

We are built on integrity and trust

Integrity and trust are at the heart of all we do. We are the face of the company. We treat others as we would like to be treated. We are proud to work for Mitie.

Our customers' business, is our business

We are a partner, trusted for our expertise and for putting our customers at the heart of everything we do.

We go the extra mile

Whether it's keeping things running smoothly in a safe environment, looking for new ways to do things better or fixing problems, going the extra mile for our colleagues and customers and keeping our promises is in our DNA.

Market review

Key market drivers – Opportunities in a rapidly changing FM industry

Over the past year, two fundamental events have changed the opportunities and competitive dynamic within the UK FM industry – COVID-19 and its medium and long-term impact on FM, and Mitie's acquisition of Interserve. COVID-19 has shifted the short term opportunities within FM from the private to public sector and, within the private sector, from hard hit sectors such as high street retail and hospitality to more robust sectors such as telecoms, supermarkets and distribution. While the overall business mix has been impacted by COVID-19, the broader set of opportunities remains positive in the medium and long term. With the acquisition of Interserve, Mitie is the undisputed industry leader and the UK's largest facilities management (FM) company across many service lines (Engineering, Security, Cleaning) and many sectors (central government, defence) and is well placed within the industry to capture these emerging opportunities.

The UK has a large and established outsourced FM market. Prior to COVID-19, it was forecast to grow at moderate levels c.2% as the market continued to move slowly from insourcing to outsourcing. COVID-19 has had a significant short-term impact across the market with an estimated 2020 decline of c.15%. The market is expected to rebound to its pre-COVID-19 levels in 2022. There is an emerging confidence in the industry as evidenced by accelerated hiring and new COVID-19 oriented services with higher margins. There has also been a shift within the industry. Short term project works have been put on hold while cleaning services have significantly increased. In the medium term we believe project works will still need to be done, while the new expectations of employees for safe and secure work environments will remain. Similarly, public sector work associated with COVID-19 has been robust. Equally significant is an emerging fundamental shift in employers' views of FM – from a necessary but ancillary activity to a service that is fundamental to the safety and health of their employees. This shift will be one of the underlying drivers positively impacting the industry in the medium and long term. Customers' focus continues to be on cost, efficiency and service quality, but with the COVID-19 impact there is also a very substantive and fast-increasing focus on employee wellbeing and sustainability.

How we are responding

Mitie has proactively and quickly adapted to the new emerging post COVID-19 normal. Mitie's constant focus on improving the customer experience has recently delivered a +50 NPS score which is a substantive +77 increase over the last four years and puts Mitie in the top NPS quartile. It has refinanced its business, acquired Interserve to significantly increase its presence in the public sector, created a more efficient business, built industry leading technology and developed sustainability products and propositions. As a result, Mitie has a very differentiated set of services, a very efficient business model and products and services set to capture the future opportunities within a fast changing FM sector.

Sector focus

Mitie is continuing to target specific sectors for growth and build sector focused differentiation and services. Its customer strategy continues to focus on large and/or multi-service customers where we can leverage our competitive advantages of national scale, service line breadth, self-service capability, technology leadership and low cost-to-serve. The Interserve acquisition has significantly strengthened these advantages. Mitie is focusing on building a material presence in specific sectors and creating tailored propositions for those sectors. The Interserve acquisition materially improved our presence in public sector – Defence, Central Government, Healthcare and Education – all resilient sectors which Mitie believe have significant growth potential. The acquisition has significantly strengthened our public sector advantages as it has broadened our framework access, deepened public sector capabilities and is delivering strong cost efficiencies. This has complemented Mitie's private sector focus on Financial & Professional Services, Retail, Manufacturing and Transport & Logistics. Leveraging our recent GSK and Cornerstone success, Pharma and Telecom will become an increasing focus for the business.

Technical Services

Mitie's Technical Services division operates in the largest market within the FM industry. The acquisition of Interserve has significantly improved Mitie's market share enabling Mitie to increasingly leverage its larger scale, breadth of expertise, national footprint, self-delivery capacity and its technology platforms for large customers. These attributes are reflected in Mitie's very strong Technical Services customer NPS score of +51, which is a +20 increase versus last year. Mitie is complementing its core engineering maintenance and projects businesses with higher growth, higher margin businesses – energy, sustainability, workplace solutions – all of which are underpinned by robust technology platforms. Driven by cost reduction pressures and ESG targets, customers are increasingly demanding energy and sustainability solutions. Mitie's projects business will leverage this future demand as well as the strong growth in the construction industry and in particular project repairs and maintenance. COVID-19 has materially accelerated the demand for workplace solutions to ensure that employers have safe, secure and attractive work environments for their employees. Mitie workplace service offerings are poised to capture this opportunity as evidenced by NPS data which indicated that 80% of customers see workplace refits as a key priority.

Strategic report

Governance

Security

Mitie Security continues to lead the FM security market, by leveraging its industry leading position, strong operational efficiency and technology platforms (GSOC, Merlin, remote monitoring). It is unique in the industry as a specialist FM security provider which enables our security business to provide added value services to its customers. This is reflected in Mitie Security's customer NPS score reaching +52 which is a +25 increase versus last year. The Interserve acquisition further strengthened Mitie's market share from 14.1% to 16.8%. Mitie Security continues to leverage its scale, UK coverage, self-delivery and unique service offerings. Although Mitie Security continues to focus on the private sector – Retail, Transportation & Logistics, Financial and Professional Services, it is increasingly focused on the public sector, following the Interserve acquisition.

Financial statements

Cleaning

With the Interserve acquisition, Mitie Cleaning has become the leading cleaning provider within the UK FM market. Mitie's market share has increased from 5.0% to 8.8%. The COVID-19 situation has reframed the importance of cleaning for our customers to a critical activity that provides safety and confidence for their employees. In the new post COVID-19 world it will become an increasingly essential part of Mitie's IFM offering. Mitie Cleaning is delivering an exceptionally strong customer experience as evidenced by a +56 NPS which is an increase of +41 versus last year. Historically, the Cleaning sector has experienced slow growth but this is changing with the impact of COVID-19. Specialty and Environmental Cleaning will continue to outpace the market.

Strategy

Our strategy in action

Our strategy is to be the **'partner of choice'** to create exceptional workplaces in the UK. We focus on partnership with our customers where our technology offering is a true differentiator. This will ensure long-term sustainable growth, delivery of our vision of **'The Exceptional, Every Day'** and value creation for all our stakeholders.

The acquisition of Interserve has accelerated the delivery of our strategy, which focuses on four key pillars highlighted below. Further details are outlined within the Spotlight on Interserve on Page 18.

Page 72 sets out our governance framework which underpins the delivery of our strategy.

Our four strategic pillars

1. **Customer:** Build market-leading positions in higher growth sectors, deliver best in class customer services (as evidenced by industry leading NPS) and focus on extending the lifetime value of strategic clients
2. **People:** Create a 'Great Place to Work', be the 'Employer of Choice' generating social value and becoming known as a leading ESG company
3. **Technology:** Embed intelligent technology into the heart of our offering, reduce cost to serve and lead the industry in digital transformation and decarbonisation
4. **Cost:** Strengthen our balance sheet and maintain cost discipline to remain competitive

Customer

Build market-leading positions in higher growth sectors, deliver best in class customer services (as evidenced by industry leading NPS) and focus on extending the lifetime value of strategic clients

Achievements

- Market leadership positions in Technical Services and Business Services
- Growth in MOD, Healthcare, Communities, non-food, logistics
- NPS increased 20 points to +50
- Contract renewal rates of 96% and new bid win rate of 80%
- Launched Mitie First to increase the proportion of services which are self-delivered and to create more value for our customers
- Expanded presence on public sector contracts and frameworks

KPIs

Organic revenue growth, operating profit margin, order book, NPS

Medium term vision

- Sustainable contract renewal rates above 90%
- Growth in strategic accounts share of wallet including projects or bundled offering
- Expand in high growth sectors
- Increase number of new large transformational clients
- Sustained NPS of +60 across all divisions

+50

Net promoter score

People

Create a 'Great Place to Work', be the 'Employer of Choice' generating social value and becoming known as a leading ESG company

Achievements

- Number 10 of the Top 50 Inclusive Employers
- Improved colleague gender and ethnicity diversity to 21% of women and 8% of BAME in senior leadership roles
- Improved employee engagement to 55%
- Staff turnover reduced to 15.4%
- 1,172 apprentices
- Extra day's holiday for all front-line employees
- Lost time injury rate reduced
- Learning Hub launched to all colleagues to upskill
- Launched life assurance and virtual GP benefits to all colleagues
- Through Mitie's partner, Salary Finance, provided all colleagues with access to low interest loans and pay advances

KPIs

Staff turnover, employee engagement, lost time injury

Medium term vision

- Continued improvement of employee engagement score
- Gender and ethnic diversity in senior leadership roles to target 40% women and 20% BAME by 2025
- Improve retention rates by continuing to enhance benefit offering, deploying a *career banding framework* and improving overall employee experience

55%

Employee engagement

Technology

Embed intelligent technology into the heart of our offering, reduce cost to serve and lead the industry in digital transformation and decarbonisation

Achievements

- Increased rollout of Security technology (GSOC and remote monitoring) services to customer base with Mitie's SOC connected to customers, reducing alarm incidence by 98%
- Aria, Mozaic and digital monitoring have been key drivers in IFM wins whilst customer retention rates increased to 98%
- Project Forte delivered £4.4m cost savings from efficiencies and simplification
- Increased adoption of ESME chat box with 34 customers using ESME
- 29% reduction in carbon emissions to 19,205 tonnes and over 1,200 electric vehicles on the road, the largest pure electric fleet in the UK

KPIs

Organic revenue growth, order book, NPS, employee engagement, staff turnover, carbon emissions

Medium term vision

- Increase demand-led services using intelligent technology (for example, remote monitoring sensors) to improve value to customers, productivity and efficiency
- Completion of Project Forte to deliver increased technician productivity, automated workforce management and improved supply chain management
- Net zero carbon by 2025 for operational emissions
- Fleet fully electric by 2025 wherever technology available

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customers using ESME

Cost

Strengthen our balance sheet and maintain cost discipline to remain competitive

Achievements

- Operating profit before other items^{1,2} of £63.4m (FY20 £86.1m)
- Order book now stands at £7,202m (FY20 £4,294m)
- Strengthened balance sheet: £190m rights issue; £250m RCF refinanced;
- Average daily net debt significantly reduced to £47.1m (FY20 £327.6m) post-IFRS 16

KPIs

Organic revenue growth, Operating profit margin before other items, basic EPS before other items, net debt/EBITDA ratio, average daily net debt

Medium term vision

- Mid single digit revenue growth with operating profit margin target of 4.5%-5.5%
- Achieve competitive excellence focusing on costs and efficiencies
- Growth in free cash flow and ROIC
- Maintain net debt / EBITDA ratio (pre-IFRS 16) of below 1x

£47m

Average daily net debt

1 From continuing operations.

2 Other items are as described in Note 4 to the consolidated financial statements.

Key performance indicators

Monitoring our progress

Mitie's key performance indicators (KPIs) are reviewed by the Board to monitor performance against the Group's most important priorities. These include measures for evaluating financial and non-financial performance balancing the interests of all our stakeholders including customers, shareholders, colleagues, and our local communities.

Our FY21 financial performance has been negatively impacted by the COVID-19 (COVID) pandemic partially offset by the Rights Issue in July 2020 and the acquisition of Interserve Facilities Management ("Interserve") which completed on 30 November 2020.

All financial KPIs have been reported including Interserve however the non-financial KPIs are reported for Mitie excluding the Interserve business. A detailed review of performance can be found within the Chief Executive's Strategic Review and the Finance Review sections on pages 26 to 29.

[Link to remuneration](#) 

Our strategic pillars

Customer: Build market-leading positions in higher growth sectors, deliver best in class customer services (as evidenced by industry leading NPS) and focus on extending the lifetime value of strategic clients

People: Create a 'Great Place to Work', be the 'Employer of Choice' generating social value and be known as a leading ESG company

Technology: Embed intelligent technology into the heart of our offering, reduce cost to serve and lead the industry in digital transformation and decarbonisation

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

Financial KPIs

Organic revenue growth (£m)

from continuing operations

Description

Revenue growth from continuing operations reflects the health of the order book, the ability to upsell and cross-sell, the pipeline of potential opportunities, and win and retention rates alongside Mitie's broader reputation in the sector.

A reconciliation of organic revenue growth from continuing operations to the equivalent statutory measure for FY21 and FY20 is provided in Appendix – Alternative Performance Measures on pages 211 to 213.

FY21	£1,995m	1.7% CAGR over three years
FY20	£2,002m	
FY19	£2,006m	
FY18	£1,894m	

Our achievement

During the last four years Mitie has acquired Interserve, VSG and Global Aware. Excluding all three acquisitions, organic revenue compound average growth rate (CAGR) was 1.7%.

Order book (£m)

from continuing operations

Description

The reported order book includes only secured fixed-term contracted work and excludes variable and project work. The order book reflects Mitie's success at retaining customers, upselling and winning new customers. Improved customer service, increasing market share, alongside qualifications on frameworks, are expected to lead to increases in the order book in the medium term.

FY21	£7,202m	68% increase from previous year
FY20	£4,294m	
FY19	£4,147m	
FY18	£4,151m	

Our achievement

Mitie's order book for continuing operations increased by 68% primarily due to the addition of the Interserve order book of £3,157m. Excluding this, the order book was £249m lower than the prior year as a number of contracts that were due to renew in FY21 were extended for between 12-18 months rather than longer periods.

Customer renewal rates improved to 96% and customer win rates were 70%.

Operating profit margin before other items (%) from continuing operations

Description

Operating profit margin reflects winning quality contracts and delivering efficient, exceptional service. Profitability on contracts improves as the Group enhances the efficiency of operations throughout the life of the contract. Whilst the COVID pandemic and the acquisition of Interserve will result in lower operating profit margins in the near term, Mitie's goal is to achieve margins of 4.5%-5.5% in the medium term.

A reconciliation of operating profit before other items from continuing operations to the equivalent statutory measure for FY21 and FY20 is provided in Appendix – Alternative Performance Measures on pages 211 to 213.

FY21	2.4%		
FY20		4.0%	
FY19		3.8%	
FY18		3.9%	
			1.6 ppts lower than the previous year

Our achievement

Operating margin reduced to 2.4%. This margin decline largely reflects the addition of COVID-related revenue at lower margins in FY21 (supporting UK Government contracts) and temporarily lost revenue from higher margin variable and project works, combined with some higher margin contracts completed in FY20.

Free cash flow (£m)

Description

Free cash flow represents how much cash we generate to re-invest in our business for future growth or to deploy in other ways such as M&A and dividends. The Group's strategy focuses on delivering sustainable free cash flow in the medium term.

A reconciliation of free cash flow to the equivalent statutory measure for FY21 and FY20 is provided in Appendix – Alternative Performance Measures on pages 211 to 213.

FY21	-24.5		
FY20		+30.5	
FY19		+30.9	
FY18	-31.6		
			£55.0m reduction from previous year

Our achievement

Free cash outflow of £24.5m is as a result of the lower profitability when compared to last year and the higher cash outflow from other items.

Return on invested capital (%) (ROIC)

Description

Return on invested capital (ROIC) is a measure of how efficiently the Group utilises its invested capital to generate profits. ROIC is calculated as Operating profit before other items and after tax from continuing operations divided by invested capital.

The calculation of ROIC and a reconciliation of the Group's net assets to invested capital for FY21 and FY20 are provided in Appendix – Alternative Performance Measures on pages 211 to 213.

FY21	8.9%		
FY20		24.2%	
FY19		32.7%	
FY18		21.5%	
			15.3 ppts reduction from previous year

Our achievement

Return on invested capital was 8.9% as compared to 24.2% in FY20. The year on year decline is primarily due to lower profitability in the year and significantly higher invested capital as a result of the acquisition of Interserve.

Basic EPS before other items (p) from continuing operations

Description

Basic earnings per share before other items represents the profitability of the Group. Improving earnings per share reflects the improving profitability of the Group. The Group's strategy focuses on creating value for shareholders and is expected to improve EPS in the medium term with the Interserve acquisition being EPS accretive after the first year of ownership.

A reconciliation of basic EPS before other items to the equivalent statutory measure for FY21 and FY20 is provided in Appendix – Alternative Performance Measures on pages 211 to 213. EPS for FY20 and earlier years has been restated for the bonus element of the Rights Issue.

FY21	3.5p		
FY20		8.3p	
FY19		7.6p	
FY18		6.8p	
			57.8% decline from previous year

Our achievement

Basic earnings per share before other items from continuing operations, decreased by 57.8% to 3.5p (FY20 restated: 8.3p). This is as a result of the lower profit before tax, driven by the lower operating profit noted above, combined with a higher weighted average number of shares in issue following the Rights Issue and shares issued as part of the acquisition of Interserve.

Key performance indicators continued

Monitoring our progress continued

Covenant net debt/EBITDA ratio (x) (pre-IFRS 16)

Description

Period end net debt/EBITDA ratio or leverage ratio is one of the two debt covenants used to assess Mitie's financial position. Calculated on a pre-IFRS16 basis, for the leverage covenant the ratio of net debt to EBITDA should be no more than 3x. The other covenant ratio is interest cover (ratio of EBITDA to net finance costs to be no less than 4x). Following the COVID-related amendments agreed in June 2020, the covenant thresholds on these ratios vary until September 2022. Mitie intends to keep the period end net debt/EBITDA ratio below 1x excluding short term exceptional activity.

Covenant ratio calculations for FY21 and FY20 are provided in the Finance Review on page 29.

FY21	<0x			
FY20	0.7x			
FY19		1.3x		
FY18			2.0x	
				<0x improvement from 0.7x previous year

Our achievement

Mitie was operating with <0 leverage as at 31 March 2021 (FY20: 0.7x) as the net proceeds from the Rights Issue strengthened the balance sheet.

Average daily net debt (£m) (post-IFRS 16)

Description

Mitie's balance sheet health is of paramount importance to the long-term sustainability of its business. Average daily net debt reflects working capital and bill-to-collect management. Over the medium term, Mitie will continue to reduce average daily net debt through proactive cash management and reduce the peaks/troughs to closing net debt.

FY21	47			
FY20		328		
				£281m improvement from previous year

Data is not presented for FY19 and FY18, as the financials for these years were prepared on a pre-IFRS 16 basis.

Our achievement

£190m of net proceeds were received from the Rights Issue and the Group benefited from £166m of taxes deferred under the Time to Pay (TTP) scheme, which were fully repaid by January 2021. Together, these two items improved average net debt by c.£220m compared to FY20 with the remaining improvement due to the underlying improvement in working capital. The peak/trough to closing net debt has reduced to £160m from £240m.

Non-financial KPIs

Staff turnover

Description

Mitie measures the number of employees leaving voluntarily over a 12-month period against overall headcount. The data is for Mitie prior to the acquisition of Interserve.

FY21	15.4%		
FY20	16.8%		
FY19		19.7%	
FY18		16.8%	
			1.4ppts reduction from previous year

Our achievement

Voluntary attrition has been a focus area for a number of years as Mitie strives to become the 'Employer of Choice' in the FM industry. Exit interviews and the annual engagement survey results inform our thinking and a number of improvements have been deployed to increase colleague engagement and loyalty during FY21. Our people give their best when we show them that we care, that's why we have deployed market leading new benefits including virtual GP access for all colleagues and those in their household, life assurance for all colleagues, salary advance (the ability to access pay before pay day) and, most recently, the free share plan where free shares have been gifted to all colleagues, focusing more shares on Mitie's front line heroes.

Employee engagement (%)

Description

The Group's success is underpinned by the way Mitie leads and engages with its people. The Employee Engagement survey asks colleagues at Mitie how they feel about working with the organisation, and what improvements could be made. This is followed by the 'You Said, We Did' campaign to demonstrate actions undertaken in response to feedback. Beyond the annual survey, senior management meet employees throughout the year at roadshow conferences across the UK and members of the Group Leadership Team go 'back to the floor' to engage with frontline colleagues. The survey also contains the scores of Interserve colleagues.

FY21		55%	
FY20		46%	
FY19		45%	
FY18		33%	
			9ppts increase from previous year

Our achievement

Mitie's employee engagement score of 55% is 9ppts ahead of the prior year and reflects a score in line with the UK companies in the Services sector which is a significant improvement on the prior year when Mitie was below average. The improvement in the score is a reflection of the significant communications to all our employees throughout the pandemic and our ability to reach all 75,000 employees.

Net promoter score

(index)

Description

Customer net promoter score (NPS) continues to be an important metric for Mitie in understanding a customer's overall satisfaction with the quality of services provided and a willingness to recommend our products and services to others.

FY21		+50	20 point
FY20	+30		increase from
FY19	+12		previous year
FY18	-10		

Our achievement

Mitie's overall NPS score for FY21 is up 20 points to +50, this is a transformational move from the low base of -27 in FY17. From establishing processes and baselines in year one, to triaging accounts and fixing the basics during year two, years three and four have been the transformative years, bringing new ideas, innovation, technology and implementing our SAM programme. This has really made a difference to the overall satisfaction of customers as evidenced in Mitie's FY21 score.

Lost time injury frequency rate

(per million manhours worked)

Description

Mitie's efforts to keep its people safe are of greatest importance and the Group continues to focus on improving safety performance. Our injury rate is a key measure to monitor our progress towards zero harm and includes all injury severities, from first aid to fatality.

FY21	2.85	28%
FY20	3.94	reduction from
FY19	6.08	previous year
FY18	6.13	

Our achievement

Mitie's commitment to ensuring near misses and hazardous conditions are reported has helped lower the number of injuries. It means potential accidents are caught before things escalate, enabling risks to be mitigated.

Carbon emissions

(tonnes CO₂e)

Description

In February 2020 Mitie set an ambitious, industry-leading pledge to reach net zero operational carbon emissions by the end of the calendar year 2025 – a full 25 years ahead of the UK Government's 2050 target. Mitie will eliminate carbon emissions from power and transport, eradicate non-sustainable waste and enhance inefficient buildings to meet the highest environmental standards

FY21	19,205	29%
FY20	27,072	reduction from
FY19	28,912	previous year

Our achievement

Mitie's electric fleet continues to develop, with over 1,200 electric vehicles (EVs) on the road and more than 850 EV charge points installed at 31 March 2021, making Mitie the largest pure electric fleet in the UK based on publicly available information. All electricity that Mitie buys for its operated sites is 100% renewable. Energy optimisation surveys and infrastructure plans completed across 15 largest Mitie sites.

Spotlight

Spotlight on our acquisition of Interserve Facilities Management



The acquisition of Interserve Facilities Management accelerates the delivery of our technology-led strategy, expanding our scale and footprint to create the UK's largest facilities management company. The combination of these two businesses will transform our competitive positioning, unlock significant growth opportunities for both our business and our colleagues and strengthen our financial profile, better balancing our public and private sector divisions and driving greater returns from the investments we have made in technology, systems and customer service over the past three years.

Phil Bentley
Chief Executive Officer
4 November 2020

Strategic pillar	Customer	People	Technology	Cost
Mitie Strategy	Build market-leading positions in higher growth sectors, deliver best in class customer NPS and focus on extending the lifetime value of strategic clients	Create a 'Great Place to Work' and be the 'Employer of Choice'	Embed technology into the heart of our offering, reduce cost to serve and lead the industry in digital transformation	Long-term profitable growth, with sustainable positive cashflow and a strong, flexible balance sheet
Strategic rationale for acquisition	Enhances competitive positioning with customers balancing public/private sectors	Unlocks significant growth through Strategic Account Management and developing our people	Leverages technology to deliver Digital Transformation and improved service	Generates cost synergies Increases free cash flow, margin and balance sheet strength
Integration progress in FY21	<ul style="list-style-type: none"> All major contracts renewed or extended Launched Mitie First to increase self-delivery Cross-selling opportunities identified for Landscapes and Waste with £1.2m delivered in FY21 	<ul style="list-style-type: none"> All transferring colleagues offered life assurance, access to virtual GP Service and Mitie's Employee Assistance Programme. Phased move of transferring colleagues to Mitie's suite of HR systems and in-house payroll underway with the first of 4 cohorts successfully transitioned with 93% agreeing the transition went smoothly. 	<ul style="list-style-type: none"> Roll out of Mitie laptops to transferring colleagues underway Cyber enhancement projects progressing well CAFM "Lift and Shift" on track for completion in May, with the migration of email, SharePoint data, and file shares due to complete by June 2021 Transition from Interserve ERP System, AX12, to Mitie's SAP environment progressing at pace Piloting 2 customers with Aria/Esme and 7 customers Mozaic dashboards configuration underway 	<ul style="list-style-type: none"> Synergy identification and realisation has been accelerated within year FY21 incremental saving of £6.2m across headcount and procurement Significant progress made on negotiations with Supply Chain partners Supplier payments, customer invoices and cash collection continue in line with forecasts and year to date averages 5 properties exited with a further 5 identified for exit

Chief Executive's strategic review

Strengthening the business in a challenging market

—
£2,139m

Revenue excluding
Interserve¹

—
£7,202m

Order book

—
+50

Net promoter score

—
55%

Employee engagement

“

FY21 was a defining year for Mitie and completes our four year transformation. The Group showed great resilience during the COVID pandemic; we strengthened our balance sheet; and the Interserve acquisition is performing well. Mitie is now the market leading provider of intelligent technology-led facilities management, with a clear pathway to deliver growth and sustainable free cash flow.

Phil Bentley
Chief Executive Officer

Mitie's strategic transformation

Mitie has been transformed over the last four years. Our focus on delivering great service, delivered cost-efficiently by great people, and backed by our technology, has resulted in our highest ever customer Net Promoter Score (NPS) of +50ppts and all-time high contract renewal rates of 96%, complemented by significant new customer wins.

Mitie's strategy has been based around the four pillars of Customer, People, Technology and Balance Sheet/Cost. We are focused on becoming the market leader in the three core facilities management services of Cleaning, Security and Technical Services and achieving a best-in-class customer NPS. The acquisition of Interserve on 30 November 2020 has bolstered Mitie's Public Sector standing, gaining leadership positions across Central Government and Defence, Healthcare and critical infrastructure.

Customer

Reflecting our focus on putting our customers at the heart of our business, Mitie's NPS has increased to +50ppts from -27ppts four years ago. This is largely due to the introduction of award-winning marketing campaigns and Strategic Account Managers (SAMs) empowered to deliver exceptional customer service, backed by leading technology. The creation of SAM accounts has also supported an increase in cross-selling and upselling, benefiting revenue growth.

¹ From continuing operations.

Chief Executive's strategic review continued

People

Four years ago Mitie set out to create a 'Great place to work' and to be the 'Employer of choice' in the facilities management industry. Significant progress has been made on both counts with our Employee Engagement score increasing from 33% to 55% and employee retention rates significantly improving. We have continued to invest in our colleagues, whether it be through an additional day's holiday for our front-line, an enhanced benefits package including Salary Finance, life assurance, a Virtual GP service, or learning and development to help colleagues build on their skills. Uniquely all Mitie colleagues have been granted free shares and will therefore share in the value they are helping to create. All Mitie benefits were put in place for Interserve colleagues from 1 December 2020.

Technology

A third strategic imperative was to embed technology to differentiate Mitie's offering across all service lines. The Group now has an advanced cyber-resilient, cloud-based IT platform to run the business, largely automating our systems supporting workforce management (Workplace+); workflow management systems (Forté); our HR/payroll processes (SAP Success Factors); and our back-office finance and procurement processes. COVID-19 has highlighted the strength of Mitie's technology. Digital Workplace and Monitoring have allowed customers to manage their building capacity, utilise cleaning more efficiently and keep buildings secure during periods of closure or semi-occupation. There are now 34 customers automatically served by 'chatbots' and 94 customers receiving real time management information (MI). Mitie leads the industry in cyber resiliency. Straight-through processing in HR and Finance have advanced considerably. The roll out of Mitie technology to Interserve customers is a priority, with 26 customers expected to move onto our chatbot or MI platforms, with half due to be delivered between now and September. This is a key driver to improve Interserve customers' NPS.

Balance Sheet/Cost

The fourth element of our strategy was to strengthen our balance sheet and reduce costs. Our balance sheet today is significantly stronger with net assets of £362m at 31 March 2021, compared to £81m at the prior year end, with sustainable leverage of less than 1x our EBITDA and a significant reduction in off balance sheet financing. £45m total savings were achieved from Project Helix (IT/Finance/HR/Management) and reinvested for long-term growth in SAMs, sales and marketing, modernising IT and investment in technology. Project Forté is expected to deliver net savings of £15-20m as it seeks to drive efficiency and productivity across Technical Services. The experience gained from rolling out Workplace Plus and Forté, as well as from the integration of VSG in 2019, will help to deliver a successful integration of Interserve.

COVID-19

Mitie has provided critical and essential support to customers and to the wider British public during the pandemic through its delivery of additional security and specialist cleaning services, mobilising three Nightingale Hospitals and standing up over 200 COVID-19 testing centres. Mitie has played an important role keeping Britain working during the pandemic, although profitability has been impacted from the reduced demand for core facilities management, and the drop off in variable project and discretionary work. Customers have also delayed procurement decisions and offered short-term extensions for contracts which would normally have renewed for a longer period, thus resulting in a slightly reduced order book.

Mitie established three overriding priorities in response to the COVID-19 crisis: protecting the health and safety of colleagues, customers, and the communities that Mitie serves; ensuring the Group could continue to operate and deliver essential services to customers; and finally, preserving financial strength through cost saving initiatives, delaying certain tax payments and utilising the Coronavirus Job Retention Scheme.

Pay rises for staff were deferred and the Board took voluntary pay cuts of up to 30% to preserve cash.

As trading performance improved in the second half of FY21, the financial benefits offered by Government were repaid, including HMRC's 'Time to Pay' initiative and those furlough payments relating to colleagues employed directly at Mitie's own operations.

Outlook

Although the world of work in a post-COVID-19 environment is changing, Mitie's investments in customer-facing technology, as well as in the efficiencies by which we manage our 'workflow' and our 'workforce' – collectively what we call 'The Science of Service' – positions Mitie well to prosper from its industry-leading NPS and E-ENG scores, with good performance in retention and new business wins. New working environments require improved standards of assurance and monitoring with employee well-being at their heart. This plays to Mitie's strategy of building leading technical skills at its Cleaning, Security and Technical Services' Centres of Excellence.

As businesses slowly start to reopen and our customers' employees return to offices, we are starting to see some green shoots of recovery in the variable project and discretionary spend works and we anticipate this continuing as re-occupation plans solidify. With some high-quality new contract wins, short-term support to the public sector and additional synergies from the integration of Interserve, we now anticipate FY22 will be materially ahead of our prior expectations.

The transformation of Mitie and the acquisition of Interserve has created a strong base from which Mitie is well positioned to prosper. Our new strategy will focus on increasing growth, margin enhancement and cash generation. The new Mitie will target, over the medium term, mid single digit revenue growth, margins of 4.5-5.5%, sustainable free cash flow and ROIC in excess of 20%.

Financial performance

Revenue

Revenue, including share of joint ventures and associates, from continuing operations and, including a four-month contribution from Interserve, was £2,589m, an increase of 19.1% compared to the prior year. Excluding the contribution from Interserve, revenue was £2,139m, 1.6% lower than the prior last year as variable and discretionary projects declined due to building closures or lower occupancy.

Revenue growth in the second half of the year, excluding the contribution from Interserve, was 6.5% (H1 decline of 9.8%) as a result of a stronger performance from Technical Services – where projects and variable works saw an uplift in demand – combined with a very strong final quarter of the year from Business Services.

Operating profit

Operating profit from continuing operations, before other items was £63.4m (FY20 £86.1m), 26% lower than the prior year as the additional profit from contract wins, inclusion of Interserve and associated £6.2m of synergies was more than offset by the impact of COVID-19 on trading, the ending of certain profitable contracts in the prior year and the reinstatement of incentives and share based payments (which were waived last year to preserve our financial strength). Operating margin reduced to 2.4% (FY20 4.0%). This margin decline largely reflects the lower margin mix of revenues related to contracts supporting the Government's fight against COVID-19, lost revenue from higher margin variable and project works and the higher margin contracts which ended in FY20. Further margin declines were mitigated by tight cost management.

Cost management

Managing costs and improving operational efficiency remains an important focus and whilst the short-term pay cut measures of up to 30% taken in the early months of the COVID-19 pandemic have been reversed, the opportunity to remove costs through property portfolio rationalisation, procurement controls and our fixed cost base – including the creation of a single management team in Cleaning and Security – all resulted in cost savings. Project Forté is making good progress, with additional savings delivered in FY21, and is on track to go live in December 2021.

Order book

The order book, as at 31 March 2021, was £7,202m, including £3,157m from Interserve. Across the industry, many contracts due to renew in FY21 were extended temporarily, reducing the number of new, longer term opportunities. However, overall win rates were at 70%, the highest level in the last four years, with tenders and extensions at 96%.

Whilst sales activity is picking up it continues to be lower than pre-COVID-19 levels. Mitie has won or renewed contracts worth c.£1.3bn, with Business Services winning or renewing £720m and Technical Services winning or renewing £427m. New wins included Magnox, MBNA, Marks & Spencer, East & North Hertfordshire NHS Trust, Essex County Council, Department of Health and Social Care, Co-Op and Cornerstone. New contract extensions from longstanding clients such as Rolls Royce, Linklaters, Deloitte, Tesco and the Scottish Government helped our renewal rates.

The majority of the Interserve order book relates to the Communities division, where longer contracts (average 15 years) are prevalent. All the major Interserve contracts that came up for renewal in the four-month period under Mitie have been renewed or extended.

Integration of Interserve Facilities Management

Mitie acquired Interserve on 30 November 2020 and the integration has been proceeding smoothly and at pace with the early delivery of £6.2m cost and revenue synergies from headcount reductions, procurement savings and offices which were closed before the end of FY21.

Total cost synergies are now expected to be £42m (previously £35m) to be delivered by end FY23 and for the same costs to achieve of £33.4m as originally identified. Additional synergies have been identified across headcount, additional property exits and further procurement savings. To drive revenue synergies a 'Mitie First' policy was implemented to increase self-delivery particularly in Fire & Security, Landscapes and Waste.

All transferred Interserve colleagues received access to Life Assurance, Virtual GP Service and Mitie's Employee Assistance Programme from 1 December. Two cohorts of ex-Interserve employees have already been migrated to Mitie's HR and payroll systems providing access to additional benefits, such as the employee discount site and Salary Finance. The remaining transferring Interserve colleagues will be transitioned by October.

Five transferring Interserve properties have been exited with leases ending or being made onerous and a further two Mitie properties have been exited through the integration property rationalisation. Two further properties have been identified for closure within the next six months. Ingenuity House will be exited and replaced with a smaller Midlands hub by November.

Technology integration has made excellent progress with key deliverables including: the roll out of Mitie laptops; Microsoft Teams roll out to all Central Government & Defence customer support teams; completion of a number of Cyber enhancement projects; and the transition from the Interserve ERP system AX12 to Mitie's SAP environment. For the roll out of customer-facing technology, 26 former Interserve customers have been prioritised. The 'Mosaic' MI dashboard is being configured with the first customers live in July and 'Aria' and 'Esme' is being piloted for 2 customers. Proactive engagement with customers is ongoing around Connected Engineer, Digital Maintenance and Monitoring as a Service. As technology integration progresses, elements of the transitional IT support provided by Interserve Group Ltd have been exited, with the remainder to be terminated on schedule by the end of November.

From 1 April 2021 all contracts previously managed under the Interserve Business & Industry division have been moved to Technical Services or Business Services thus allowing the B&I management team to be exited. CG&D will operate as a standalone division, as will the Communities division which now includes all the PFI and Healthcare contracts formerly within Mitie. Mitie will report in line with the new divisional structure for the first six months of FY22 in November 2021.

Since taking over Interserve it is clear that there is greater opportunity to create value through additional cost and revenue synergies than first thought. Whilst there remains considerable work to be done, we are optimistic that there is significant additional value to be gained over the next three years. To align the senior leadership team with delivering greater benefits from the acquisition and to incentivise accelerated delivery of shareholder value, the Board intends to seek approval for a one-off conditional share award (Enhanced Delivery Plan) at this year's Annual General Meeting. The award will only crystallise with the delivery of superior returns on invested capital and exceptional cost and revenue synergies measured over three years.

Phil Bentley
Chief Executive Officer

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Phil Bentley
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Operating review

Our divisional performance

Business Services

£m	FY21	FY20	Change, %
Revenue	1,085.0	986.9	9.9%
Cleaning	349.5	340.5	2.6%
Security	668.8	562.7	18.9%
Office Services ¹	66.7	83.7	(20.3)%
Operating profit before other items	49.4	42.2	17.1%
Operating profit margin before other items, %	4.6%	4.3%	0.3ppt
Order book	1,633	1,835	(11.0)%
Number of employees	37,858	34,321	10.3%

¹ Office Services comprises Document Management, Vetting and Front of House

Performance highlights

- Revenue growth of 9.9% as a result of new Government contracts from DHSC and HMRC and the demand for additional hygiene services
- Single management team for Cleaning and Security delivered cost savings and productivity improvements contributing to margin improvement to 4.6%
- £720m worth of new, renewed or extended contracts
- Net promoter score of +47 (FY20 +28)
- 4,725 additional employees joined during the pandemic

Business Services

The Business Services division keeps some of the UK's biggest companies and most iconic buildings secure and clean across a variety of diverse sectors, including transport and aviation, retail and distribution, government and public sector, critical national infrastructure and manufacturing

Security encompasses manned guarding and technology-backed monitoring solutions, together with fire and security systems installations. Cleaning focuses on general, specialist and technical cleaning services that include clean rooms, high-security environments and window cleaning. Office Services comprises Document Management, Vetting (Procius) and Front of House.

Operational performance

Working with customers to keep their workspaces safe, clean and operating during the COVID-19 pandemic has been the priority. COVID-19 has accelerated the demand for Mitie's intelligent technology solutions in Cleaning and Security as the transition to remote working and flexible office occupation is managed alongside creating a safe and secure environment.

Financial performance

Business Services increased revenue by 9.9% to £1,085.0m (FY20 £986.9m), boosted by a 17.9% increase in the second half compared with the second half of the prior year. Whilst work supporting the UK Government in testing centres was the primary factor, the division also secured a number of new contract wins. Office Services reported a decline in revenue of 20.3% with a slightly better second half performance, influenced largely by the aviation sector in the Vetting (Procius) business.

Operating profit before other items was up by 17.1% to £49.4m (FY20 £42.2m) reflecting both increased sales and the benefits of combining the Cleaning and Security management teams. Despite adding lower margin COVID related revenues, margin increased to 4.6% (FY20 4.3%) due to an increase in higher margin specialist cleaning.

Business Services has won, renewed or extended £720m of contracts this year including Co-Op, East & North Hertfordshire NHS Trust, Hogan Lovells International, and North West Anglia NHS Foundation Trust. Key retentions in the period included Heathrow Airport, Kellogg's and the Scottish Government.

Business Services has started FY22 strongly with a number of new or expanded COVID-19 contracts being mobilised from June. New contract wins with Associated British Ports and Amazon alongside contract renewals from existing key customers, including Co-Op, Heathrow Airport, Network Rail and SSE, will all contribute to a strong divisional performance in FY22.

Technical Services

£m	FY21	FY20	Change %
Revenue	820.7	947.2	(13.4)%
Maintenance	697.0	789.7	(11.7)%
Engineering Projects	123.7	157.5	(21.5)%
Operating profit before other items	26.4	55.9	(52.8)%
Operating profit margin before other items, %	3.2%	5.9%	(2.7)ppt
Order book	1,884	1,914	(1.6)%
Number of employees	8,162	9,102	(10.3)%

Performance highlights

- Strong retention rate of 99% throughout a challenging year and extended key relationships with a number of top customers
- Productivity improved with jobs per day up 13%, self-delivery increased to 87% (FY20 84%)
- Project Forté delivered £4.4m of savings, £1.3m ahead of expectations, through the early introduction of supply chain management, RPA technologies and call centre efficiencies
- £427m worth of new, renewed or extended contracts
- Delivered £72m in renewable projects and services (FY20 £81m)
- Net promoter score increased to +51, a record high (FY20 +31)

Technical Services

Mitie's Technical Services division provides the full range of key technology-backed engineering, maintenance, repair and M&E project activities, energy, carbon and water management services, air conditioning/disinfection solutions and digital workplace services. Project Forté is further differentiating Technical Services into one of the industry's leading providers of engineering services.

Operational performance

Mitie responded quickly to the challenge of COVID-19 and worked to renegotiate contracts and repurpose team members to support customers in a flexible manner.

During COVID-19, Mitie's technology ensured customers' buildings were safely maintained during long periods of closure. The remote monitoring platform monitored 125% more data points (desk sensors, room sensors) compared to the prior year. On five key contracts where Mitie deployed Monitoring as a Service, c.7,000 call outs / jobs were avoided, representing a reduction of 16% in the total jobs in the period for those contracts, reducing cost and carbon emissions and minimising onsite risk from COVID-19.

Mitie's Digital Workplace platform has supported customers to safely manage their workspace through the booking of desks and meeting rooms, and monitoring the occupancy and CO₂ changes to support a safe return to work. Our Luxibel UVC air purification product has been installed at four customers.

Project Forté is a complex project focused on re-engineering Technical Services' workflow processes. The Project continues to make good progress and we remain confident of a 'Go Live' in December 2021. In FY21 Project Forté has delivered £4.4m of benefits, £1.3m ahead of schedule, and remains on budget and on track to deliver a £15-20m net benefit by FY23.

The sector focused approach has continued to deliver new customer wins and, with a renewals rate of 99%, £427m has been added to the order book. Although many bids were delayed due to COVID-19, new deals were secured with key customers such as Magnox, QBE Insurance, MBNA, Bravissimo and Hain Daniels. Mitie Energy has delivered £72m in renewable projects and services including installing ground source heat pumps at one of our largest clients.

Financial performance

Technical Services reported revenue of £820.7m, a decrease of 13.4% in the year (FY20 £947.2m). Excluding the contracts which ended in FY20 (MOJ and a portion of NHS Properties), revenue decline was 8%. The broader economic impact from the pandemic was manifested in reduced office occupancy and retail footfall with significant reductions in the travel, automotive and leisure sectors. Performance in the second half reflected some improvement as customers increased spend on getting 'Back to Business'.

Operating profit before other items decreased by 52.8% to £26.4m (FY20: £55.9m). This is primarily due to the impact of COVID-19 on higher margin discretionary spend works and engineering projects, and contracts which ended in FY20. Technical Services was quick to respond with a 17% reduction year on year in overheads including headcount, overtime and property reductions. The benefits from these actions, and a contribution from better supply chain rates, resulted in an improved second half performance. Operating profit margin for the second half was 3.9%, resulting in a full year operating profit margin of 3.2% (FY20 5.9%).

Technical Services has started to see some early signs of a recovery in variable project and discretionary spend works as businesses slowly start to reopen and our customers' employees return to offices. We anticipate this continuing as re-occupation plans solidify. This, in combination with some quality new wins and renewals, including the Scottish Government, make for an encouraging start to FY22.

Operating review continued

Our divisional performance continued

Specialist Services

£m	FY21	FY20	Change, %
Revenue	233.6	239.6	(2.5)%
Care & Custody	108.8	110.2	(1.3)%
Landscapes	50.2	47.8	5.0%
Waste	74.6	81.6	(8.6)%
Operating profit before other items	22.5	25.3	(11.1)%
Operating profit margin before other items, %	9.6%	10.6%	(1.0)ppt
Order book	528	545	(3.1)%
Number of employees	3,058	2,977	2.7%

Performance highlights

- During the year Care & Custody won a new contract at Hassockfield IRC
- Waste was successful in being added to two additional framework agreements for NHS Trusts to support future revenue growth
- Landscapes renewed its two largest customer contracts JLL and CBRE

Specialist Services

Care & Custody, Landscapes and Waste Management businesses are aggregated and categorised as Specialist Services, as these fall outside the traditional FM offering of 'Hard' and 'Soft' services. They are generally higher growth businesses with operating profit margins above the Group's average.

Care & Custody provides high-quality, critical public services in immigration, criminal justice and healthcare. Landscapes is a top five UK provider of landscaping, focused on both horticultural and winter services. Mitie Waste is a leading national waste management business providing innovative waste reduction and treatment solutions.

Specialist Services revenue declined 2.5% to £233.6m (FY20 £239.6m) with operating profit of £22.5m, 11.1% below the prior year (FY20 £25.3m), and operating profit margin of 9.6% (FY20 10.6%).

Care & Custody's revenue declined to £108.8m (FY20 £110.2m). A reduction in variable escorting services activity and the closure of the Campsfield Immigration Removal Centre in FY20 were largely offset by the continued growth in revenue from Police services. Operational improvements have continued through the integration of Care & Custody's Workforce IT system with the bespoke detention and escorting 'MEDS' case management system. Cost reductions have been achieved as IT developments have enabled Care & Custody to reduce the number of call handlers and to consolidate the Police Health Control Centre activity into a single office. Operating profit before other items and operating profit margin were both slightly reduced to £7.4m (FY20 £7.7m) and 6.8% (FY20 7.0%).

Landscapes revenue increased by 5.0% to £50.2m (FY20 £47.8m) as growth returned strongly in the final quarter of the year. Operating profit before other items was slightly lower at £8.4m (FY20 £8.6m) as a result of higher costs relating to winter services, partially offset by cost savings. Landscapes has renewed its two largest customer contracts and, as part of a broader Mitie bundled offering secured £10.4m of new work.

Waste revenue decreased by 8.6% to £74.6m (FY20 £81.6m), as volumes reduced due to lower occupancy or footfall in travel, industrial, financial and commercial sectors. Revenue has also reduced due to operational efficiencies being passed back on the NHS clinical waste contract, offset by additional work for waste removal at our Testing Centres and Nightingale Hospitals. Operating profit before other items has fallen by 25.6% to £6.7m (FY20 £9.0m) with an operating profit margin of 9.0% (FY20 11.0%) as profitability declines were partially offset by savings from headcount reductions.

FY22 has started well as Landscapes and Waste benefit from businesses slowly starting to reopen and our customers' employees returning to offices. Care & Custody has continued to see growth from Police Healthcare services and a small increase in detention escorting services.

Interserve Facilities Management

£m	FY21
Revenue inc. share of JV&A	450.0
CG&D	230.4
Communities	95.8
Business & Industry (B&I)	123.8
Operating profit before other items	13.3
Operating profit margin before other items, %	3.0%
Order book	3,157
Number of employees	25,287

Performance highlights

- Strong performance from CG&D in the UK with increased projects in the final quarter
- Early delivery of synergies of £3m contributed to £13.3m operating profit
- Three new contract wins and 10 renewals or extensions
- Project works won across schools and hospitals, including at King George's Hospital, Ilford

Interserve Facilities Management

Interserve was acquired by Mitie on 30 November 2020 and contributed four months of trading from 1 December 2020 to 31 March 2021 to Mitie's FY21 results. During this period, Interserve operated through three principal business divisions: Central Government & Defence ("CG&D") which provides facilities management services to central government departments in the United Kingdom and Europe, and the Ministry of Defence in the United Kingdom and overseas; Communities which provides services to devolved public sector customers, with a focus on community environments in healthcare, schools and universities, emergency services, and local authorities; and Business & Industry ("B&I") which provides services to private sector and other customers, including regulated businesses, shopping centres, transport providers and manufacturing and industrial companies.

Operational performance

Since the acquisition focus has been on the early delivery of synergies, contract wins and renewals, and improving customer service. Interserve employees are in the process of transferring onto Mitie's payroll and HR systems, and strategic account managers are being trained in the Mitie SAM Programme to improve cross-selling and upselling capabilities.

Customer relationships are largely positive with 10 renewals or extensions in the four-month period. In addition, Communities won its first new contract under the Mitie brand with East and North Hertfordshire NHS Trust awarding a soft services contract for 10 years. Early customer feedback recognises the benefits that the introduction of Mitie's technology will bring, alongside enhanced data quality and operational excellence.

Financial highlights

Revenue of £450.0m for the four months to 31 March 2021 was an improvement on the comparative period last year due to additional COVID-19 and non-COVID-19 project works in CG&D and extra COVID-19 related work in the Communities Healthcare portfolio. However, this was offset by COVID related downsides due to site access restrictions impacting catering and parking in Communities, and shopping centres in B&I in particular.

Operating profit before other items for the four-month period was £13.3m and includes £3m upside from Interserve's share of synergies, largely relating to headcount reductions. Profitability benefited from additional project works towards the end of the year which, when combined with the synergies, delivered an operating profit margin of 3.0%.

Following the strong fourth quarter of FY21, FY22 has started well for CG&D with the continued pick up in project work. Interserve has renewed or extended a further 13 contracts, with all divisions reflecting a promising start to FY22.

Corporate overheads

Corporate overheads represent the costs of running the Group and include costs for the head office commercial and business development, financial, marketing, legal and HR teams. Corporate overhead costs have increased to £48.2m in the year (FY20 £37.3m). The increase includes the additional costs incurred in providing all staff with Personal Protective Equipment (PPE) and making properties COVID-19 compliant, the repayment of £4.1m of furlough monies, and the re-instatement of management incentives, which were put on hold last year due to COVID-19.

Finance review

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

“

Although COVID has challenged us all, our business has been far more resilient than we originally expected.

Simon Kirkpatrick
Chief Financial Officer

—
£47.1m

Average daily net debt

—
£362m

Net assets

—
£86.7m

Closing net debt

—
8.9%

Return on invested capital

Alternative Performance Measures

The Group presents its results as those of continuing operations, before other items. Management believes this is useful for users of the financial statements, providing both a balanced view of the financial statements, and relevant information on the Group's underlying financial performance. Accordingly, the Group separately reports impairment of goodwill, cost of restructuring programmes, acquisition and disposal related costs (including the impairment and amortisation of acquisition related intangible assets), gains or losses on business disposals and other exceptional items as 'Other Items'.

Financial performance

The reported Income Statement from continuing operations is set out below:

Continuing operations, £m unless otherwise specified	FY21	FY20
Revenue including share of joint ventures and associates	2,589	2,174
Group revenue	2,560	2,174
Operating profit before other items	63.4	86.1
Other items	(55.1)	(21.5)
Operating profit	8.3	64.6
Net finance costs	(17.4)	(16.2)
Tax	(1.0)	(7.9)
(Loss)/profit after tax	(10.1)	40.5
Basic earnings per share before other items ¹	3.5p	8.3p
Basic (loss)/earnings per share ¹	(0.9)p	5.8p

¹ Earnings per share for FY20 have been restated for the bonus element of the FY21 rights issue.

Revenue

Revenue from continuing operations of £2,589m, including share of revenue from joint ventures and associates, and including a four-month contribution from Interserve, represented an increase of 19.1% when compared to the prior year. Excluding the contribution from Interserve, revenue was £2,139m, 1.6% lower than the prior year. Group revenue from continuing operations (which excludes revenue from joint ventures and associates) increased 17.8% to £2,560m, also including the post-acquisition contribution from Interserve.

Operating profit

Operating profit from continuing operations before other items was £63.4m (FY20: £86.1m), which was 26.4% lower than the prior year as the additional profit from contract wins and the four-month contribution from Interserve, including the associated £6.2m of synergies, was more than offset by the COVID impact on trading, completed contracts, the reinstatement of incentive payments and an increase in share-based payments. Operating margin reduced to 2.4% (FY20: 4.0%), largely reflecting the addition of COVID-related revenue at lower margins (supporting UK Government contracts) and temporarily lost revenue from higher margin variable and project works, combined with some higher margin contracts completed in FY20.

Operating profit was £8.3m, reflecting the additional impact of other items for the year.

Government support

The Group took advantage of UK Government support offered under the Time to Pay (TTP) scheme, allowing Mitie to defer payment of £133.2m of tax (PAYE and VAT) which would have been due in the period April to June 2020. Together with the £33.0m deferred in March 2020, the total amount deferred by Mitie under TTP was £166.2m. These deferred taxes were repaid in instalments, with the final payment made in January 2021, earlier than the April 2021 deadline. In addition, Interserve held an £18.5m deferred payment balance under TTP on the balance sheet at the date of the acquisition, which was repaid in December 2020, bringing the net repayment during the year to £51.5m. During the year the Group made use of the Government's Coronavirus Job Retention Scheme. The Group has subsequently repaid £4.1m to the Government relating to furloughed colleagues employed directly at Mitie's own operations².

Other items

Other items, £m	FY21
Interserve acquisition related costs	(14.8)
Interserve integration costs	(8.8)
Interserve amortisation of acquisition related intangible assets	(6.7)
Sub-total – Interserve related other items	(30.3)
Project Forté	(10.6)
Property transformation	(11.3)
Amortisation of non-Interserve acquisition related intangible assets	(2.2)
Other acquisition and disposal related costs	(0.6)
Other	(0.1)
Sub-total – Non-Interserve related other items	(24.8)
Total other items from continuing operations before tax	(55.1)
Other items from discontinued operations	3.2
Total other items before tax	(51.9)
Tax	7.1
Total other items after tax	(44.8)

Other items in FY21 resulted from the Group's ongoing transformation and M&A activity, which includes Project Forté, the property transformation programme, and the costs associated with the Interserve acquisition and integration.

The acquisition and integration of Interserve is significant in terms of both size and complexity, and the costs incurred reflect this. The acquisition related costs largely relate to the one-off professional fees for the transaction, whereas the integration costs primarily relate to the resources being deployed to implement integration and redundancies. The amortisation charge of £6.7m relates to the reduction in the intangible asset value of the acquired customer contracts and relationships, reflecting the passage of time towards the contracts' forecast expiry dates.

The total cost before tax of the Group's other transformation activity was £24.8m, of which £10.6m related to Project Forté. Project Forté is focused on re-engineering Technical Services' workflow processes. A further £11.3m related to the Group-wide property portfolio rationalisation, including impairments to right-of-use leased assets and provisions associated with related onerous contracts. This reflects the closure of seven offices.

The amortisation of non-Interserve acquisition related intangible assets is primarily associated with Vision Security Group, which was acquired in FY19, and Other Items relating to discontinued operations includes the partial release of provisions relating to the disposal of the Social Housing business, which are no longer required.

Net finance costs

Net finance costs were £17.4m (FY20: £16.2m), an increase of 7.4% compared to the prior year. The increased costs were principally driven by debt arrangement and amendment fees associated with the June 2020 refinancing and the securing of a relaxation of covenant thresholds until September 2022 (as discussed below).

Tax

Profit before other items and tax of £46.0m from continuing operations (FY20: £69.9m) resulted in a tax charge of £8.5m (FY20: £11.9m), representing an effective tax rate of 18.5% (FY20: 17.0%). Including other items, the tax charge for continuing operations was £1.0m (FY20: £7.9m).

Mitie is a significant contributor of revenues to the UK Exchequer, paying £640.0m in the year (FY20: £504.9m). Of this total, £116.6m relates to taxes borne by Mitie (principally employer's National Insurance contributions) and £523.4m relates to taxes collected by Mitie on behalf of the UK Exchequer (principally VAT, income tax under PAYE and employees' National Insurance contributions).

Joint ventures and associates

Operating profit includes Mitie's share of the results net of tax of joint ventures and associates that were acquired as part of the Interserve transaction. £1.9m was reported within operating profit before other items and a charge of £1.2m for amortisation of acquired intangible assets was reported within other items.

Earnings per share

Basic earnings per share before other items from continuing operations, decreased by 57.8% to 3.5p (FY20 restated: 8.3p). This is as a result of the lower profit before tax, driven by the lower operating profit noted above, combined with a higher weighted average number of shares in issue following the rights issue and shares issued as part of the acquisition of Interserve. Earnings per share for FY20 has been restated for the bonus element of the FY21 rights issue.

Basic earnings per share was (0.9)p (FY20 restated: 5.8p), with the reduction reflecting the factors outlined above, plus the impact of a higher level of other items in FY21.

2 Further details can be found in Note 7 to the consolidated financial statements.

Finance review continued

Balance sheet

£m	FY21	Restated ¹ FY20
Goodwill and intangible assets	548.4	329.5
Property, plant and equipment	117.9	110.8
Interest in joint ventures and associates	11.0	-
Working capital balances ¹	(165.7)	(137.7)
Provisions	(116.4)	(53.2)
Net debt ¹	(86.7)	(153.0)
Net retirement benefit liabilities	(42.5)	(46.7)
Deferred tax	19.8	29.7
Other net assets	76.0	1.1
Total net assets	361.8	80.5

¹ Working capital and net debt balances for FY20 have been restated due to a change in accounting policy related to BACS payments (see Note 1 to the consolidated financial statements)

Overall, the Group reported net assets of £361.8m at 31 March 2021, which is an increase of £281.3m compared with 31 March 2020. The increase is primarily the result of the £190.4m net proceeds from the rights issue plus £138.7m of net assets acquired related to the Interserve transaction and the £57.6m receivable related to the provisional adjustment to consideration (see below), partially offset by the £105.0m cash consideration paid.

Acquisition of Interserve

The acquisition of Interserve has added the provisional values of £3.3m for goodwill and £138.7m for the acquired identifiable net assets and liabilities to the balance sheet, in return for total consideration of £142.0m.

The net assets acquired of £138.7m include £219.3m attributed to acquired intangible assets, recognising the value associated with the customer contracts and relationships, £66.7m of provisions, and a £13.9m net liability from other assets and liabilities such as deferred tax, leases and joint ventures. Provisions include £13.0m for onerous contracts, mainly related to certain PFI contracts, and £37.2m for rectification works associated with pre-acquisition issues.

The total consideration of £142.0m comprises £199.6m of consideration already settled (£105.0m cash paid and £94.6m shares issued) less a provisional adjustment to consideration of £57.6m related to a completion accounts process, which is included as a receivable in the balance sheet as at 31 March 2021 (within Other net assets in the table above). The outcome of the completion accounts process is inherently uncertain, given that this is subject to a commercial negotiation and potentially expert determination, and the final adjustment agreed could therefore be materially different from this estimate.

Change in accounting policy

The Group has changed its accounting policy in relation to the recognition of BACS payments, whereby BACS payments are now recognised at the settlement date, rather than when they are initiated. This change was implemented as part of the alignment of accounting policies with Interserve and will provide operational benefits including simplifying the cash management process and accelerating period end reporting.

As a result of the change in accounting policy the balance sheet for FY20 has been restated to reclassify amounts between cash and working capital, which has had the result of reducing net debt by £14.9m at 31 March 2020 and increasing net debt by £5.4m at 1 April 2019. The impact of the new accounting policy for FY21 was an increase in net debt of £5.6m at 31 March 2021. As a consequence of the accounting policy change, cash generated from operations for FY21 is lower by £20.5m, but for FY20 the restated amount is better by £20.3m.

There has been no impact on the income statement, earnings per share or net assets as a result of this restatement.

Retirement benefit schemes

Net retirement benefit liabilities have reduced to £42.5m, compared with £46.7m at 31 March 2020, principally due to contributions and returns on plan assets, partially offset by a decrease in the discount rate reflecting a decrease in yields on high-quality corporate bonds. The net liabilities at 31 March 2021 included a net accounting surplus of £3.0m related to a scheme acquired with the Interserve business. There is also an accounting surplus related to a joint venture acquired with Interserve. Mitie's £2.2m share of which is reported within interest in joint ventures and associates on the balance sheet.

The latest funding valuation of the Mitie Group defined benefit scheme as at 31 March 2020, indicated an actuarial deficit of £92.1m. The Group has negotiated, subject to final approval, a deficit recovery plan with the trustees totalling £93m over seven years, of which £11m was paid in FY21.

Cash flow and net debt

£m	FY21	Restated ¹ FY20
Operating profit before other items (continuing operations)	63.4	86.1
Add back: depreciation, amortisation & impairment	46.9	43.9
Other movements (including other items)	(34.1)	(25.0)
Working capital movements ¹	(36.4)	(12.9)
Cash generated from operations	39.8	92.1
Capex, capital leases, dividends from JVs, interest & tax	(64.3)	(61.6)
Free cash (outflow)/inflow	(24.5)	30.5
Rights issue	190.4	-
Acquisitions & disposals	(84.0)	64.2
Dividends & other ²	(15.6)	(14.1)
Decrease in net debt during the year	66.3	80.6
Closing net (debt)	(86.7)	(153.0)
Average net (debt)	(47.1)	(327.6)
Leverage covenant	< 0x	0.7x
Interest cover covenant	8.5x	9.3x

¹ Working capital balances for FY20 have been restated due to a change in accounting policy related to BACS payments with an increase in cash generated from operations of £20.3m for FY20 and a reduction of £14.9m in net debt at 31 March 2020 (see Note 1 to the consolidated financial statements)

² Dividends & other for FY21 includes lease liabilities of £14.2m acquired with Interserve, and for FY20 includes dividends paid of £14.4m

The lower cash generated from operations is largely driven by the reduced operating profit before other items, due to the factors noted above, combined with the cash outflow from the increased level of other items, and higher adverse movements in working capital (see below). Other movements within cash generated from operations include pension deficit payments and non-cash adjustments relating to share-based payments.

Capex, capital leases, dividends from JVs, interest and tax resulted in a cash outflow of £64.3m, and there was a net Free Cash Outflow of £24.5m in FY21. Within this outflow there have been £98.0m of one-off working capital outflows in the year, which are explained further below. Excluding these one-off items, the Group would have had a Free Cash Inflow of £73.5m.

The Group received £190.4m of net proceeds from the Rights Issue, and the net cash outflow to acquire Interserve was £84.0m, reflecting £105.0m of consideration paid less cash on the balance sheet (excluding restricted cash of £19.4m). No dividends were paid in the year (FY20: £14.4m).

Working capital

Working capital movements resulted in an outflow for the year of £36.4m after the repayment of £51.5m of tax previously deferred under the HMRC TTP scheme, a further reduction in the invoice discounting programme of £19.0m and paying our suppliers faster over the year end period (impact estimated at £27.5m). Adjusting for these items, the underlying working capital showed an improvement of £61.6m, which was driven by strong working capital management, including billing process efficiencies.

Net debt

Average daily net debt of £47.1m for FY21 decreased by £280.5m in comparison to FY20, primarily as a result of the £190.4m net proceeds from the rights issue, and the benefit, at the maximum point, from the £166.2m of taxes deferred under the TTP scheme, which have since been fully repaid. Together, these two items improved average net debt by c.£220m compared to FY20, with the remaining improvement due to the underlying improvement in working capital referenced above.

Closing net debt on a post-IFRS 16 basis as at 31 March 2021 was £86.7m (compared with the restated £153.0m at 31 March 2020), reflecting the strengthened balance sheet following the rights issue.

Total Financial Obligations (TFO)

£m	FY21	Restated ¹ FY20
Net (cash)/debt¹ pre-IFRS 16	(19.7)	60.0
Lease liabilities (IFRS 16)	106.4	93.0
Net debt¹ post-IFRS 16	86.7	153.0
Supply chain finance	–	16.0
Customer invoice discounting	51.7	70.7
Pension deficit	42.5	46.7
Total Financial Obligations (TFO)	180.9	286.4

¹ Net debt balance for FY20 has been restated due to a change in accounting policy related to BACS payments (see Note 1 to the consolidated financial statements)

Mitie closed its supply chain finance programme in December 2020. Period-end TFO have continued to decrease significantly, reflecting Mitie's strategy to strengthen the balance sheet and decrease leverage.

Liquidity and covenants

As at 31 March 2021, the Group had £401.5m of committed funding arrangements. These comprised a £250m Revolving Credit Facility maturing in December 2022, and £151.5m of US Private Placement notes spread over two maturities: December 2022 (£121.5m); and December 2024 (£30.0m).

With effect from 10 June 2021, DBRS Morningstar assigned a credit rating of BBB with a stable outlook to Mitie. The Group intends to refinance its existing facilities over the course of the next year.

Mitie's two key covenant ratios are calculated on a pre-IFRS 16 basis. These are leverage (ratio of consolidated total net borrowings to adjusted consolidated EBITDA) and interest cover (ratio of consolidated EBITDA to consolidated net finance costs). Following the COVID-related amendments agreed in June 2020, the covenant thresholds on these ratios vary each period until September 2022, as set out in the table below:

Covenant	Mar-20	Mar-21	Sep-21	Mar-22	Sep-22
Interest cover	> 4.0x	> 1.0x	> 2.5x	> 3.5x	> 4.0x
Leverage	< 3.0x	< 4.0x	< 3.5x	< 3.0x	< 3.0x

As at 31 March 2021, the Group was operating well within these ratios at < 0x leverage and 8.5x interest cover. A reconciliation of the calculations is set out in the table below:

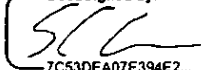
£m	FY21 (R12M)	Restated ¹ FY20 (R12M)
Operating profit before other items²	63.4	88.9
Add: depreciation, amortisation & impairment	46.9	43.9
Headline EBITDA	110.3	132.8
Add: covenant adjustments	22.2	0.3
IFRS 16 EBITDA adjustment	(28.0)	(24.8)
Consolidated EBITDA	(a) 104.5	108.3
Full-year effect of acquisitions & disposals	23.4	(1.7)
Adjusted consolidated EBITDA	(b) 127.9	106.6
Net finance costs	17.4	16.4
Less: covenant adjustments	(1.8)	(1.7)
IFRS 16 finance costs adjustment	(3.3)	(3.1)
Consolidated net finance costs	(c) 12.3	11.6
Interest cover (ratio of (a) to (c))	8.5x	9.3x
Net (cash) / debt	86.7	153.0
Impact of hedge accounting & upfront fees	2.8	2.3
IFRS 16 net debt adjustment	(106.4)	(93.0)
Accounting policy change for recognition of BACS	(5.6)	14.9
Consolidated total net (cash) / borrowings	(d) (22.5)	77.2
Leverage (ratio of (d) to (b))	< 0x	0.72x

¹ Net debt balance for FY20 has been restated due to a change in accounting policy related to BACS payments (see Note 1 to the consolidated financial statements), however consolidated total net borrowings for covenant purposes remains unchanged

² Continuing and discontinued operations

Simon Kirkpatrick
Chief Financial Officer

DocuSigned by:


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Environmental and Social Value Summary

Environmental and Social Value Summary

Environmental, Social and Governance (ESG) is a key part of our two 'Technology' and 'People' strategic pillars as we look to achieve net zero carbon by 2025, generate increased social value and become recognised as a leading ESG company.

Mitie will continue to review its targets and approaches to the economic, social and environmental aspects of Social Value to ensure it leads the FM sector. Mitie will consider ways in which it can maximise social value in both day-to-day business operations and every partnership that it creates, to benefit individuals, communities, supply chains and the environment.

Mitie's vision is to lead the facilities management (FM) sector in creating social value through everyday operations, leaving a legacy for the communities in which it works, to support a brighter future for all. Mitie will do this by having clear targets across its pillars of social value, which are Environment, People, Community, Responsible supply chain and Innovation, each of which is backed up with a delivery plan. Mitie's fifth pillar, Innovation, is embedded within the four other pillars and, therefore, instead of specific targets, this important pillar is used to ensure all other areas are performing innovatively, so that operations run efficiently and Mitie remains industry leading. We will embed ESG considerations in every aspect of Mitie's business from strategy to supply chain management to delivering for our customers.

Increasingly, customers expect Mitie not just to have clear targets on all aspects of Social Value, especially the environment, but to be able to support them in delivering their own challenging targets in areas such as decarbonisation, reduction of energy usage and waste management. Mitie's expertise is demonstrated by its leadership in the transition to electric vehicles, as well as its Group-wide certification for ISO14001 (Environmental Management System) and ISO9001 (Quality Management System). Subject matter expertise is further evidenced by Mitie Energy's ISO50001 (Energy Management System) and Mitie Waste's BS8001 (Circular Economy) certification, as well as Mitie's industry-leading Plan Zero commitment to net zero carbon by 2025.

Oversight and governance are provided by the Social Value & Responsible Business Committee, chaired by Baroness Courtie. For more information on our Business Conduct, please see pages 46 to 47.

As of January 2021, Mitie had received improved ESG ratings from three of the leading ESG rating organisations: CDP of Leadership A-; MSCI of AA; and Sustainalytics of 9.8 Negligible Risk, positioning Mitie as a global leader in ESG matters and the highest ranked facilities management company globally.

We have the largest electric fleet vehicle in Britain, have signed up to Business Ambition for 1.5°C, the Race to Zero, RE100/EV100/EP100, and we are committed to science-based targets to decarbonise our supply chain by 2035.

Phil Bentley
Chief Executive Officer

Pillars

Environment

2025 Target: Net Zero Carbon Emissions by eliminating carbon emissions, eradicating non-sustainable waste and enhancing efficient buildings.

People

2025 Target: 40% female and 20% BAME in Senior Leadership Team roles and 5% of employees through an apprenticeship scheme

Community

2025 Target: 16,000 volunteer paid hours, 2.34% of employees from an Armed Forces background (0.5% above average of UK population) and 10,000 hours of training delivered on improving health and wellbeing.

Responsible supply chain

2025 Target: 33% spend with Small and Medium-sized Enterprises (SMEs), £1.25m spend with Voluntary, Charitable, and Social Enterprises (VCSEs), 40% spend under Supplier Management Framework (SMF)

Commitments, targets and performance

Carbon emissions (2025 Target – Net Zero Carbon Emissions)

FY21	19,205	7,867 tCO ₂ e
FY20	27,072	improvement from
FY19	28,912	previous year

FY21 achievement

- 232% increase in electric vehicles (from 325 at end of FY20 to 1,080 at end of FY21)
- 184 tonnes of waste diverted from landfill
- 'Bin the bag' initiative launched to remove single use plastic bin liners by 40,000 per annum
- 49 building surveys conducted to develop a phased approach to the decarbonisation of heating systems

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Females in Senior Leadership Team (2025 Target – 40%)

FY21	21%	3 ppts
FY20	18%	improvement from
	Not measured prior to FY20	previous year

- Employee engagement increased to 55%
- 3ppts increase in females and 5ppts of BAME in Senior Leadership Team roles
- Mitie named in the top ten in the Inclusive Top 50 UK Employer's list for three consecutive years.
- New Diversity and Inclusion strategy launched, involving self-assessment activities invoking thinking and conversation.
- 1,269 employees through an apprenticeship scheme, which represents a 122% increase from the previous year.

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BAME on Senior Leadership Team (2025 Target – 20%)

FY21	8%	5 ppts
FY20	3%	improvement from
	Not measured prior to FY20	previous year

Volunteer hours (2025 Target – 16,000)

FY21	8,064	166%
FY20	3,032	improvement from
	Not measured prior to FY20	previous year

- Mitie's volunteers gave over 8,000 hours to charities in need with over £53,000 raised for some amazing charities.
- An initiative to recruit from an Armed Forces community has led to an increase in recruitment, with 2.9% of employees at testing centres from an Armed Forces background
- Over 2,000 hours proactive training for employees around Health and Wellbeing

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Employee training hours around Health & Wellbeing (2025 Target – 10,000)

FY21	2,338	2,338
	Not measured previously	Actual performance in FY21 first measurement

Small and Medium Enterprises (SMEs) (2025 Target – 33%)

FY21	29%	1 ppt
FY20	28%	improvement from
FY19	27%	previous year
FY18	Not measured	

- Engaging with potential providers to continuously grow our VCSE supplier list
- Dramatically exceeding our VCSE spend milestone by nearly 50%, at £447,502
- Surpassing our SME spend target with 30%, with this figure significantly increasing to 45% under Government and public sector contracts
- A 10ppts increase in the proportion of spend under SMF
- Scope 3 – Make sure our suppliers are doing the right thing

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Supplier Management Framework (SMF) (2025 Target – 40%)

FY21	30%	10 ppts
FY20	20%	improvement from
	SMF did not exist previously	previous year

Non-financial information statement

Non-financial information statement

We continually look for ways to make Mitie a responsible business and we actively engage with stakeholders to improve the Group's impact. In FY 21, Mitie met or exceeded all 13 of its social value targets within its social value framework and extended Plan Zero beyond its ambitious, industry-leading pledge to reach net zero carbon emissions by 2025 to include its Scope 3 emissions becoming net zero by 2035.

Mitie's leadership position across all aspects of ESG has been shown by the significant improvement in ratings from major ESG rating agencies including CDP, MSCI and Sustainalytics during FY21.

Mitie's emissions have reduced by 29% versus prior year and 35% over the last two years, as a result of its Plan Zero decarbonisation approach, energy optimisation across its sites and continued switch to electric vehicles. Progress across the 13 social value targets is published monthly in the Social Value & Responsible Business Dashboard available on www.mitie.com/esg and Mitie's employee engagement has increased significantly from 33% to 55% in 3 years.

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

9B Reporting requirement	10B Relevant policies ¹	11B Annual Report page reference
Environmental matters	Sustainability policy Procurement policy	Stakeholder engagement pages 48 to 53 Plan Zero / Environment pages 34 to 35 Operating responsibly pages 46 to 47
Employees	Employee Handbook People policy Equality diversity and inclusion policy Health and safety policy Ethical business practice policy Sustainability policy Quality policy	Chief Executive's strategic review pages 19 to 21 Stakeholder engagement pages 48 to 53 Our people pages 38 to 40 Operating responsibly pages 46 to 47
Social matters	Sustainability policy	Chief Executive's strategic review pages 19 to 21 Operating responsibly pages 46 to 47 Stakeholder engagement pages 48 to 53
Human rights	Employee Handbook Ethical business practice policy	Operating responsibly pages 46 to 47
Anti-bribery and anti-corruption	Employee Handbook Ethical business practice policy E-learning module available for employees through the process repository (BMS) and Learning Hub	Operating responsibly pages 46 to 47 Our people pages 38 to 40 Stakeholder engagement pages 48 to 53
Suppliers	Procurement Policy Supplier Social Value Policy	
Business model		Business model pages 8 to 9
Non-financial KPIs		KPIs pages 14 to 17
Principal risks		Principal risks and uncertainties pages 54 to 65 Viability statement page 66 Audit Committee report pages 94 to 98 The Board pages 68 to 98

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

Spotlight

Spotlight on Plan Zero Do, Lead, Deliver

Working with our customers to support their sustainability targets

In FY21 over 500 carbon and waste management experts within Mitie have achieved the following for our customers:

- Delivered 14 Plan Zero Pathways addressing over 375,000 tonnes of carbon
- Saved our customers a further £19m through optimisation
- Procured 1.1TWh of supply contracts, 96.78% of which we REGO backed for power
- Delivered 2,836 energy surveys
- Managed 68,000 meters across all energy services

To date, we have saved our customers over 353,000 tonnes of carbon and installed over 850 EV charge points for our clients.

One great example of Mitie delivering for clients is with Vodafone, and our Zero Carbon for Zero Cost service. This involved Carbon Compliance and Certification, Smart Energy Procurement, Reducing Carbon and Energy, and Remote Connectivity. In just three years we have saved 100GWh, £10m in cost avoidance, and 24,842tCO₂e. Alongside these amazing results, cost neutral was achieved within three months of this project going live, showing the unlimited benefits of going green.

Mitie Waste has successfully achieved a 90% recycling and recovery rate with our clients, by aligning to the waste hierarchy they have ensured that disposal is the last option explored. They have also been developing the reusable bags seen below, for activities such as litter picking, offered through our City Landscaping service. This re-usable range includes a PP satchel, PP bulk bags, and rack sacks, and disposes of the waste through either a Material Recovery Facility, anaerobic digestion, or Energy from Waste, ensuring zero sent to landfill.

Further examples

Mitie's integrated FM model provides multiple services for a UK council, many of these from Mitie Energy. After conducting energy audits, many initiatives were implemented, including major LED lighting upgrade works carried out at 13 sites, leading to a saving of over 375,000 kWh or 700 tonnes of carbon annually; and three solar panel installations carried out at various locations, producing green energy at the host sites. These develop 171,000kWh of energy and save 48 tonnes of carbon annually.

Mitie Landscapes has also successfully delivered for its clients, improving the local environment for both wildlife, and the community. This year has been packed with innovative solutions, including the first electric gritter, Gritter Thunberg, launched in Nottingham in February 2021, providing the first zero-emissions gritting service. Mitie's City Landscaping service has also been developed, designed to reduce emissions in high-pollution areas. This service is sustainable and carbon-free, from using electric vehicles and battery-powered equipment; to ensuring zero plastic waste and eliminating both pesticides and chemicals.

Mitie's work with the Cumbrian Collaboration (which includes Sellafield, Nuclear Decommissioning Authority, DRS and INS) incorporates its electric vehicle (EV) transition service, improving buildings efficiency, and moving towards renewable energy sources. This has produced significant results, including currently being at the final stages of design and build for solar energy generation, which will generate 800kWh and has a social enterprise attached. Air Source Heat Pumps have also been installed, removing a previous gas heating system and allowing for zero Scope 1 emissions, with the addition of calorifiers to the Air Source Heat Pumps at one location, which will increase their efficiency by 75% coupled with reduced operating and maintenance costs. Mitie is also in the process of supporting Sellafield's EV charging network infrastructure, and advising on EV selection options.

Mitie Waste's work with Lloyds has produced some impressive results. Mitie Waste facilitated the provision of over 150,000 Keep cups and water bottles, to the banking group's staff, with the aim of reducing single-use plastics, and the associated waste volumes produced from vending machines, water fountains and catering outlets. This alone reduced the amount of single use items being procured and disposed of by over 35 million annually. Waste audits were also carried out, changing Lloyd's supply chain packaging from plastic straps of paper and business cards, to now being delivered in cardboard boxes, reducing over 30,000 plastic boxes annually. Over 1,200 items of furniture were reused or relocated in just one year, saving disposal costs, purchase of new items, and further carbon emissions.

Mitie Waste also helped facilitate the reuse of 210 surplus chairs from NPower to another organisation. Although a seemingly small amount, this transaction alone saved over 15 tonnes of carbon, along with disposal costs, and new furniture purchasing costs.

Environment and Social Value

Environment

Ambition: Net Zero Carbon Emissions by eliminating carbon emissions, eradicating non-sustainable waste and enhancing efficient buildings by 2025.

-7,867 T CO₂e

(YOY Carbon Emissions saving versus FY20)
Reduced by 29% to 19,205

In February 2020, Mitie launched Plan Zero, the Group's commitment to reach net zero carbon by 2025, some 25 years earlier than the UK Government's target. To ensure this is achieved, the initiative is focused around three key target areas communicated to colleagues and customers through webinars focusing on how to make a green return to the workplace, and how acting now can deliver immediate cost and carbon savings.

Eliminate carbon emissions from power and transport

Site surveys have been conducted at 15 Mitie sites with desktop surveys completed on a further 45 Mitie sites, as part of a three-phase approach to decarbonise the Group's heating systems. These surveys identified many carbon-saving opportunities, which have been implemented, including optimising building management systems and installing LED lighting. These changes will reduce the Group's emissions by an estimated 300tCO₂e per annum.

Mitie has the largest fully electric vehicle (EV) fleet in the UK, with 1,080 pure EVs at the 31 March 2021, and has installed over 850 charge points at both residential and commercial locations. Mitie has partnered with Mina, to enable direct payment for EV charging at home, further supporting the Group's EV transition.

The Group's EV fleet is growing exponentially, with Mitie constantly analysing the market for models to suit its varied fleet requirements. The initial focus was on cars and small vans, but with manufacturers now responding to the demand for fully electric commercial vehicles, Mitie has over 660 Vivaro-e's vans on order. Included in Mitie's EV fleet is Gritter Thunberg, launched in Nottingham in February 2021, providing the first commercial zero-emissions gritting service. By removing diesel vehicles from its fleet, Mitie saves an average of 5 tonnes of CO₂ per vehicle per annum, so the Group impact is vast.

Eradicate non-sustainable waste

Through analysing Mitie's inbound waste streams, and contacting suppliers to discuss alternative waste disposal, more than 184 tonnes of waste, from 11 offices, have been successfully diverted from landfill including over 130 tonnes to recycling and 50 tonnes to 'Energy from waste' in FY21. This led to a reduction in the Group's waste sent to landfill in FY21 to 12 tonnes, over 90% below the baseline of 376 tonnes.

Mitie's drive to reduce its impact on the environment sparked the development of its 'Bin The Bag' initiative, which will be trialled at 15 sites in FY22. This reduces single-use plastic liners by 40,000 per annum, removing a total of 600kg of plastic waste, and saving £6,000 per annum. This re-usable range includes a PP satchel, PP bulk bags, and rack sacks, and disposes of the waste through either a material recovery facility, anaerobic digestion, or Energy from Waste, ensuring zero sent to landfill.

Eliminate carbon emissions from power and transport

Convert the Group's fleet to zero emissions and power the Group's EV charge points with green energy

Decarbonise the Group's heating systems and use 100% renewable energy for Group sites via a subsidy-free Power Purchase Agreement

Increase the Group's use of technology to reduce work travel to a minimum. Where travel is necessary, Mitie will choose low carbon methods

Eradicate non-sustainable waste

Eliminate single-use materials by embracing the circular economy, such as through a closed-loop paper recycling system

Reduce the Group's use of natural resources, with only items which fit the Group's circular economy approach allowed on site

Use natural, non-toxic, and biodegradable cleaning products, and champion the use of new innovations wherever possible, such as microfibre and surface coatings

Enhance inefficient buildings to meet the highest environmental standards

Always choose new offices with at least an 'Excellent' BREEAM rating and only re-sign leases on offices with an A EPC rating

Enhance energy optimisation and use the Group's smart building technology to achieve maximum energy efficiency at all Group sites

Improve biodiversity at all Group sites using initiatives that help ecosystems flourish, such as choosing plants which attract wildlife or establishing bug hotels

Enhance inefficient buildings to meet the highest environmental standards

A Carbon Conscious Building Selection Guide has been developed to ensure that any new properties that Mitie leases meet the high building efficiency and low-carbon guidelines laid out in Plan Zero.

To support the Group's energy optimisation approach, a comfort policy has been created, ensuring that the environments within the Group's buildings, including temperature and humidity, are at an optimum level for both occupants' comfort and productivity, and also environmentally.

Three sites have been identified for the installation of bird boxes and bug hotels, with the work completed at two sites.

Greenhouse gas emissions

The planet is facing a climate emergency. In February 2020, Mitie launched Plan Zero, its commitment to reach net zero operational carbon emissions by 2025, 25 years ahead of the UK Government's target. Mitie has now expanded its Plan Zero commitment to include its supply chain.

This commitment has also been expanded by signing up to a science-based target initiative (SBTi) to incorporate Scope 3 non-operational carbon emissions, for which the targets are an 80% reduction by 2030, followed by net zero by 2035.

Absolute Emissions

Emissions	FY21	FY20	Change from prior year	% Change from prior year
Total Scope 1 (tCO ₂ e)*	18,719	26,441	(7,722)	(29%)
Emissions from fuel combustion across our fleet	18,557	26,162	(7,605)	(29%)
Emissions from gas combustion in our occupied buildings	162	279	(117)	(42%)
Total Scope 2 (tCO ₂ e)	486	631	(145)	(23%)
Emissions from the purchase of electricity across occupied buildings (Location Based)	464	613	(149)	(24%)
Emissions from electricity consumption across our EV fleet	22	18	4	22%
Total Scope 1 & 2 (Location Based)	19,205	27,072	(7,867)	(29%)
Total Scope 1 & 2 (Market Based)	18,741	26,459	(7,718)	(29%)

Mitie has now expanded its Plan Zero commitment to include its supply chain. Mitie has signed up to a Science-based target initiative (SBTi) to achieve an 80% reduction in Group Scope 3 emissions by 2030, followed by achieving net-zero Scope 3 emissions by 2035. Therefore by 2035, Mitie will have reached net-zero across all three Scopes. Achieving as close to real zero is the goal, however, as there will be some unavoidable emissions, nature-based solutions will be used to offset these. Through this SBTi target, Mitie has also aligned to the "Business Ambition for 1.5°C" campaign, committing to targets and plans that contribute to the global temperature increase not exceeding 1.5°C, a critical boundary. Mitie is also supporting Race to Zero, a campaign supporting a resilient, health, zero carbon recovery that prevents future threats, creates decent jobs, and unlocks inclusive, sustainable growth.

Intensity - Emissions Ratio	FY21	FY20	Change from prior year	% Change from prior year
tCO ₂ e/£m Revenue (Scope 1&2)	8.98	12.45	(3.47)	(28%)

- Reported data covers company emissions and energy consumption that occurs within the UK for Mitie excluding Interserve, Interserve data will be included from FY22 onwards
- Refrigerant data has been excluded due to challenges obtaining accurate data on landlord managed sites, this is considered immaterial.
- Total greenhouse gas (GHG) emissions are reported using the financial control approach
- Mitie's methodology aligns with Defra's Environmental reporting guidelines and uses the government's greenhouse gas reporting conversion factors to quantify emissions.

Taskforce on Climate-Related Financial Disclosures (TCFD)

Governance

Describe the Board's oversight of climate-related risks and opportunities.

Mitie's Social Value & Responsible Business (SVRB) Committee meets bi-monthly, and is chaired by independent Non-Executive Director, Baroness Courtie. Baroness Courtie then provides updates to the Board, at each Board meeting. The Board has reviewed climate-related risks and opportunities, as part of its principal risks and business strategy considerations.

Describe management's role in assessing and managing climate-related risks and opportunities.

A significant proportion of the SVRB Committee are within management, as this is an action-oriented group. Mitie's Plan Zero steering group (PZSG) meets quarterly and feeds up to the SVRB, with the Plan Zero working group (PZVWG) meeting monthly and reporting to the PZSG. The PZSG's task is to oversee and approve actions to mitigate risks and realise opportunities and measure the results.

Mitie's Climate Change risk assessment document is maintained by Jason Roberts, Head of Sustainability, and is approved 6 monthly by the SVRB Committee and the PZSG. The document is shared by the Financial Leadership Team and Financial Directors to all business areas to review any business or operation-specific risks and opportunities, which are then updated into the central document.

Strategy

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

Some of the climate-related risks Mitie has identified include the increased costs associated with a pre diesel fleet.

Some of the climate-related opportunities identified include the delivery of sustainable services from across the business; switching from fossil fuels to low-carbon alternatives for fleet operations, e.g. EVs, trialling these solutions and leading industry behavioural shift. In the 0-5 year horizon Mitie's Plan Zero focus is on net zero operational emissions by 2025 with Scope 3 to net zero by 2035 in the 10-15 year horizon.

Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning.

Continuing with a diesel fleet would have significant cost implications. As its fleet is a significant cost to Mitie, the increased costs that are projected, including diesel prices and tariffs, could have a material impact on its business.

The impact of the opportunity to deliver sustainable services enables Mitie to expand its service offering and client base, maximising the positive impact of its work and leading the industry with innovative solutions.

The impact of switching from fossil fuels to low-carbon alternatives for fleet operations are an initial higher cost than standard diesel replacement vehicles, followed by long term fuel savings, tax relief and additional work based on a more responsible image.

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The opportunities identified within Mitie outweigh the risks, due to its industry leading strategy, including its Net Zero approach which comprises EV fleet transition, decarbonising its estate, and delivering these services clients. Therefore, Mitie is considered resilient to climate-related scenarios including 2°C.

The TCFD was established by the Financial Stability Board as a means of co-ordinating improved disclosures by companies in relation to the impact of climate change. TCFD published a series of recommendations on the disclosures which organisations should include in their reports, Mitie is covering the 11 areas below, and Mitie's Group Climate Change Risks and Opportunities document has been completed with all Business Units knowledge and input, to produce a thorough document.

Risk management

Describe the organisation's processes for identifying and assessing climate-related risks.

To identify and assess climate-related risk and opportunities each part of the business and its operations is considered, with risks categorised into transitional and physical. These risks and opportunities are then rated on likelihood, and financial and reputational severity. These numbers are multiplied together to produce the financial and reputational impact which forms the basis of Mitie's Climate Change risk assessment document.

Describe the organisation's processes for managing climate-related risks.

If the financial and reputational impact figure is smaller than 12, then the risk and/or opportunity is managed through the PZSG, who evaluate the action needed, and the PZWG, who then take that action to manage the risk and/or opportunity. Where risk is higher than this it feeds into Mitie's Group risk approach as described below.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Mitie has identified the significance of climate change and as shown within the Principal Risks and Uncertainties disclosure, climate change has been identified as a Principal Risk by the Board. This principal risk is underpinned by a series of linked principal risks, which in the main are located within the Climate Change risk assessment document, unless rated as 12 or above. Where this occurs the risk then feeds up into the Group risk register, overseen by the Mitie Risk Management Team (MRT).

Throughout the year, the MRT are responsible for overseeing an ongoing review of both the internal and external environment as part of the principal risk management review; this includes any trends that emerge such as changes to the either the internal or external landscape relating to climate change which impact the Group. Twice yearly, there is a formal review of principal risks by the Board, and such changes are fed up for consideration.

Metrics and targets

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Having reviewed the nature of Mitie's business, its most important metrics are:

- Percentage of fleet that is zero carbon
- CO₂ emissions (tonnes)
- Waste sent to landfill (tonnes)

The following targets have been set in these areas, to be achieved by FY25:

85% of fleet that is zero carbon

4,400 tonnes CO₂ emissions

0 tonnes of waste sent to landfill

For full milestone targets please see the Social Value Targets section of www.mitie.com/esg

Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

The following Scope 3 emissions that relate to operational emissions are disclosed:

- Waste
- Water
- Business travel
- Landlord leased energy

The extra information from the remaining Scope 3 emissions will be captured in the coming year, and will be included in the Annual Report and Accounts for FY22.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Mitie is committed to achieving net-zero operational emissions by 2025, with the following milestone targets:

FY21 = 25,000 tonnes

FY22 = 21,750 tonnes

FY23 = 17,500 tonnes

FY24 = 11,500 tonnes

FY25 = 4,400 tonnes

This has been expanded to achieving an 80% reduction in Scope 3 emissions by 2030, with a target of net-zero by 2035.

Mitie's emissions are internally verified by the Mitie Sustainability Team, and are currently in the process of achieving third-party verification.

Environment and Social Value continued

People

Ambition: 40% females and 20% BAME on Senior Leadership team and 5% employees through an apprenticeship scheme.

Mitie is the largest facilities management employer in the UK, with 75,000 colleagues, including 65,000 frontline heroes, across 167 different nationalities. The Group's rich culture allows it to deliver exceptional services to a diverse range of customers and communities. Mitie's priority is its people, and that is recognised – the Group would be nothing without their efforts.

FY21 has been one of the most important years in Mitie's history, as the Group acquired Interserve on 30 November 2020, welcoming 27,500 new colleagues to Mitie, and played a leading role in the UK's response to the COVID-19 pandemic.

During FY21, there has been a shift in the perception of facilities management services and the critical roles of Mitie's people. Colleagues have been at the forefront of the response to the pandemic, working to keep the country running, and customer workplaces clean, safe and looked after.

Mitie's role as an employer during this time has been to help colleagues navigate the challenging circumstances encountered during the pandemic, by empowering them to adapt through training and new opportunities, recognising and rewarding their efforts through the Group's recognition schemes, providing new benefits (such as life assurance and an on-line Virtual GP service for all colleagues), and looking after their health and wellbeing. Mitie is committed to acting as the voice of the frontline, championing employees and leading the way as standard bearer of the facilities management industry.

Employee engagement

Each year, Mitie runs an employee engagement survey, Upload, to find out what colleagues really think about working at Mitie. Mitie then uses this feedback to make targeted improvements as part of its 'You Said, We Did' campaign, to make Mitie an even better place to work.

In April 2021, Upload was run for the fourth time, with 40% of the Group people taking part in the survey. Mitie's employee engagement an increase of 9ppts.

The below engagement figures for FY21 are from the Group combined organisation, including responses from the Group and former Interserve colleagues who joined Mitie in December 2020.

FY21	55%
FY20	46%
FY19	45%
FY18	33%

Employee listening

While Upload is Mitie's benchmark for employee engagement, Mitie actively listens to its employees using a number of different channels. These include the 'Grill Phil' dedicated email inbox, which provides a direct line to Phil Bentley, Mitie's Chief Executive Officer, as well as 'Back to the Floor' employee listening sessions hosted by Non-Executive Director, Jennifer Duvalier, who is responsible for representing the employee voice at Board discussions.

In response to the unique set of circumstances faced in FY21, Mitie also implemented several bespoke activities, including pulse surveys, focus groups and 1-2-1 listening sessions, which provided valuable insights to help it better support its people.

Gender breakdown

At 31 March 2021	Male	Female	Total	% male	% female
Board	4	4	8	50%	50%
Senior leadership team ¹	69	18	87	79%	21%
Employees	44,812	30,367	75,179	60%	40%

¹ Senior leadership team comprises members of the Mitie Management Executive (MGX) and the Mitie Leadership Team (MLT)

Real living wage

Mitie works with the Living Wage Foundation to promote the Real Living Wage. Mitie believes in paying a decent wage to all its colleagues, who carry out vital work for many organisations, and is committed to paying all its Group head office colleagues the Real Living Wage whilst also campaigning for its widespread uptake within client contracts.

Mitie always incorporates Real Living Wage costing in bids submitted to prospective and current clients. This means clients have the option to choose the Real Living Wage at the point of tender and ensure that employees working on that contract are paid a fair wage for the work they do.

Our diversity makes us stronger

In FY21 Mitie hosted two Equality at Mitie Summits led by Chief Executive Officer, Phil Bentley. During these Group-wide calls, colleagues provided feedback about how Mitie could become a more inclusive place to work.

The feedback provided during these sessions led to the launch of Mitie's Diversity & Inclusion strategy in September 2020. Mitie committed to nurturing and developing by 2030 a workforce, from the frontline to the Boardroom, that is representative of the communities and customers served. To achieve this, the Group is making improvements to the way Mitie hires, develops, listens to and rewards its colleagues.

Mitie has six established employee networks which focus on: women in the workplace; race and ethnicity; disability; sexuality; age diversity; and ex-military personnel. During FY21, Mitie identified the need for a parent and carers network, due to the additional pressures on them during the COVID-19 pandemic. The employee networks are available for any colleagues to join and influence positive change across the Group. In FY21 the number of colleagues registered in employee networks grew by 500%.

Highlights from FY21 include:

- Onboarding BAME Recruitment Limited, a specialist recruitment partner focused on increasing the diversity pool of candidates.
- Signing up to the Race at Work charter.
- Becoming a Disability Approved employer.
- Launching Mitie's 'Count Me In' programme, a bespoke Diversity & Inclusion learning programme, which replaced traditional unconscious bias training.

Gender pay gap

As at 4 April 2020, the median gender pay gap for Mitie was 7.7% (versus 4.6% at 4 April 2019) which compares favourably with the UK national median gender pay gap of 15.5%. Mitie's mean gender pay gap has decreased to 6.4% (versus 10.4% at 4 April 2019).

Whilst this is an improvement, Mitie is not complacent and is committed to continuing its efforts to further reduce the gender pay gap by focusing on programmes that can really make a difference. During FY21, efforts have centred around four areas. These continue to form part of a long-term, sustainable approach focused on improving the representation of females, and all under-represented groups, across all organisational levels:

1. **Leadership:** Enabling more females into leadership positions through targeted development interventions for female talent.
2. **Resourcing:** Ensuring the Group resourcing is fully inclusive and Mitie is hiring from a diverse talent pool.
3. **Career Development:** Taking action that supports the career progression of under-represented groups.
4. **Reward & Recognition:** Creating a powerful and engaging reward & recognition proposition that rewards the right behaviour and celebrates inclusion.

Attracting and retaining the best talent Leadership development programmes

During FY21 Mitie introduced targeted development programmes for the Group's leaders. Mitie adopted an approach that allowed the Group's leaders to tailor their development journey to their specific learning requirements.

The Group's leaders first had to assess themselves against a competency framework to establish their strengths and how they could optimise these as well as areas for further development or improvement.

They were then supported to build a bespoke personal development plan, adopting an 80:20 approach to personal objective setting and encouraging reflective practice.

Mitie provided these leaders with dedicated learning portals that enabled them to access learning resources and development suggestions, categorised into things they could do – learning in the flow of work, things they could watch and things they could read. This included access to handpicked internal learning materials and access to industry leading external resources.

At the end of the year they were given access to a 360-review tool, which allowed them to review their progress and reset their development focus for the next year.

Career pathways

In FY22 Mitie will be working on establishing clear career pathways to help its people understand how they can progress in their careers by recognising key competencies and identifying transferable skills.

Mitie believes that by understanding their strengths its people will be able to progress in roles that play to their strengths. This will enable Mitie to build a stronger workforce which is more career mobile, multi-skilled, with a greater breadth of knowledge about the Group's business and industry.

Apprenticeships

Mitie provides a huge variety of apprenticeships and at 31 March 2021 had 1,172 employees working through an apprenticeship scheme across the Group's portfolio of contracts.

Mitie takes pride in partnering with a network of high-quality apprenticeship providers to deliver training to the right people in the right way, supporting social mobility and enabling skills development to support participants' careers and progression.

Mitie paid £2m into the Apprenticeship Levy scheme in FY21 and gifted £150,000 to organisations which need support to take on apprentices. Mitie is looking to expand its levy gifting strategy further in FY22.

Supporting employees during COVID-19

The Group's main aim during the COVID-19 pandemic was to ensure all colleagues felt well informed, supported and recognised for their efforts.

In April 2020, Mitie opened its own PPE warehouse in response to the COVID-19 crisis. From this warehouse, Mitie distributed face masks, coveralls, over-shoes, wipes, disposable gloves and more. In total, Mitie sent more than 1.1 million items of PPE to keep front-line colleagues safe during the pandemic.

In addition, as part of the Group's efforts to keep all its colleagues safe, Mitie sent four reusable face masks to their home address, whether they were on the frontline or working from home.

In conjunction with the UK Government, Mitie offered asymptomatic testing for colleagues in high contact roles, such as security guards and cleaning operatives, to help limit the spread of the virus.

To keep colleagues informed, Mitie issued regular communications to line managers, including briefing documents to keep their teams up to date on the latest news. Mitie also launched an external website to give colleagues access to important information and useful resources, and hosted regular virtual town hall meetings with the Chief Executive Officer and other senior leaders.

Supporting the fight against COVID-19

Mitie has been supporting the country directly in its COVID-19 response since the beginning of the pandemic, through the operation of community and mobile testing centres, and the provision of essential services for hospitals, including the Nightingale hospitals in London and Manchester, and the Ysbyty Calon y Ddraig or Dragon's Heart Hospital in Cardiff. Mitie now operates over 150 testing sites for public and private sector clients, and its colleagues have continued to provide key services at critical sites, such as ports and airports, across the country.

The Armed Forces community has played a critical role in the running of the COVID-19 testing centres, with 102 of Mitie's colleagues working at testing sites coming from Armed Forces backgrounds.

Apprenticeship Strategy Pillars

Skilling

We will focus on attracting and onboarding young external talent, such as; school leavers and first jobbers, etc. on apprenticeship programmes, work placements and kick start initiatives to develop a pipeline of core skills to support the long-term growth of our business and address the challenge of an aging population.

Up-skilling

We will continue to offer apprenticeship programmes to our people internally, allowing us to grow our own talent, offer ongoing development with recognised qualifications and demonstrate career progression opportunity.

Re-skilling

We will support UK economic recovery by creating opportunities for people in the external job market to re-train, gaining new skills and qualifications in professions fundamental to our business in the short to medium term.

Environment and Social Value continued

People continued

Health & Wellbeing

Mitie is passionate about employee health and happiness at work. Safety is the Group's number one priority, and the goal is simple... zero harm – to our people, our customers, and to members of the public passing through the facilities Mitie takes care of. LiveSafe, the Group's QHSE culture change programme gives the Group people ten rules to live by. The rules are mandatory and are supported by training delivered through Mitie's Learning Hub.

Regular LiveSafe 'alerts' are shared via the QHSE advisor network and Mitie has recently launched the LiveSafe challenge through which managers are challenged to reduce the incident rate each month in the particular area that led to the most incidents in the same month of the preceding year.

Mitie has continued to promote its wellbeing services, such as the Virtual GP, Employee Assistance Programme and Occupational Health services, regularly through the Group's internal communication channels, including messages from the Group People Director with the sentiment that 'It's ok not to be ok'. Mitie has made Mental Health First Aid training available, with 40 colleagues completing over 2,000 hours of training in FY21. Mitie has also put in place a robust plan of wellbeing campaign activity which has focused on a particular topic each month including stress, physical health, mental health and bereavement.

Celebrating The Exceptional, Every Day

Recognition

Recognising colleagues for a job well done is key to the Group's success. In the last 12 months:

- Over 14,500 Mitie Star nominations.
- 5,000 COVID Star nominations – a new award to recognise colleagues who have gone the extra mile during the pandemic.
- More than £95,000 awarded in cash prizes.

Reward

In FY21, Mitie introduced several new benefits and initiatives to support the health, financial and mental wellbeing of its colleagues.

- A Virtual GP Service, to ensure our colleagues could continue to access medical services without having to leave their home.
- Life Assurance for all, to give our colleagues and their loved ones peace of mind and financial stability should the worst happen.
- An extra day of holiday to all frontline non-management employees as a thank you for their exceptional service during the COVID-19 pandemic and to enable them to rest and recuperate.
- Salary Advance, which enhanced the Group's existing financial wellbeing package of financial education and debt consolidation loans.

To ensure all colleagues were aware of the benefits and support available to them during the pandemic, Mitie produced a dedicated benefits guide, which it publicised throughout FY21.

Communities

Mitie is an active part of the communities in which it operates, helping to deliver social value commitments not only for Mitie, but for our customers. Mitie is committed to supporting charities and voluntary organisations, as well as Armed Forces veterans and their dependents.

Armed Forces

Mitie achieved the Gold Award standard in the Defence Employer Recognition Scheme and has been a proud signatory of the Armed Forces Covenant since 2017. To continue the Group's commitment to this community, in FY21 Mitie introduced 10 days' paid leave for Reservists, building on the previous five days' unpaid leave policy.

The Mitie Foundation

The Mitie Foundation exists to break down perceived barriers to employment for disadvantaged groups within the communities in which Mitie operates. In doing so, Mitie attracts the very best potential, enriching the diversity of its workforce as well as that of its clients.

In FY21, The Mitie Foundation relaunched its strategy and purpose and changed from face-to-face delivery to virtual. Supporting candidates through the Group's referral partners and in partnership with Mitie clients, 92 Mitie volunteers delivered nine virtual Employability Workshops, with over 100 candidates benefiting from the sessions. To support Mitie's wider Social Value and Diversity & Inclusion agendas, The Mitie Foundation's Ready2Work candidates have been encouraged to apply for Mitie opportunities, with over 145 gaining employment within the Business Services division.

Giving back

In FY21, Mitie introduced a paid volunteering day for all non-frontline staff.

- 8,064 volunteer paid hours, of which over 5,700 hours were completed by the Care & Custody team
- Over £43,000 raised for great causes across the business, of which almost £24,000 was raised by the Technical Services team who walked, ran, and cycled over 12,000 miles to raise money for a few charities, including Barnados and The Salvation Army.

In FY21 colleagues have continued to go the extra mile to support the communities Mitie serves through numerous 'Giving Back' initiatives.

Responsible supply chain

Mitie shares expectations with suppliers through its 'Social Value for Suppliers Policy'. New suppliers must commit to this policy, alongside other contractual and legislative requirements. All internal policies were updated in January 2021, and added to the company-wide Integrated Management System (IMS), an online platform making all relevant documents easier to access and locate.

Voluntary Community and Social Enterprises (VCSE)

The Group milestone of spending £300,000 with VCSEs in FY21 has been surpassed by nearly 50% with a fantastic £447,502. This has been achieved by Mitie signing up to Social Enterprise UK's (SEUK) 'Buy Social Corporate Challenge', allowing supplier details to be verified within the Group database and flagged when appropriate. Several suitable VCSE suppliers have also been added to Mitie's e-tendering tool, enabling the Procurement team to constantly review and engage with VCSEs and select them for inclusion in relevant tenders. Mitie attends quarterly meetings arranged by SEUK to discuss initiatives and meet potential new VCSE suppliers.

Small Medium Enterprises (SME)

High levels of interaction with SME suppliers have been maintained throughout the COVID-19 pandemic, with 30% of supplier spend with SMEs achieved in FY21 against Mitie's milestone of 29%. This figure rises to over 45% on government and public sector contracts, a great achievement during an uncertain year. To encourage SMEs to participate in bids and broaden the supplier pool, opportunities are often advertised on LinkedIn and training is provided on Mitie's e-tendering system. To highlight best practice and explain how larger organisations can work more closely with SMEs, Mitie contributed to a working group run by the Business Services Association.

In the early stages of the COVID-19 pandemic, many SMEs helped Mitie to support the nation by providing PPE when the Group's traditional supply chain became overstretched. Mitie changed its PPE procurement strategy from large distributors to over 30 smaller organisations by 31 March 2020. Most were privately owned SMEs spread across the UK, including one that continues to provide warehouse space for stock to be controlled, stored, and distributed.

Supplier Management Framework (SMF)

Mitie's SMF monitors strategic supplier performance across key areas, including ethical procurement, social value, and carbon reduction. The Procurement team ensures that these areas are evaluated as part of a balanced scorecard for all complex, high-value tenders, and have a minimum weighting of 15%. Comparing this to the UK Government's 10% weighting on Social Value published in PPN06 in January 2021, shows Mitie's ambition and commitment to this area. This commitment has led to Mitie over-achieving on its milestone of 28% spend under SMF management in FY21.

Section 172 statement

Section 172 statement

The Board acknowledges the importance of forming and retaining constructive relationships with all stakeholder groups. Effective engagement with stakeholders enables the Board to ensure stakeholder interests are considered when making decisions and is crucial for achieving the long-term success of the Company. Details of Mitie's key stakeholders, how the Group has engaged with them during FY21 and the outcomes of that engagement, are set out on pages 48 to 53. Engagement activities specifically carried out by the Board collectively and individually can be found on pages 74 to 75.

In addition to the formal scheduled Board and Committee meetings held during FY21, the Board held weekly meetings from the outbreak of the pandemic right through to beyond the release of Mitie's FY20 results. These discussions included monitoring the impact of the COVID-19 pandemic on the business, employees and other stakeholders, detailed analysis of the proposed Rights Issue and Re-financing, and the proposal to acquire Interserve.

The following disclosure describes how the Board has had regard to the matters set out in Section 172(1) (a) to (f) during FY21 and forms the Directors' statement required under Section 414CZA of the Companies Act 2006. Three principal decisions made by the Board are shown, illustrating how the Board considered Mitie's stakeholders during the decision process and the actions taken approved by the Board as a consequence.

Details of the Company's policies and practices in relation to ethical business and acting fairly between members of the Company are set out on pages 46 to 47.

⊕ Read more on Maintaining a high standard of business conduct: pages 46 to 47

Decision

Overview:

Acquisition of Interserve Facilities Management (Interserve)

In December 2019, Mitie presented its Customer, Technology, Cost and People strategy to enable Mitie to achieve the Board's long-term vision of market leadership through enhanced scale, improved financial performance and stability.

Detailed due diligence on the potential acquisition of Interserve began in early 2020. The Board confirmed its approval to proceed in May 2020 and on 25 June 2020, the Company announced that it had entered into a conditional sale and purchase agreement to acquire Interserve, such acquisition being conditional on, inter alia, completion of the Rights Issue and shareholder approval. The sale and purchase agreement provided that between the entering into of the sale and purchase agreement and completion (which occurred on 30 November 2020), the vendor would procure that, subject to customary exceptions, the business of Interserve would be carried out in the normal course and that certain specific actions would not be taken without Mitie's consent.

Decision	Acquisition of Interserve Facilities Management (Interserve)
<p>Stakeholder considerations:</p>	<p>Employees:</p> <ul style="list-style-type: none"> • Mitie and Interserve employees becoming part of a larger, more profitable company; • Interserve employees benefitting from Mitie's established engagement mechanisms, culture and values, substantial learning and development opportunities, technology and innovation, benefits, and rewards; • Potential employee synergies on consolidation; • Talent flight risk from Interserve employees; and • Organisational capacity/current team resource and bandwidth. <p>Customers and suppliers:</p> <ul style="list-style-type: none"> • Mitie's performance in NPS survey demonstrating consistent improvement in customer experience; • Proposed roll out of Mitie's technology to Interserve customers; • Risk of renegotiation or early termination of customer contracts; • Consolidation of supplier base; and • Increase in public sector contracts. <p>Shareholders:</p> <ul style="list-style-type: none"> • Impact on EPS and return on invested capital and timeline for expected improved profit margins and enhanced free cash flow generation; • Significant benefit from cost synergies; • Expected stronger financial profile offering the opportunity to resume dividends; • Issue of consideration shares diluting existing shareholdings (in addition to the dilution arising from the Rights Issue) and the future influence of the vendor as a significant shareholder; • Possibility of unexpected liabilities and costs or inaccurate assumptions and estimates relating to benefits and synergies; • Possible difficulties integrating the two businesses; • Possible exposure to funding risks in relation to defined benefit pension schemes; and • Potential risk to the recovery of sums which might become due from the vendor (by way of a reduction in the consideration) as a consequence of the completion account process contained in the sale and purchase agreement. <p>Community and environment:</p> <ul style="list-style-type: none"> • Impact on Mitie's overall social value agenda and Plan Zero in relation to targets and milestones; and • Expansion of the Mitie Foundation agenda to include Interserve geographical areas.
<p>Actions taken approved by the Board:</p>	<ul style="list-style-type: none"> • Frequent meetings to discuss financial modelling and scenarios including consideration of detailed Board papers prepared both internally and in conjunction with brokers and advisors; • Extensively tested forecasting/financial modelling prepared, including several different scenarios based on due diligence to ensure Board was comfortable with sustainability and viability of the enlarged Group; • Approved the circular to shareholders and prospectus dated 4 November 2020; • Experienced integration team established and robust governance structure (reporting to each Board meeting) implemented to ensure all aspects of the integration plan are closely managed and measured. Risk areas highlighted and escalated as appropriate; • Extensive employee communications plan approved for all Interserve and Mitie employees. The Board also reviewed the results of ad hoc pulse surveys to determine employee sentiment on the transaction; • Detailed customer communication plan to build relationships and keep customers informed throughout the transaction and beyond; • The Board, through the Social Value & Responsible Business Committee, agreed the integration of Interserve into Mitie's Social Value strategy, with the effect of the acquisition on Mitie's Social Value targets analysed and new targets, still ambitious, yet practical, agreed; and • New digital supplier platform will be deployed that will enable a more strategic approach to surveying the Group's suppliers on a proactive basis.

Section 172 statement continued

Decision	Acquisition of Interserve Facilities Management (Interserve)
Consequences of the decision in the long term:	<p>The Board concluded that the acquisition of Interserve would deliver the following key strategic and financial benefits to all key stakeholders, consistent with the Group's strategic pillars:</p> <ul style="list-style-type: none"> • Enhancement of competitive positioning, diversification, resilience, significant growth opportunities; • Significant broadening of Mitie's exposure to the public sector; • Significant cost synergies; • Further strengthening of Mitie's financial position, enhancing its ability to secure long term financing and deliver sustainable growth, margin accretion and generate enhanced free cash flow; • Strengthening of Mitie's management team and culture of excellence with high performing and experienced individuals focused on promoting employee engagement and corporate social responsibility; and • Accelerated delivery of Mitie's technology-led strategy.
Outcome:	With full support from the Board, shareholder approval was obtained at a General Meeting on 23 November 2020, with completion of the acquisition taking place on 30 November 2020.
Decision	Rights Issue and Re-financing
Overview:	<p>Mitie utilised UK Government initiatives and implemented a number of self-help measures (see decision below) in response to the deterioration of trading conditions at the start of FY21. However, in addition to these measures, the Board believed the proposed Rights Issue to be a prudent measure to further strengthen Mitie's balance sheet, working capital and liquidity position.</p> <p>Mitie also reached an agreement (the Re-financing) with the holders of its US private placement notes and lenders to its Revolving Credit Facility for covenant amendments and an extension to the Revolving Credit Facility, both conditional on completion of the Rights Issue.</p> <p>On 25 June 2020, following approval by the Board, the Company announced the Rights Issue.</p>
Stakeholder considerations:	<p>Shareholders:</p> <ul style="list-style-type: none"> • Additional funds to strengthen Mitie's balance sheet against the COVID-19 impact and enable Mitie to secure the Re-financing, with some of the funds utilised in connection with the proposed acquisition of Interserve; • Shareholders not taking up their rights, and overseas shareholders unable to take up their rights, may be subject to a dilution of their ownership upon the issue of the new shares; and • Future proposed issue of consideration shares for the acquisition of Interserve to further dilute ownership. <p>Employees:</p> <ul style="list-style-type: none"> • Additional funds strengthening Mitie's financial position during a period of uncertainty for employees; and • Funds to be utilised in connection with the proposed acquisition of Interserve with its associated benefits for Mitie's workforce.
Actions taken approved by the Board:	<ul style="list-style-type: none"> • Frequent meetings to discuss financial modelling and scenarios including consideration of detailed Board papers prepared both internally and in conjunction with brokers and advisors; • Consideration of different mechanisms available to raise equity including quantum, capacity, appetite of the market, issue price and execution; • Approved the circular to shareholders and prospectus dated 25 June 2020; and • Agreement of the Board to each fully take up their individual rights to subscribe for New Shares under the Rights Issue in respect of their existing shareholdings.
Consequences of the decision in the long term:	<p>The Board concluded that the Rights Issue and Re-financing would:</p> <ul style="list-style-type: none"> • Enable Mitie to further leverage the benefits of the first phase of its transformation programme and to support the continued implementation of phase II initiatives to drive continued growth, cost savings and free cash flow across the business; • Mitigate indebtedness risks; • Provide Mitie with a strong financial position and liquidity to trade through the COVID-19 pandemic; and • Enable Mitie to capture opportunities to support the Group's long-term growth prospects.
Outcome:	With full support from the Board, shareholder approval was obtained at a General Meeting on 13 July 2020, with the Rights Issue closing on 28 July 2020.

Decision	Use of UK Government initiatives and implementation of self-help measures
Overview:	Following the outbreak of the COVID-19 pandemic, and in response to a deterioration of trading conditions across the business, the Board chose to utilise UK Government initiatives where available, alongside several self-help measures.
Stakeholder considerations:	<p>Employees: UK Government's Coronavirus Job Retention Scheme (Furlough):</p> <ul style="list-style-type: none"> • The prevention of redundancies amongst Mitie's employees; • The wellbeing of, and ongoing communication with, furloughed employees; and • Procedures for extremely vulnerable employees and employees vulnerable to COVID-19. <p>Reduction of salaries:</p> <ul style="list-style-type: none"> • Level of salary above which salary cut to be implemented, along with percentage of salary cut and duration of cut; • Impact of cuts on employee morale and ongoing commitment to Mitie; and • Wellbeing and potential impact on personal financial commitments. <p>Shareholders:</p> <ul style="list-style-type: none"> • Possible impact/shareholder perception of not recommending a final dividend for FY20 and not declaring an interim dividend for FY21; • The level of necessary actions required to reduce costs to support Mitie in unprecedented times; and • Required measures to demonstrate adequate self-help ahead of seeking shareholder support for the Rights Issue. <p>Customers:</p> <ul style="list-style-type: none"> • Ability to identify and re-deploy staff, where possible, quickly and efficiently, to meet customer demand where an increase in volume experienced, for example, in Security.
Actions taken approved by the Board:	<p>UK Government's Coronavirus Job Retention Scheme (Furlough):</p> <ul style="list-style-type: none"> • Regular communication plan for furloughed employees, with dedicated furlough website; • Mechanism introduced for efficient re-deployment of furloughed employees where possible; • Provided extremely vulnerable employees with the right to be furloughed; • Employees vulnerable to COVID-19 prioritised when identifying colleagues to offer furlough opportunities; • Dedicated health and wellbeing website including information on Mitie's Virtual GP service and Employee Assistance Programme; and • Repayment of furlough relating to colleagues employed directly at Mitie's own operations. <p>Reduction of salaries:</p> <ul style="list-style-type: none"> • Phased restoration of pay earlier than originally planned; • Employees' holiday pay was "topped-up" to 100% of their normal pay during the period of salary reduction; and • Mitie continued to make employer pension contributions based on 100% of employees' salaries during the period of salary reduction. <p>Non-payment of dividend:</p> <ul style="list-style-type: none"> • Recognising the importance of dividends to all shareholders, the Board committed to keep under review the possibility of a resumption in dividends in FY21, but only in the event overall trading improved materially during the second half of the year.
Consequences of the decision in the long term:	The Board concluded that all reasonable steps should be taken to preserve Mitie's financial strength in light of the unprecedented uncertainty due to the COVID-19 pandemic.
Outcome:	The Board approved the utilisation of UK Government assistance where available, including furlough, and the implementation of several self-help measures, including a temporary reduction in salary of between 10% and 30% for employees earning more than £40,000 per year, deferral of pay rises and a commitment not to recommend a final dividend for FY20. The Board subsequently decided not to declare an interim dividend for FY21 and the Group has repaid £4.1m to the Government relating to furloughed colleagues employed directly at Mitie's own operations.

Operating responsibly

Maintaining a high standard of business conduct

Ethical business practice

Mitie has a duty to act responsibly and to show the highest levels of ethical and moral stewardship. Mitie's ethical business practice policy is in place and applies to all employees in relation to dealings with its people, agents, customers, suppliers, subcontractors, competitors, government officials, the public and investors.

Employee Handbook

Mitie's Values form the basis of its culture and show the outside world what Mitie is all about and how Mitie does things. Mitie issues an Employee Handbook to all employees on commencement of their employment. The handbook helps Mitie's people to really understand their role in the business and what value they can add. It also explains how Mitie expects its people to act as Mitie employees. The handbook includes information on Mitie's policies and procedures on bribery and corruption, conflicts of interest, gifts and hospitality and responsible partnerships with suppliers.

Culture

Mitie's Values help define the behaviours of its people and underpin its vision of The Exceptional, Every Day. An important element of Mitie's culture is establishing a 'One Mitie' way of operating across the business. The 'One Mitie' way leads to consistent, high quality and relevant information flows across the business. Having a culture embraced and supported by employees, leads to a motivated and high performing workforce to deliver the strategy and outcomes needed for long-term success.

Whistleblowing, fraud and bribery

Mitie has an independent whistleblowing service to enable employees, suppliers and third parties to report any concerns or wrongdoing anonymously without any fear of retaliation. The service, which is managed by an independent service provider, can be accessed via a freephone number, a free online app or through the service provider's website. Details of the service are made available to employees via Mitie's Employee Handbook and are displayed on Mitie's intranet and workplace posters. Details of the service are also communicated to suppliers via Mitie's sourcing portal and to other third parties via www.mitie.com.

The whistleblowing service and related internal procedures are structured to ensure that all reports are reviewed and investigated independently from the area of the business to which they relate, thereby minimising the risk of conflicts arising. All reports are copied to the Deputy General Counsel, to ensure transparency and enable any trends across different divisions and functions to be identified and addressed. An update on whistleblowing activity is provided to the Board at every Board meeting and to the Mitie Group Executive (MGX) as appropriate.

The Board update includes details of incident reports received in the period between meetings, together with aggregated details of all reports received since the launch of the service in September 2017.

Human rights

Over and above the requirements of the Modern Slavery Act, Mitie endorses the tenets of the Global Compact principles, International Labour Organisation Declaration on Fundamental Principles and Rights at Work and the Ethical Trading Initiative 'Base Code' and will ensure that: employment is freely chosen; freedom of association is respected; working conditions are safe and hygienic; child labour is not used; wages are not lower than minimum wage; working hours are not excessive; no discrimination is practised; regular employment is provided; and no harsh or inhumane treatment is allowed. Compliance with these rules is a prerequisite for any business engagement.

Good governance

Details of how Mitie complies with the UK Corporate Governance Code can be found in the Governance report, starting on page 68.

Training

There are a number of training modules available to Mitie employees including, modern slavery, whistleblowing, anti-bribery and anti-corruption, business expenses and entertaining.

Procurement Code of Conduct

Mitie has a compulsory code of conduct for all employees involved in making any purchases on behalf of Mitie which highlights the need to declare formally any conflict of interest that may exist in purchase decisions being made.

SMEs

Mitie's Responsibility targets are focused on increasing the percentage of Mitie's spend that goes to small and medium-sized enterprises (SMEs), and voluntary, charity and social enterprise (VCSE) suppliers. Mitie's Supplier Management Framework (SMF) measures performance across a range of metrics, including ethical and sustainable supply, with action plans in place to improve outcomes. Milestone targets are in place for each financial year.

Mitie continues to leverage and improve its SMF to develop its partnership with key suppliers. The framework provides a mechanism for scoring a supplier's performance and jointly reviewing it to create action plans which unlock new value for both parties. The SMF scores six areas of delivery: ways of working, innovation, service, ethical and sustainable supply, quality and cost. As the SMF develops, a greater percentage of Mitie's spend is being brought into scope. As part of the ethical and sustainable supply metrics, all SMF-managed suppliers will be scored and have their performance reviewed on meeting Mitie's social value policy, their carbon reduction plans, actions to reduce environmental impact, Modern Slavery Act compliance and innovations to support Mitie's Plan Zero and social value initiatives. In FY21, SMF incorporated 30% of Mitie's spend. This will increase year-on-year, cementing improvements in ethical and sustainable supply. In addition, all tenders run by the Procurement function now have a minimum 15% ethical and sustainable supply requirement.

The acquisition of Interserve has led to Mitie's supply chain spend exceeding £1bn per annum and increased Mitie's supplier base to over 10,000 suppliers. This increased leverage has led to a root and branch review of the Group's procurement and supply chain operating policies, systems and processes. The MGX has recognised the increased opportunity to leverage Mitie's increased scale and influence in the supply chain to not only remove cost but to influence supplier diversity and environmental stewardship across the now larger supplier base. This recognition has led to an investment in improved digital systems to manage suppliers.

Modern slavery

Mitie is committed to ensuring that slavery, trafficking, bonded labour, forced or servile marriage, descent-based slavery and domestic work and slavery does not take place in its business or any part of its supply chain. Mitie seeks to ensure its recruitment processes are transparent and reviewed regularly, with robust processes in place for the vetting of and appointment of its people, raise awareness of the issue amongst its people and suppliers to combat the hidden nature of modern slavery, challenge and support its suppliers in the effort to drive out modern slavery and human trafficking and apply the spirit as well as the letter of the law to its internal practices.

Mitie's latest statement on Modern Slavery can be found at <https://www.mitie.com/legal/modern-slavery-act/>.

Impact of Brexit and COVID-19 on the supply chain

Mitie's supply chain was not immune to the impacts of the UK's exit from the European Union (Brexit) and COVID-19, however, by adopting a flexible and responsive attitude the Procurement function managed the inherent risks so that the impact was low. In the early stages of the COVID-19 pandemic, when there was a major impact on PPE suppliers under pressure from central Government and other customers, Mitie's response was to set up a completely new supply chain, storage and distribution solution. This benefited the whole Mitie business and customer base and continues to play a strategic part in Mitie's COVID-19 response. The impact of Brexit has been minimal to date, with Mitie continuing to monitor suppliers who provide critical spares sourced from the European Union and implementing contracts and policies to identify any future issues. This situation continues to be monitored at a supplier level.

Cyber security

Data and information is at the heart of Mitie. It plays a massive role in everyone's daily lives. Mitie takes the protection and integrity of data very seriously, and recognises that customers want clarity and transparency about how their data is used, managed and protected.

Mitie's information and, cyber security policies and associated standards guide its people on how to keep data and information safe; which are continually kept under review to ensure that they remain aligned with industry best practice and keep abreast of emerging threats. Awareness of these policies is raised through ongoing communication and training delivered to all Mitie colleagues. The Mitie Board receives regular updates at Board meetings on cyber security, resilience and the progress of security initiatives.

Mitie is certified to Cyber Essentials Plus for the entire organisation and ISO27001 for the critical business units. Mitie has a continuous improvement-based approach to further the security of the data and information processed. Mitie works in close partnership with leading industry bodies, National Cyber Security Centre and partners to ensure the Group stays on top of emerging threats and security trends.

Acting fairly between members

A range of direct shareholder engagements are undertaken during the year, including: roadshows, the AGM and one-to-one meetings with the Company's largest shareholders, and indirectly through investor relations reports prepared for every Board meeting with regular share register updates. Topics discussed with investors include corporate governance matters, environment, human capital, corporate culture and the Board's long-term views on the business. More details on this stakeholder engagement can be found on pages 48 to 53.

Interests of investors are considered as part of the decision-making relating to M&A activity, declaration of dividends and strategy.

Mitie operates robust share dealing processes and procedures to ensure compliance with the UK's Market Abuse Regulations, including a training module which all relevant employees are requested to complete on a regular basis. This ensures the release of price sensitive information is in line with the regulations and that no individual or group of shareholders can gain an unfair advantage.

Stakeholder engagement

Stakeholder engagement

Key stakeholder	How we engage
Equity shareholders <ul style="list-style-type: none"> • Institutional investors • Retail investors • Investment banks (sales desks and equity research analysts) 	<ul style="list-style-type: none"> • Annual report and accounts; • Annual General Meeting; • Investor sector of the corporate website www.mitie.com; • Results presentations and post-results engagement (roadshows); • Capital market events or site visits; • Stock exchange announcements and press releases; • Regular and ad hoc analyst and investor inter-actions; and • Project-specific consultations.
Debt holders <ul style="list-style-type: none"> • Banks • USPP holders • Credit insurers 	<ul style="list-style-type: none"> • Annual report and accounts; • Capital market events or site visits; • Results presentations and post-results engagement (roadshows); • Stock exchange announcements and press releases; and • Responding to ad hoc creditor enquiries.
Customers	<ul style="list-style-type: none"> • Management of ongoing customer relationships by senior leadership; • Customer satisfaction score (NPS) programme; • Customer experience programmes; • Commercial/performance reporting; • Participation in industry forums and events; • Annual reporting and accounts; • The Mitie Foundation; • Customer communications; • Press releases; • Website and social media platforms; and • Meetings and briefings.

Reason for engagement	Important issues discussed/outcomes	Action taken
<ul style="list-style-type: none"> • Vital to Mitie's long-term strategy and performance to have supportive long-term shareholders; • Shareholders and investment analysts should have a strong understanding of Mitie's strategy, performance and culture; • Support required for Rights Issue to further strengthen Mitie's balance sheet, working capital and liquidity position; and • Directors have a duty to promote the success of Mitie for the benefit of its shareholders. 	<ul style="list-style-type: none"> • Industry trends and outlook; • Financial performance; • COVID-19 response; • Rights Issue; • Acquisition of Interserve; • Remuneration policy and executive remuneration; • Non-Executive Director shareholdings; • Governance and transparency; • Sustainability performance; and • People and culture. 	<ul style="list-style-type: none"> • 100+ 1-1 shareholder meetings; • Six presentations or conference calls between management, analysts and shareholders; • Frequent press releases covering ESG, contract wins and renewals; • Consultations with regards to the Rights Issue and acquisition of Interserve, which closed on 28 July 2020 and 30 November 2020; • Consultations with major shareholders on proposed remuneration policy (see more on page 119) and executive remuneration; and • Implementation of a Non-Executive Director shareholding policy.
<ul style="list-style-type: none"> • Vital to Mitie's long-term performance to have access to a variety of sources of liquidity and other banking services; and • Re-financing of Mitie's Revolving Credit Facility (RCF) required, along with Rights Issue, to further strengthen Mitie's balance sheet, working capital and liquidity position. 	<ul style="list-style-type: none"> • Industry trends and outlook; • Financial performance; • COVID-19 response; • Rights Issue; • Acquisition of Interserve; • Governance and transparency; • Sustainability performance; and • People and culture. 	<ul style="list-style-type: none"> • Consultations with the holders of the US private placement notes and lenders to the RCF on covenant amendments and an extension to the RCF, which took effect on completion of the Rights Issue.
<ul style="list-style-type: none"> • Understanding customer needs and identifying opportunities and challenges to build compelling value propositions; • Informing customers – 'Why Mitie' – so they understand Mitie's strategy, performance and culture; • Improving customer loyalty, advocacy, growth potential and lifetime value (LTV); • The Mitie Foundation goes beyond volunteering, to engaging talent and enhancing long-term relationships with customers, supply chain and communities; and • Demonstrating operational efficiencies/gaps/opportunities. 	<ul style="list-style-type: none"> • COVID-19 response; • Acquisition of Interserve; • Customer satisfaction; • Performance and efficiency; • Research and innovation; • Sustainability performance; • Cost/value; • Reputation; • Growth; • Brand; • Governance and transparency; • Operational efficiency; • Technology; • Social values; • Vision and values; and • People and culture. 	<ul style="list-style-type: none"> • Group-wide COVID-19 response communications executed by Group QHSE Director to inform business continuity plans; • Annual NPS programme (95% aggregate revenue covered) to establish customer satisfaction, and identify risk and opportunities; • Interserve customer survey to establish baseline score and execute action plan to level up; • Campaign launches: Plan Zero, Landscaping, Technical Services (air quality, safe return to work); • SAM programme driving improved customer loyalty and LTV; and • Raising awareness of and evidencing Mitie's commitment to diversifying its workforce through bids, communications, round table events, ready to work schemes, apprenticeships, upskilling, inclusive recruitment programmes.

Stakeholder engagement continued

Key stakeholder	How we engage
Employees	<ul style="list-style-type: none"> • Employee survey; • You said, we did; • All colleague / line manager emails; • Monthly Download; • Weekly Recap; • The Exceptional, company magazine; • Key topic webinars (e.g. D&I, Plan Zero) • Letters to home addresses for key benefits (e.g. Salary Advance); • MitiePeople.com; • Payslip messages; • MiNet and social media platforms; • Annual report and accounts; • Townhall meetings; • Annual roadshow; • Grill Phil; • MLT back to the floor; • Annual individual performance reviews; and • Designated Non-Executive Director (Jenny Duvalier).
Suppliers	<ul style="list-style-type: none"> • Supplier conferences and workshops • Global supplier portal and notices to suppliers; • www.mitie.com; • Annual report and accounts; • The Mitie Foundation; and • Supplier Management Framework (SMF) 1:1 supplier engagement with 55 strategic partners.

Reason for engagement	Important issues discussed/outcomes	Action taken
<ul style="list-style-type: none"> • People are Mitie's greatest assets and Mitie has a duty of care to ensure they are equipped to make the best decisions; • One of Mitie's core promises to its employees is to provide a place of work where they can thrive and be their best every day; • Creating a diverse and inclusive workplace where every employee can reach their full potential; • Ensuring that Mitie is delivering to employees' expectations; • Supporting employee wellbeing and in making the right business decisions; • Ensuring that Mitie retains and develops the best talent; • Ensuring that employees feel informed, connected and supported; and • Ensuring that employees understand what Mitie does and its strategy and engaging them in the future of the business. 	<ul style="list-style-type: none"> • COVID-19 response; • Acquisition and integration of Interserve; • Financial performance; • Rights Issue; • Communication & Culture; • Reward & Recognition; • Systems, Processes & Technology; • Health, Safety & Wellbeing; • Diversity & inclusion; and • Talent pipeline and retention. 	<ul style="list-style-type: none"> • Dedicated COVID-19 emails and pulse surveys; • Launched a new Group-wide Agile Working Policy; • Rolled out a new Diversity & Inclusion strategy and plans to make Mitie inclusive for everyone; • Launched www.mitiepeople.com, a new platform to ensure colleagues on the frontline can easily access news and information about Mitie; • Rolled out 'The Mitie Way' of working, to ensure a 'One Mitie' approach to managing people and customers; • Made LiveSafe training available to all colleagues; • Made Diversity & Inclusion training available to all colleagues; • Integrated Mitie systems to remove the need for multiple usernames and passwords; • Moved a number of core applications to the Cloud to improve performance, disaster recovery and resilience; • Enabled multifactor authentication for everyone to safeguard Mitie's network and systems from cyber-attacks; • Optimised Microsoft Teams to enable virtual collaboration across Mitie; • Improved telephony platforms to improve user experience and resilience; and • Launched 'One Mitie' Occupational Health and Wellbeing Strategy and digital wellbeing platform.
<ul style="list-style-type: none"> • Suppliers make a vital contribution to Mitie's performance; • Mitie encourages suppliers to work collaboratively to ensure continual improvement in operations and to deliver mutual benefit; and • The Mitie Foundation goes beyond volunteering, to engaging talent and enhancing long-term relationships with customers, supply chain and communities. 	<ul style="list-style-type: none"> • COVID-19 response • Brexit response • Acquisition of Interserve • Responsible procurement; • Trust and ethics; and • Operational improvement. 	<ul style="list-style-type: none"> • Supplier communications and engagement with Interserve supplier base; • Regular reviews of COVID-19 impact on high-risk suppliers; • Regular review of Brexit impact on high-risk suppliers; • 260 meetings with SMF strategic suppliers; • Focused supplier engagement communications on the changes coming from Project Forte; and • Engaged top 100 spend suppliers in rapid renegotiation programme to leverage the Group's greater spend following the acquisition of Interserve.

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Stakeholder engagement continued

Key stakeholder

Communities

How we engage

- Employee volunteering;
- The Mitie Foundation programmes (e.g. Employability Sessions);
- www.mitie.com and social media platforms;
- Annual report and accounts; and
- Local community events.

Government

- Responses to government consultations;
- Participation in industry bodies;
- Conferences and speaking opportunities;
- Annual report and accounts;
- www.mitie.com; and
- Customer satisfaction score (NPS) programme.

Media

- Press releases and stock exchange announcements;
 - Annual report and accounts;
 - www.mitie.com and social media platforms;
 - Meetings and briefings; and
 - Responding to regular press enquiries.
-

Reason for engagement	Important issues discussed/outcomes	Action taken
<ul style="list-style-type: none"> The Mitie Foundation goes beyond volunteering, to engaging talent and enhancing long-term relationships with customers, supply chain and communities; Building positive relationships with local communities is important for Mitie's performance and stakeholders; Mitie depends on its local communities to provide the engaged and talented people it needs to deliver great service and in return Mitie supports them through a wide range of initiatives; and Public sector contracts mandate that at least 25% of subcontractors should be SMEs. 	<ul style="list-style-type: none"> Employment opportunities to cultivate future talent pipeline; Supporting communities through 'Giving Back' volunteering days; Local operational impact; and Health, safety and environment performance. 	<ul style="list-style-type: none"> 8,000 volunteering hours delivered in FY21, including delivery of food parcels to those shielding during COVID-19; and Multiple Employability Sessions delivered for customers and to charity partners.
<ul style="list-style-type: none"> Governments set the regulatory framework within which Mitie operates and are often also customers; Engagement ensures Mitie can help in shaping new policies, regulations and standards, and ensure compliance with existing legislation; and Governments also represent a potential source of funding. 	<ul style="list-style-type: none"> Financial performance; COVID-19 response; Reputation; Governance and transparency; and People and culture. 	<ul style="list-style-type: none"> 50+ meetings with senior government and military stakeholders; Weekly meetings with the Cabinet Office; Close consultation regarding the Rights Issue and acquisition of Interserve; Two Partnership Executive Meetings with Cabinet Office Director for Markets and Suppliers; Seven Joint Commitments agreed with the Cabinet Office; Presented at the One Government Day attended by 70+ government customers; Plan Zero round table with key government stakeholders; Social Value & Responsible Business Committee, chaired by Baroness Courtie, set clear Social Value targets aligned to the UK Government's levelling up agenda; Mitie's COVID-19 response in support of the UK Government / DHSC testing work and the setting up of Nightingale Hospitals. Front line colleagues demonstrated exceptional commitment to supporting this work; and Public affairs company engaged to foster senior stakeholder relationships and lobby across public sector.
<ul style="list-style-type: none"> The media and journalists are additional channels for communication with stakeholders that engage with them, whether clients, investors, consumers or employees; Key to mitigating reputational risk from negative publicity; and Important to build reputation through proactive engagement. 	<ul style="list-style-type: none"> COVID-19 response; Acquisition of Interserve; Reputational impact; Financial performance; Governance and transparency; Sustainability performance; and People and culture. 	<ul style="list-style-type: none"> Core media briefed on every major announcement, particularly relating to the corporate calendar; 30 proactive interviews/speaking slots with Mitie spokespeople on key campaign themes; Focus on background/off the record briefing of any reactive issues to minimise negative press coverage in the first instance; and Social media activity to share corporate announcements and sustainability progress with stakeholders.

Principal risks and uncertainties

Effective risk management

Our risk management approach

During FY21, Mitie's enterprise risk management (ERM) framework has been fully reviewed to ensure it remains aligned to organisational needs as well as corporate governance requirements. Where identified, improvements have been introduced and both policy and supporting operating procedures have been assessed and revised.

An overview of the key features of Mitie's ERM framework which are pertinent to the compilation of the Group's principal risks and uncertainties, including emerging risks, are detailed below:

- The Board is responsible for clearly defining the level of risk exposure Mitie is willing to take, and to ensure that the activities undertaken to achieve its strategic objectives are commensurate with this appetite. The Board is also responsible for monitoring the amount of risk being taken. All principal risks have a level of appetite set which helps determine the actions and resources required to mitigate them.
- Mitie's risk management structure is designed to ensure a consistent approach to the identification, assessment, monitoring and management of risks across the business. All risks are reported against a set of criteria, which consider the potential likelihood and consequence should a risk be realised.
- Each business unit, function, project, and account maintains a detailed risk register, which includes both risk controls and mitigation measures, and is approved by respective leadership teams.
- Mitie has a rigorous risk treatment mechanism in place to facilitate the correct management of risks where a residual risk score is identified as being over the stipulated threshold.
- Risk registers are formally signed off biannually.
- The Insurance team plays a pivotal role in assessing key exposures and ensuring appropriate risk transfer is in place for insurable risks.
- Risk management is approached in a proactive manner making full use of Mitie's Global Security Operations Centre (GSOC), which assists by assessing threats and identifying potential issues.
- Mitie's internal and external environments are continuously scanned and monitored to ensure that any new or emerging risks are identified in a timely manner and responded to appropriately. As a result of this, three new principal risks have been introduced for disclosure (Interserve integration, business resilience and third-party management). In addition, one principal risk (climate change and social impact) has been significantly updated to reflect the changing external landscape relating to climate change.
- Mitie actively encourages and facilitates a learning culture in respect of risk management to ensure that the Group constantly improves, remains resilient and adapts to the continually evolving external environment. In FY21, Mitie has taken the learnings from each COVID-19 wave and ensured that these have been applied to enhance its response when tackling subsequent COVID-19 waves and associated national and international lockdowns.
- Principal risks are subject to a thorough review biannually (for the half-year and full-year financial reporting), with quarterly updates feeding into the Group Risk Committee for consideration. The Board and Audit Committee are actively engaged throughout the process and provide challenge. All outputs from this review are signed off by the Board. The principal risks are shown on pages 56 to 65.
- In assessing Mitie's long-term viability, consideration is always given to the principal risks. The Viability Statement is found on page 66.

Changes to our risk profile owing to COVID-19 and Brexit

During FY21, the external environment changed dramatically as a result of the COVID-19 pandemic and the signing of the EU-UK Trade and Cooperation Agreement which has applied since 1 January 2021 and followed the UK's departure from the European Union (Brexit). Whilst both now present themselves as 'issues' and are actively being managed in parallel with business as usual activities, the medium to longer term risks associated with them continue to be subject to ongoing review to minimise any potential impact on the business. At the date of this report, both the Group-led COVID-19 and Brexit Readiness working groups were still operational.

Where there is the prospect for risks linked to either COVID-19 or the post-Brexit landscape to have a detrimental effect on the new or existing principal risks, specific controls have been disclosed against the respective principal risk.

The points below detail some of the immediate control actions taken during FY21 to manage the immediate risks posed by both COVID-19 and Brexit:

COVID-19

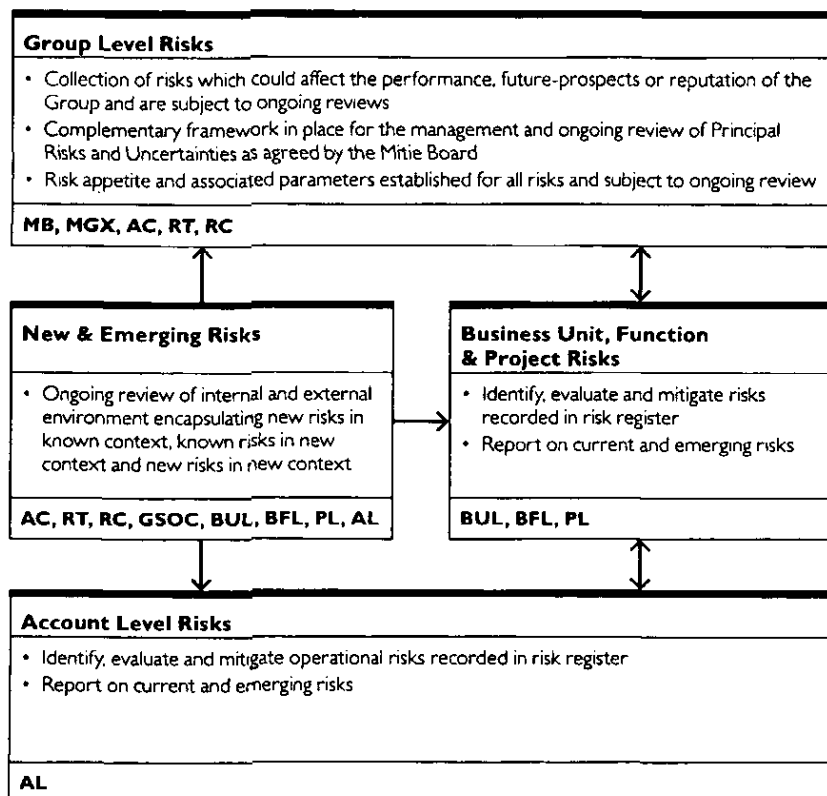
- Crisis and Business Continuity Management (BCM) frameworks invoked and fully implemented throughout the Group and in collaboration with clients.
- Group-led COVID-19 Working Group continued to monitor developments and advise on the course of action to be taken by Mitie in response to the ongoing pandemic.
- Increased meeting frequency at Mitie Group Executive (MGX) level to monitor ongoing impacts and direct actions.
- Close working relationship maintained with the UK Government through the Cabinet Office.
- Coordinated support to critical infrastructure throughout the pandemic.
- Ongoing dialogue with clients to understand their requirements.
- Close monitoring of supply chain to ensure continuity of critical supplies.
- Use of UK Government support schemes.
- Regular forecasting and reviews of revenue and cash.
- Implementation of self-help measures, including overhead cost reduction programme, deferral of non-essential and uncommitted capital expenditure and a reduction in salaries of between 10% and 30% in relation to all employees earning £40,000 or more during the period 1 April 2020 until 30 September 2020.
- Decision not to recommend a final dividend in respect of FY20 or to pay an interim dividend in respect of FY21.

Brexit

- Executive level sponsor appointed to lead organisational response.
- Group-led Brexit Readiness Working Group established.
- Full review of EU-UK Trade and Cooperation Agreement undertaken, and control plan adopted.
- Close working relationship maintained with the UK Government to ensure continuity of service.
- On-going dialogue with clients to understand requirements.
- Close monitoring of supply chain to ensure continuity of critical supplies – Procurement Brexit lead appointed.
- Review of overseas insurance to ensure compliance.
- Ongoing review of Settlement Status compliance and implications of non-tariff measures.

Our risk management framework

Internal Reporting



External Reporting

Principal Risks & Uncertainties
<ul style="list-style-type: none"> Condensed version of Principal Risks and Uncertainties, which has been reviewed and approved by the Mitie Board and Audit Committee
MB, MGX, AC, RT, RC

Contributors key:

MB	Mitie Board
MGX	Mitie Group Executive
AC	Audit Committee
RT	Risk Team
RC	Risk Committee
GSOC	Global Security Operations Centre
BUL	Business Unit Leadership Team
BFL	Business Function Leadership Team
PL	Project Leadership Team
AL	Account Leadership Team

Principal risks and uncertainties continued

Principal risks and uncertainties	Controls and mitigating actions	Future plans
<p>① Interserve integration</p> <p>Failure to manage activities associated with the integration of Interserve whilst also giving due consideration to the carry-over of risk(s), in particular those pertaining to the transaction phase of the acquisition, as well as the day to day impact on employees, customers, and other third parties involved in the Mitie business, could hinder the Group's ability to adopt common processes, systems and ways of working and ultimately result in Mitie failing to meet its £43m savings target through synergies, and cause damage to its reputation.</p> <p>Impacts on strategic pillars: Change in year: New risk also incorporates the structural complexity risk</p> <p>On 30 November 2020, Mitie completed the acquisition of Interserve, creating the UK's largest facilities management company. As with any acquisition, Mitie will pick up a number of risks in relation to the Interserve acquisition, including risks which remained 'live' and were carried across from the transaction phase e.g. risks relating to the operating environment, risks relating to financial information and risks relating to the acquisition, as well as those relating to the integration phase of the project, most notably a failure to deliver on the £43m savings target.</p> <p>An inability to effectively manage all associated Interserve FM risks could delay the delivery of expected benefits from the acquisition and consequently have a detrimental impact on Mitie's business performance. In order to make sure these risks are managed effectively it is important that Mitie maintains its stringent integration framework and continues to deliver on time and to the high-quality standard expected. Mitie also needs to communicate changes effectively and deliver regular and relevant updates to all key stakeholders.</p>	<ul style="list-style-type: none"> Integration leadership team established with MGX sponsorship. Workstreams established with appropriate representation at business unit, function, and executive level. Experienced programme managers in place and governance frameworks embedded to monitor ongoing impacts and direct actions, including Board meetings. Experienced staff members dedicated to the programmes to allow focus on the improvement activity. Integration of system rollouts underway – HR and IT systems due to conclude Autumn 2021 Risks identified as part of the transaction phase reviewed and incorporated in Group risk register with documented controls. Integration Pulse surveying being undertaken at agreed milestones. Regular dialogue with staff and clients to understand their requirements and update on pertinent milestones. Regular monitoring of change projects. Continued investment in and benefits delivery from the Quality Improvement Council (QIC) programme. Dedicated risk management and assurance procedures within the programmes to ensure internal controls are operating effectively. Amalgamated approaches adopted to address ongoing COVID-19 and Brexit associated risks and issues. 	<ul style="list-style-type: none"> Continue to review progress of workstreams and performance against savings target.

Our strategic pillars

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

Change in year

▼	Decreased
◀ ▶	Stayed the same
▲	Increased

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Principal risks and uncertainties

② Funding

Inability to maintain access to and renew suitable sources of funding due to a perceived risk in Mitie's business and/or the sector as a whole may impact the Group's ability to maintain profitable business performance.

Impacts on strategic pillars: Change in year:



In order to be able to meet its financial commitments, Mitie needs access to a number of affordable sources of finance. Mitie's core debt facilities include a revolving credit facility and private placement loan notes. Mitie needs to have sufficient liquidity to be able to pay suppliers and staff, whilst also investing in the business and ensuring it has enough resources for profitable growth.

During FY21, Mitie raised £190m through the Rights Issue and extended its revolving credit facility of £250m to December 2022, strengthening the financial position of the Group and decreasing the impact of this risk. Mitie has focused on maintaining strong financial discipline in the management of its working capital and investment decisions and on minimising its funding requirements. This has included working with the Group's back-office outsource partner to improve processes and efficiency.

During the year, COVID-19 has not impacted the availability of the Group's existing committed facilities but there is a risk that it affects Mitie's ability to raise further funding should the need arise.

Any actual or perceived weaknesses in Mitie's financial position could restrict the Group's access to finance or attract high interest rates.

Controls and mitigating actions

- Maintenance of strong banking, debt, and equity relationships.
- Regular forecasting of cash flow and net debt.
- Thorough focus on working capital cycles with a clear set of KPIs.
- Clear policy on provisions.
- Strong focus on and monitoring of cash collection.
- Regular reviews of payment terms with customers and supply chain.
- Focus on working capital processes to reduce cycle times and average net debt.

Future plans

- Continue to work with a range of financial institutions to ensure that affordable finance sources can be accessed.

Principal risks and uncertainties continued

Principal risks and uncertainties	Controls and mitigating actions	Future plans
<p>③ Climate change and social impact</p> <p>An inability to quickly identify and effectively respond to the challenges posed by climate change could hinder Mitie's transition to a lower-carbon business and result in significant business interruption and missing new opportunities for growth. Furthermore, a failure to appropriately consider the environmental and social impact of Mitie's business and its activities may create a negative perception with employees, clients, investors, government, and the general public. This could lead to failures in securing and/or retaining contracts and sources of funding, as well as impacting negatively on Mitie's reputation.</p> <p>Impacts on strategic pillars: Change in year: New risk also incorporates the Social Impact risk</p> <p>Climate change remains a significant crisis facing the global community. The implications are broad and cover a number of risk topics, including but not limited to infrastructure, insurance (e.g. longer-term accessibility and impact on premiums), climate action failure and extreme weather conditions. Furthermore, there are also ramifications which could arise in the form of social unrest, political fragmentation and geopolitical tensions in turn shaping the effectiveness of responses within Mitie's external landscape moving forward.</p> <p>As well as the obvious mandatory requirements for managing the risks associated with climate change, combined with there being a moral obligation, a failure to successfully drive forward a business, which demonstrates and delivers carbon reductions, would significantly hinder Mitie's operating model, and ultimately stop it from winning and retaining business. The ability to be a market leader in this field provides extensive opportunity and ultimately takes Mitie and its clients, as well as others associated with its business activities on the required journey.</p> <p>It is very important that Mitie continues to understand and monitor the social and environmental impact of its business activities, and takes into consideration the views of employees, clients, suppliers, investors, and the wider public on these matters. The role that businesses play in society is now, more than ever, being closely monitored by a number of groups and several measures have begun to be utilised. These are increasingly being used in decisions to award contracts, and to drive investment and funding decisions.</p> <p>As a business Mitie needs to make sure it is a valued member of society and minimises its impact on the environment. Failure to do so may affect its reputation and financial performance, through inability to attract suitably skilled employees, failure to maintain and grow the business and fines for non-compliance with relevant legislation.</p>	<ul style="list-style-type: none"> Plan Zero – to reach net zero Scope 1 & 2 operational carbon emissions by 2025 – ongoing. Recently extended pledge to reach net zero for Scope 3 emissions by 2035 – suppliers, employee commuting and working from home. Ongoing conversion of fleet vehicles to electric – as at 31 March 2021, Mitie had 1,080 electric vehicles, with a further 1,000 electric vehicles on order. Also trialling electric solutions for specialist fleet, such as the electric gritter, which was launched in January 2021 by Mitie Landscapes. Social Value & Responsible Business (SVRB) Committee held seven meetings in FY21, chaired by Non-Executive Director Philippa Courtie. Climate change risk assessment maintained and approved by the SVRB Committee Key policies and associated operating procedures in place. Use of inhouse subject matter experts specialising in an array of topics including energy, waste and fleet. Regular testing of crisis management and business continuity plans. Insurance cover in place to cover property damage and business interruption. Winter and Summer preparedness planning at account level. Ongoing reviews of planned preventative maintenance (PPM) lifecycles. Targets in place for four of Mitie's five social value framework pillars. Active apprenticeship scheme across the Group. Learning and People Hubs to support employees' development and wellbeing. Continuous horizon scanning via GSOC, with regular alerts to teams on potential threats and significant events. 	<ul style="list-style-type: none"> Continued delivery of Plan Zero to meet both 2025 and 2035 targets. Gifting funds for apprenticeships to SMEs to support the UK Government's Levelling Up agenda. Partnering clients to develop employability skills within the community, through the Mitie Foundation. Proactively targeting under-represented groups to employ within the communities in which Mitie operates. Proactively driving Mitie's Diversity and Inclusion strategy.

Our strategic pillars

Customer: build market-leading positions in higher growth segments and increase customer NPS
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Technology: embed technology into the heart of our offering
Cost: strengthen our balance sheet and maintain cost discipline to remain competitive

Change in year

▼	Decreased
◀ ▶	Stayed the same
▲	Increased

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Principal risks and uncertainties**④ Cyber security and data management**

In the normal course of business, Mitie collects, processes, and retains sensitive and confidential information about its customers, employees, and operations. Hacking, phishing attacks, ransomware, insider threats, physical breaches or other actions may cause this confidential information to be lost or misused. Any data loss could affect client delivery operations and may result in a major data breach leading to fines, remediation costs and reputational damage.

Impacts on strategic pillars: Change in year:

▲
title updated to highlight cyber security

The data held by Mitie is one of its most important assets and includes information concerning its business operations, employees, clients, suppliers, and others. Mitie needs to maintain adequate controls to mitigate risks associated with loss or theft of data which would damage its reputation with clients and potentially result in significant fines from regulators.

During FY21, the general level of threat posed from cyber-attacks has heightened. Alongside an increase in phishing and ransomware attacks, which were linked to COVID-19, Mitie has had to actively control the increases in risk arising from the rapid transition to remote working at the start of the COVID-19 pandemic, and more recently any associated risks from the acquisition of Interserve, including limited impacts from its cyber incident.

Mitie is continuing to invest in technology to improve the security of its business through alerting users to possible cyber-attacks or phishing attempts. Mitie continues to maintain formal technical and procedural controls to ensure confidential and sensitive data is processed, transmitted, and stored securely. These controls are deployed across the Group's IT systems and are subject to regular review and testing and help maintain compliance with the requirements of the General Data Protection Regulation and the UK Data Protection Act 2018.

Controls and mitigating actions

- Continued alignment with CE+ requirements, and Information Security Management System (ISMS) in place, processes consistent with ISO 27001 standards.
- Internal processes and controls for all systems changes to ensure cyber best practice and compliance with data protection laws and regulations.
- Rationalisation and upgrade of ERP systems and infrastructure.
- Centralised information security team and dedicated data privacy officers in place.
- Outsourcing of routine IT operations to a highly skilled partner organisation, Wipro, to improve IT resilience and controls.
- Adoption of Microsoft and Wipro cyber toolsets and proactive monitoring and management of cyber threats.
- Clear strategy to utilise leading edge cloud technology, delivering disaster recovery and business continuity improvements.
- Crisis management and business continuity testing led by the MGX, including a cyber-attack simulation which took place in May 2021.
- Regular communications to employees to highlight IT risks and expected behaviours.
- Upgrades to legacy systems to reduce complexity and improve management information.
- Cyber insurance policy.
- Ongoing monitoring of Brexit decisions relating to data protocol adequacy.

Future plans

- Wipro Security Operations Centre will provide Mitie with an enhanced level of information security monitoring and alerting.
- Security assessments by a leading firm of cyber security experts and the National Cyber Security Centre, to conduct phased threat assessments and stress tests on the Mitie network.

Principal risks and uncertainties continued

Principal risks and uncertainties	Controls and mitigating actions	Future plans
<p>⑤ Health, Safety and Environment</p> <p>Failure to maintain appropriately high standards in health, safety and environmental management may result in catastrophic events, harm to employees, client staff or members of the public, consequential fines, prosecution, and reputational damage.</p> <p>Impacts on strategic pillars: Change in year:</p> <p>▲ Note: this change in status is linked purely to the COVID-19 pandemic. In terms of business as usual activities, Mitie's HSE indicators have continued to show year on year improvements in all areas</p> <p>During FY21, the risk posed to the health and safety of Mitie's employees owing to COVID-19 has increased, particularly in relation to front-line workers who have played an essential role throughout the pandemic by physically attending site to keep clients' businesses and critical infrastructure operational. Mitie has actively controlled any potential increase in risk through an array of measures, including but not limited to: employees having access to adequate PPE to enable them to perform their duties safely; the introduction of a rigorous COVID-19 risk assessment and technical compliance process, which included the use of regular temperature checks, increased cleaning regimes, the use of Citrox Protect and more recently the introduction of the new UVC disinfection system following Mitie's partnership with Luxibel (all of which has been instrumental in getting both Mitie's and its clients' staff back into their work environments); and substantial enhancements to wellbeing offerings.</p> <p>At all levels in the organisation, safety is Mitie's number one priority. Mitie ensures that all risks are properly assessed and managed, its staff are trained and expectations of how they perform their work are clearly explained, and adherence to health and safety standards is regularly monitored. If these risks are not managed appropriately, they could lead to harm to individuals and damage to the environment, and consequently prosecution, fines, and significant damage to Mitie's reputation.</p> <p>Mitie is committed to maintaining the highest levels of health, safety and environmental (HS&E) standards. The services which Mitie delivers could potentially present an increased risk of a health and safety incident involving its employees, client staff or even members of the public. Mitie's activities also carry a risk of damage to the environment. It is essential that these risks are managed in a highly diligent and effective manner.</p>	<ul style="list-style-type: none"> • A comprehensive Quality, Health, Safety and Environment (QHSE) strategy in place and under continual review for effectiveness. • Major cultural HS&E 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 launched which sets out HS&E expectations including 'stop the job' supported by key safety message from the Chief Executive Officer. • Certified H&S management system to ISO45001 and environmental system to ISO14001. • Full integration of improved incident recording, monitoring, and reporting system. • Regular HS&E reviews conducted at all levels through the organisation. • Clear and standardised KPIs introduced to monitor progress. • Targeted QHSE procedural audit programme introduced. • 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. • Enhanced health and wellbeing framework integrated into the business. • COVID-19 risk assessment and technical compliance processes. • Use of new technology such as the UVC disinfection system and thermal imaging to mitigate against COVID-19. • Insurance cover in place to cover employers' liability, public liability and motor fleet. 	<ul style="list-style-type: none"> • Introduction of Quality Culture programme looking into Cost of non-Quality and ensuring the right person is in the right place at the right time. This will include key principles, good habits, and tools to ensure Mitie has a reliable investigation process and drive continual improvement in health, safety and environmental management. • Development of enhanced environmental e-Learning awareness training

Our strategic pillars

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

Change in year

▼	Decreased
◀ ▶	Stayed the same
▲	Increased

Principal risks and uncertainties

6 Regulatory

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

Impacts on strategic pillars: Change in year:



Mitie's business is subject to a wide range of laws and regulations, including health and safety, employment, data protection, anti-bribery and corruption legislation and statutory wage requirements.

During FY21, there have been notable changes to Mitie's external environment in terms of regulatory updates, and in the main this has been attributable to COVID-19, Brexit and corporate governance. As a consequence, there have been a number of obligations to fulfil in order for Mitie to remain legally compliant. COVID-19 arguably presented the greatest challenges given the disparities in regulations adopted by the UK countries, compounded by the pace of change through the pandemic.

Mitie continues to ensure it has effective governance and oversight of its compliance with applicable laws and regulations and continuously assesses the impact of changes in relevant legislation. It is also important that Mitie provides appropriate communications and training for its staff to make sure they are aware of their obligations, and that regular monitoring of compliance is undertaken.

Failure to comply with applicable laws and regulations could result in prosecution and/or significant fines, and, from a reputational perspective, could damage Mitie's relationships with clients and its success when bidding for work. As a consequence, Mitie may also face debarment from tendering for public sector contracts.

Controls and mitigating actions

- 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 (IMS).
- Regular and thorough internal and external regulatory audits.
- Training and awareness materials communicated to employees via Mitie's digital Learning Hub and monitoring of completion performed.
- 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.
- Legal representation on both COVID-19 and Brexit Readiness working groups.

Future plans

- Establishment of Internal Control Declaration framework to align with impending UK legislation on corporate governance.
- Ongoing review of IMS to update policies and procedures.

Principal risks and uncertainties continued

Principal risks and uncertainties	Controls and mitigating actions	Future plans
<p>7 Competitive advantage</p> <p>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 and have a balanced approach to risk, could have a significant impact on Mitie's financial performance and reputation</p> <p>Impacts on strategic pillars: Change in year:</p> <p>▼ combines portfolio, market share and contract losses risks</p> <p>During FY21, Mitie has continued to improve its financial strength, customer service and employee engagement, as well as growing its market share, all of which have been against a backdrop of significant disruption arising from the COVID-19 pandemic. Notable achievements included the acquisition of Interserve resulting in significant growth to Mitie's public sector portfolio as well as Mitie's involvement in support of the UK's strategy to combat COVID-19, including operating over 150 testing sites.</p> <p>It is imperative that Mitie does not become complacent and maintains awareness of competitors' offerings, the changing external environment as well as market coverage. Furthermore, the importance attached to the development and delivery of competitive bids, along with meeting obligations through the delivery of a quality service for existing clients, should not be underestimated. Failure to deliver the services agreed in contracts could negatively impact the Group's customer relationships and reputation, and lead to legal disputes and the termination of key contracts.</p>	<ul style="list-style-type: none"> Executive management bid committee approval for complex bids minimum annum threshold established. Robust risk assessment of bids – commercial, legal and operational. Detailed contracting guidelines developed and rolled out. 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. Improved sales and pipeline management information to track and measure growth, wins and losses. Win/loss debriefing process to take learnings for future bidding activities. Appointment to Crown Commercial Services frameworks FM RM3830 and Security RM6089 Appointment to the Prison Operator Services framework. Chief Government & Strategy Officer to coordinate 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. Review of contractual terms relating to Interserve business areas ongoing for both sales and renewals. 	<ul style="list-style-type: none"> Sales Academy being relaunched to improve skillsets and competencies around bidding and commercial sales. Continue to pursue suitable opportunities on the Crown Commercial Services frameworks. Implementing the Mitie way of selling and retaining work and developing and sharing best practice. Accelerating value creation through a greater understanding of customers' needs. Target emerging markets. Continue to engage with opportunities that have scope for innovative solutions. Continue activities around thought leadership events.

Our strategic pillars

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Change in year

▼	Decreased
◀ ▶	Stayed the same
▲	Increased

Principal risks and uncertainties

8 Business resilience

An inability to effectively respond to global events, such as a pandemic or supply chain disruption and/or a catastrophic event at a key business location could result in significant business interruption. The effect on employees, customers, and the supply chain, could result in severe consequences for the financial health and reputation of Mitie's business

Impacts on strategic pillars: **Change in year:**
New risk

also incorporates incident at client site risk

Whilst COVID-19 is now very much part of daily routine, there remains a high possibility of another pandemic, given that four have already occurred within the last century. Therefore, it would be remiss to remove the threat of a pandemic altogether from Mitie's risk profile. Similarly, external assessments relating to: the threats posed from terrorist attacks, either physical or cyber related; climate challenges; and the ongoing position relating to the post-Brexit landscape combined with the consequences of COVID-19, highlight the importance of Mitie managing any disruptive risks which could negatively impact its organisational resilience.

Mitie delivers services to clients at a number of important and high-profile sites across the country. These include locations with substantial historical and cultural significance and high level of scrutiny by governmental bodies, media organisations and the general public. If a major incident occurred at one of these sites, whether through the negligent or deliberate act of Mitie staff, it would attract a large amount of publicity and have a highly negative impact on Mitie's reputation. It would also be likely to limit the Group's chances of winning future contracts and potentially maintaining current clients.

In order to make sure this risk is managed, it is important that Mitie has appropriate policies and processes in place, which clearly set out its expectations of staff and ensure that its business remains resilient. Mitie also needs to communicate these effectively and deliver regular and relevant training to staff. In addition, it is important that Mitie ensures staff have been appropriately vetted to determine who is eligible to work on particular contracts and sites, so that the specific requirements of clients are met.

It is also necessary to have effective business continuity plans in place for its operations, including its services outsourced to companies based in India, so that Mitie is able to continue to deliver a high-quality service to clients in the event of a disruptive incident. Should an incident occur, a comprehensive and tested crisis response plan is essential to minimise the impact to staff, clients, the public and the environment.

Controls and mitigating actions

- Key policies and associated operating procedures in place.
- Dedicated Risk team and GSOC.
- Regular testing of crisis management and business continuity, including MGX-led simulations.
- Stringent governance controls including oversight from Risk Committee, with regular reporting to the Audit Committee and Board.
- Close monitoring of supply chain to ensure continuity of critical supplies.
- Internal and external compliance audits.
- Critical Engineering and Technical Assurance programme implemented in Technical Services to help manage high-risk contracts.
- Technical Appointments framework used in Technical Services to ensure that correct capability/resources are deployed on customer sites/contracts to help mitigate risks.
- Insurance cover is in place to cover business interruption.
- Themes and root causes monitored from the results of audits to target specific actions, including training.

Future plans

- Seeking certification to validate operating in accordance with ISO 22301-2019.
- Ongoing contingency planning for managing the COVID-19 impacts on both the business and its suppliers and the post-Brexit landscape through the COVID-19 and Brexit Readiness working groups.
- Continuous horizon scanning via GSOC with regular alerts to teams on potential threats and significant events.

Principal risks and uncertainties continued

Principal risks and uncertainties	Controls and mitigating actions	Future plans
<p>⑨ Employees</p> <p>Inability to recruit, retain and reward suitably talented employees, as well as failure to implement appropriate development plans and simple, consistent processes across the business and cultivate a One Mitie culture, could result in employees being disengaged and negatively impact the Group's operational and financial performance.</p> <p>Impacts on strategic pillars: Change in year:</p> <p style="text-align: center;">▲</p> <p>During FY21, the COVID-19 pandemic, Brexit (specifically changes relating to the Right to Work/Settlement Scheme), and the acquisition of Interserve with its 27,500 employees joining Mitie, have reinforced the importance of managing the Group's employees effectively. Its people are Mitie's biggest asset and underpin everything it does. For the success of the business it is important that Mitie continues to recruit, develop, motivate, and retain talented individuals. An inability to do this would have an adverse impact on the profitability of contracts as well as their successful delivery.</p> <p>Mitie needs to have the right level of experience and expertise available and be able to develop a culture of high standards of achievement, compliance to the Mitie values and good governance and control. In order to achieve this, Mitie also needs to provide development opportunities for its employees to enable them to reach their full potential.</p> <p>For a successful integration of Interserve, it is important that Mitie maintains stability and consistency particularly around its senior leadership team to provide high-quality direction for the business, and actively seek to promote the 'One Mitie' way of operating across the business to ensure greater consistency in processes and controls, guarantee all employees respond positively to the implementation of forthcoming change initiatives, and facilitate seamless movement of staff across the Group. It is also vital in the short term that the changes associated with Brexit, specifically the Settlement Scheme, are managed both effectively and efficiently.</p>	<ul style="list-style-type: none"> • Consistent HR resourcing process and system across the Group for both temporary and permanent recruitment. • Process in place for online training and development. • Training and development programmes for senior leadership. • Developed talent identification, management, and development framework. • Clear performance management framework. • HR structure streamlined and partially devolved to business units. • Launch of new induction programme, mandatory for new starters. • Regular communications from leadership team – including MGX 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. • Established Brexit fora for overseeing compliance with the Settlement Scheme, as well as other mandatory people related changes. 	<ul style="list-style-type: none"> • Attraction strategy to be developed and deployed centred around employee 'deal' promoting benefits and development opportunities. • Grading framework to be deployed to allow employees to understand where they fit in the business and their potential for career development. • Benefit enhancement plan in development with frontline focus.

Our strategic pillars

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Change in year

▼	Decreased
◀ ▶	Stayed the same
▲	Increased

Principal risks and uncertainties

10 Third-party management

Failure to successfully manage strategic third-party relationships or a catastrophic event and/or failure involving a third-party partner, could impact Mitie's ability to deliver contractual outcomes, resulting in financial losses and in some circumstances leading to fines and significant reputational damage.

Impacts on strategic pillars: Change in year:
New risk

Mitie maintains a number of third-party relationships and spends c.£1.35bn on an array of supplies and services. A number of these supplies and services are critical to ensuring that clients continue to deliver their respective operations.

The scale and impact of both COVID-19 and Brexit, both in the UK and internationally, has heightened the possibility of disruption or failure to some of Mitie's key third-party partners occurring. This risk is compounded by transitional activities following the acquisition of Interserve, which involve the amalgamation of supplier frameworks.

An inability to effectively manage risks related to third-party management could have serious financial and reputational ramifications for Mitie. Furthermore, due to there being significant dependencies in this area, the consequences of not managing third parties effectively and efficiently could also have serious implications on the management of Mitie's other principal risks. As a result, it is vital that Mitie maintains a rigorous framework for managing both its subcontractors and suppliers, and that this is systematically reviewed.

Controls and mitigating actions

- Key policies and associated operating procedures.
- Dedicated Procurement and Commercial teams.
- Mitie First approach adopted.
- Project Forte driven improvements under Supply Chain Management workstream, including enhanced supplier audits, improved invoicing capabilities, MSAs and job automation.
- Rigorous on-boarding framework.
- Defined SLAs 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.
- Appointment of COVID-19 and Brexit Procurement leads.
- Ongoing review of third-party business continuity arrangements, with regular reporting to the Group Risk Team as well as COVID-19 and Brexit Readiness working groups.

Future plans

- Implementation of Digital Supplier Platform recommendations following review.
- Ongoing delivery of Project Forte initiatives.

Viability statement

Viability statement

The UK Corporate Governance Code requires the Board to explain how it has assessed the prospects of the Group and state whether it has a reasonable expectation that the Group can continue to operate and meet its liabilities, taking into account its current position and principal risks.

The Group's principal markets and strategy are described in detail in the Strategic Report (pages 10 to 12).

The key factors affecting the Group's prospects are:

- Mitie is the leading UK facilities management business with c.7% of the market;
- The outsourcing market is relatively insensitive to economic cycles;
- Mitie has a clear vision for its technology-centric growth strategy;
- Mitie is making good progress on its transformation and integration programmes; and
- Mitie has a diverse portfolio of blue-chip and public sector clients, the largest of which constitutes <5% of revenue.

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

In making this statement, the Directors have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This includes the availability and effectiveness of mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on pages 54 to 65, are considered.

As set out in the Chief Executive's strategic review (pages 19 to 21), the Covid-19 pandemic has had an impact on Mitie's business, with reduced discretionary activities in some areas balanced by new business in other areas. The rights issue in July 2020 and subsequent acquisition of Interserve have significantly strengthened Mitie's business and future prospects.

Base case projections for viability purposes have been made using prudent assumptions:

- Modest revenue and margin growth beyond FY22;
- No major changes in working capital;
- Future dividends in line with current policy;
- Settlement of existing provisions according to best estimates together with funding costs for ongoing transformation activities; and
- No changes to group structure.

The resulting financial model assesses the ability of the Group to remain within the financial covenants and liquidity headroom of its existing committed facilities.

The Group's £250m revolving credit facility and £121.5m of US Private Placement notes mature in the forecast period. The Directors consider it reasonable to assume that the revolving credit facility, operated for general business purposes, will be refinanced on materially similar terms. The Group also utilised £51m of invoice discounting at 31 March 2021, which the Group is not dependent upon for liquidity, covenant compliance or viability purposes in the base case scenario.

A range of scenarios that encompass the principal risks were applied to the base case and are set out in the table below. The analysis also considered a reverse stress-test scenario to illustrate the revenue reduction required to cause a breach of the interest cover covenant.

	Scenario	Principal risks
1	Major client insolvency – lost revenue, operating profit and cashflow	10
2	No incremental integration synergies beyond those already achieved	1
3	5% year-on-year revenue reduction	3, 4, 5, 6, 8
4	2% gross margin erosion	3, 7, 9
5	No refinancing in the forecast period	2
6	Reverse stress test	n/a

In each of scenarios 1-5 the Group was able to continue operating within debt covenants and liquidity headroom. Scenario 6 required such an extreme reduction in revenue that it is considered to be a remote likelihood and therefore does not represent a realistic threat to the viability of the Group. In reaching the conclusion of remote, the Directors considered the following:

- Reviewing how the Group has traded since the impact of COVID-19 started, up to the end of May 2021 and in light of the continued easing of UK lockdown measures and anticipated economic recovery.
- Revenue would need to decline by approximately 20% in the year ending 31 March 2022 compared to the base case, which is considered to be very severe given the high proportion of Mitie's revenue that is fixed in nature and the fact that in a COVID-hit year, Mitie's revenue excluding Interserve declined by only 1.6% in the year ending 31 March 2021.
- In the event that results started to trend significantly below those included in the Group cash flow model, additional mitigation actions have been identified that would be implemented, which are not factored into the reverse stress test scenarios. These include cancellation of discretionary bonuses and reduced discretionary spend, including capital investments.

The Directors considered mitigating factors that could be employed to counter the negative effects of the crystallisation of each of these risks. The main actions included the short-term scaling down of capital expenditure, overhead efficiency measures, asset disposals, and reductions in cash distributions or raising equity. These mitigating factors ensure the Group can continue to operate, even without a successful refinancing.

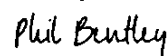
Based on this assessment, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 March 2024.


The Strategic Report on pages 2 to 66 of Mitie Group plc, company registration number SC019230, was approved by the Board of Directors and authorised for issue on 10 June 2021.

It was signed on its behalf by

Phil Bentley
Chief Executive Officer

Simon Kirkpatrick
Chief Financial Officer

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A standard bearer of the industry

We work best with our customers when we collaborate. We aim to be the trusted partner for our customers helping them create exceptional workplaces.

—
50%

Male/Female on Board

—
21%

Senior Leadership Team are Female

Governance

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Overview

Good governance is fundamental to creating and maintaining an effective sustainable business. Accordingly, the Board remains committed to reviewing, adapting and developing its governance processes and procedures to ensure it meets its responsibilities to shareholders and wider stakeholders for the Group's activities and long-term success.

To support this, the Board receives regular updates on the latest governance advice and guidance. This is facilitated in numerous ways including reports prepared by the Company Secretary for each Board meeting, communication with members of the Company Secretariat team when required and relevant papers and publications uploaded to a dedicated area of Mitie's electronic board portal which is accessible by all Board members.

UK Corporate Governance Code and statement of compliance

The Company is subject to the July 2018 edition of the UK Corporate Governance Code (the Code), a copy of which can be found on the Financial Reporting Council's website at www.frc.org.uk. The structure of the governance section of this Annual Report follows that of the Code. Pages 72 to 90 provide details of Mitie's governance framework and how we have applied the Code's principles and complied with its provisions. Additional details can be found throughout this Annual Report. Relevant sections of the Code are applied to Mitie's subsidiary companies where appropriate.

I confirm on behalf of the Board that throughout the year ended 31 March 2021 the Company complied with all the requirements of the Code.

Stakeholder engagement

As a Board, we remain committed to best practice corporate governance, stakeholder engagement and the long-term delivery of sustainable shareholder value. Effective engagement enables the Board to ensure stakeholder interests are considered when making strategic decisions.

The Board spent time in FY21 discussing key stakeholders, engagement mechanisms and the issues that matter to those stakeholders. The Board's stakeholder map has been reviewed and updated to include specific actions taken in response to feedback received. More information on this can be found on pages 48 to 53.

The stakeholder map has supported the Board's inclusion of the required Section 172(1) statement within this Annual Report. This year's statement focuses on several key decisions made by the Board during FY21, the Board's consideration of their impact on key stakeholders, the consequences of the decisions in the long term, and actions the Board has taken, and endorsed, in response to their discussions. The Section 172(1) statement can be found on pages 42 to 45.

The Board also discussed the wider stakeholder governance landscape, specifically considering how the reporting and review of stakeholder metrics could be enhanced to ensure the Board remains abreast of stakeholder perception of the Group. Ensuring these measures are discussed and reviewed regularly allows the Board to react quickly and efficiently to any change in stakeholder sentiment.

Jennifer Duvalier continues to act as the Company's designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce. Jennifer has participated in Employee Listening Events during FY21, predominantly virtually due to the pandemic, thereby maintaining communication channels with the workforce and ensuring that the views of those on the frontline are heard and understood. Jennifer provides the Board with an update at each Board meeting so that these views are regularly voiced at Board level and can be incorporated into the Board's decision-making process. Between meetings, notes from Jennifer's communications are made available to the Board via an electronic board portal. Further detail on Jennifer's role and activities is included on pages 80 to 81.

Board composition

On 17 March 2021, Mitie announced the appointment of Simon Kirkpatrick as Chief Financial Officer. Simon, who held the position of Director of Group Finance prior to his appointment as Chief Financial Officer, joined the Board with effect from 1 April 2021. Further details on Simon's appointment can be found on page 93.

The Board considers the balance in its members' skills and experience appropriate both from an overall Board composition perspective and based on individual contribution. The biographies of the current members of the Board and the Chief of Staff, General Counsel & Company Secretary are set out on the following pages.

External Board evaluation

The Board is committed to ensuring upmost effectiveness and engaged an independent consultant, Belinda Hudson, to conduct an external Board evaluation during FY21.

Further details on the evaluation, including the outcomes and future objectives from the evaluation can be found in the Nomination Committee report on page 92.

Derek Mapp
Chairman

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Derek Mapp
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Board of Directors

An experienced Board of Directors

Derek Mapp Non-Executive Chairman

Board Committees
Chairman of the Nomination Committee

Date of appointment to the Board
9 May 2017

Other current appointments
Derek is a director of private companies Imagesound Limited and Woodall Group Limited. Derek also has several other private business interests.

Past roles
Derek was Chair of Informa plc from March 2008 until his retirement on 3 June 2021. He was also Chair of Huntsworth plc from December 2014 to March 2019. Previously he was Chief Executive Officer of Tom Cobleigh plc and Executive Chair of Leapfrog Day Nurseries Limited. Historically he was Chair of East Midlands Development Agency, Sport England and British Amateur Boxing Association Limited. He continues to have business interests in hospitality in Cornwall and Derbyshire.

Skills and experience

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

Phil Bentley Chief Executive Officer

Board Committees
None

Date of appointment to the Board
1 November 2016

Other current appointments
None

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

Skills and experience

- Executive and non-executive experience with FTSE 100 companies for over 20 years
- Significant strategic and commercial experience at both national and global level
- Extensive executive and leadership experience from across industry
- Extensive financial, audit and risk management systems experience
- Accountant by profession, with a master's degree from Oxford University and an MBA from INSEAD, Fontainebleau

Simon Kirkpatrick Chief Financial Officer

Board Committees
None

Date of appointment to the Board
1 April 2021

Other current appointments
None

Past roles
Simon joined Mitie in July 2019 from Balfour Beatty plc where he held a number of senior finance roles including Finance Director for Major Projects and Group Head of Financial Planning & Analysis. Simon began his professional career with Ernst & Young where he was a director in the Energy practice.

Skills and experience

- Significant UK and international plc experience
- Proven track record in transforming complex contracting businesses
- Extensive financial, strategic and commercial experience across a number of sectors
- Chartered accountant, with a law degree from the University of Exeter

Board of Directors continued

An experienced Board of Directors continued

Nivedita Krishnamurthy Bhagat

Independent Non-Executive Director

Board Committees

Member of the Audit Committee
Member of the Nomination Committee

Date of appointment to the Board

1 June 2017

Other current appointments

Nivedita is Chief Executive Officer, Global Cloud Infrastructure Services at Capgemini SA, a French publicly listed multinational corporation. She is also a member of its Group Executive Committee and a director of three of its group companies: Capgemini UK plc and CGS Holdings Ltd (both unlisted) and Capgemini Outsourcing Services GmbH.

Past roles

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

Skills and experience

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

Baroness Couttie

Independent Non-Executive Director

Board Committees

Chair of the Social Value & Responsible Business Committee
Member of the Audit Committee
Member of the Nomination Committee

Date of appointment to the Board

15 November 2017

Other current appointments

Philippa is a member of the House of Lords European Union Committee and EU Financial Affairs Sub-Committee. Philippa is also a Commissioner with the Guernsey Financial Services Commission and a member of their Investment Committee and Audit Committee.

Past roles

Philippa led Westminster City Council from 2012 to 2017. She was a member of the Polling and Digital Media Select Committee from 2017 to 2018, and a member of the Greater London Authority Crime Reduction Board from 2012 to 2014.

Prior to progressing her career in public service, Philippa was a director at Citigroup. She was also previously Chief Executive of both Cornerstone Communications and PR Consultants.

Philippa has served as a non-executive director on several boards, including Royal Parks and the London Local Enterprise Partnership.

Skills and experience

- Extensive experience of the financial sector, developing corporate strategy and executing change management
- Vast experience in both public and private sector at the most senior level
- Ennobled and joined the House of Lords in 2016
- An honours degree from the University of St Andrews in Psychology

Jennifer Duvalier

Independent Non-Executive Director

Board Committees

Chair of the Remuneration Committee
Member of the Nomination Committee

Date of appointment to the Board

26 July 2017

Other current appointments

Jennifer is Non-Executive Director and Chair of the Remuneration Committee of Guardian Media Group plc. Non-Executive Director and a member of the Remuneration, Nomination and Cyber Security Committees of NCC Group plc and Senior Independent Director and a member of the Audit and Risk, Nomination and Remuneration Committees of Trainline plc. Jennifer is also Director of The Cranemere Group Limited where she is also Chair of the Sustainability, People & Diversity Committee, and a member of the Council of the Royal College of Art where she is also Chair of the Remuneration Committee.

Past roles

Jennifer was Executive Vice President, People, for ARM Holdings plc, a global technology business, from September 2013 to March 2017 and was also an executive committee member with responsibility for people and internal communications activity.

Skills and experience

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

Mary Reilly

Independent Non-Executive Director

Board Committees

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

Date of appointment to the Board

1 September 2017

Other current appointments

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

Past roles

Mary was Non-Executive Director and Chair of the Audit Committee of Ferrexpo plc, an iron ore mining company, from 2015 to 2019. She was also Non-Executive Director and Chair of the Audit & Risk Committee of the UK Department of Transport and of Crown Agents Limited, an international development company, from 2013 to 2017. Prior to this Mary was Non-Executive Director of Cape plc, a global industrial services company, from 2016 to 2017. She has served as a non-executive director on several other boards since 2000. Mary was a partner in Deloitte LLP (and predecessor firms) for over 25 years. Mary was an Audit Partner in the UK specialising in manufacturing, luxury retail and business services. She also headed a unit offering outsourcing capability.

Skills and experience

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

Roger Yates

Senior Independent Director

Board Committees

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

Date of appointment to the Board

1 March 2018

Other current appointments

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

Past roles

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

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

Skills and experience

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

Peter Dickinson

Chief of Staff, General Counsel & Company Secretary

Board Committees

Member of the Social Value & Responsible Business Committee

Date of appointment

6 March 2017

Other current appointments

None

Past roles

Peter was a partner at the global law firm Mayer Brown International LLP (and its predecessor firm) between 1995 and March 2017. From 2015 until March 2017, Peter co-headed Mayer Brown's global Technology Transactions practice. Between 2005 and 2015, Peter was the head of Mayer Brown's Corporate practice in London. In addition, between 2008 and 2015, Peter was the cohead of Mayer Brown's global Corporate practice, with specific responsibility for strategy.

Skills and experience

- Substantial experience advising on corporate advisory, mergers and acquisitions, joint ventures and other significant commercial transactions including large scale multi-jurisdictional outsourcing projects
- Qualified solicitor, with a degree in law from the University of Southampton

Corporate governance continued

The Code: Board leadership and company purpose

Governance at a glance

Company purpose

As detailed on page 4 of the Strategic report, the purpose of the Company is to create exceptional work environments.

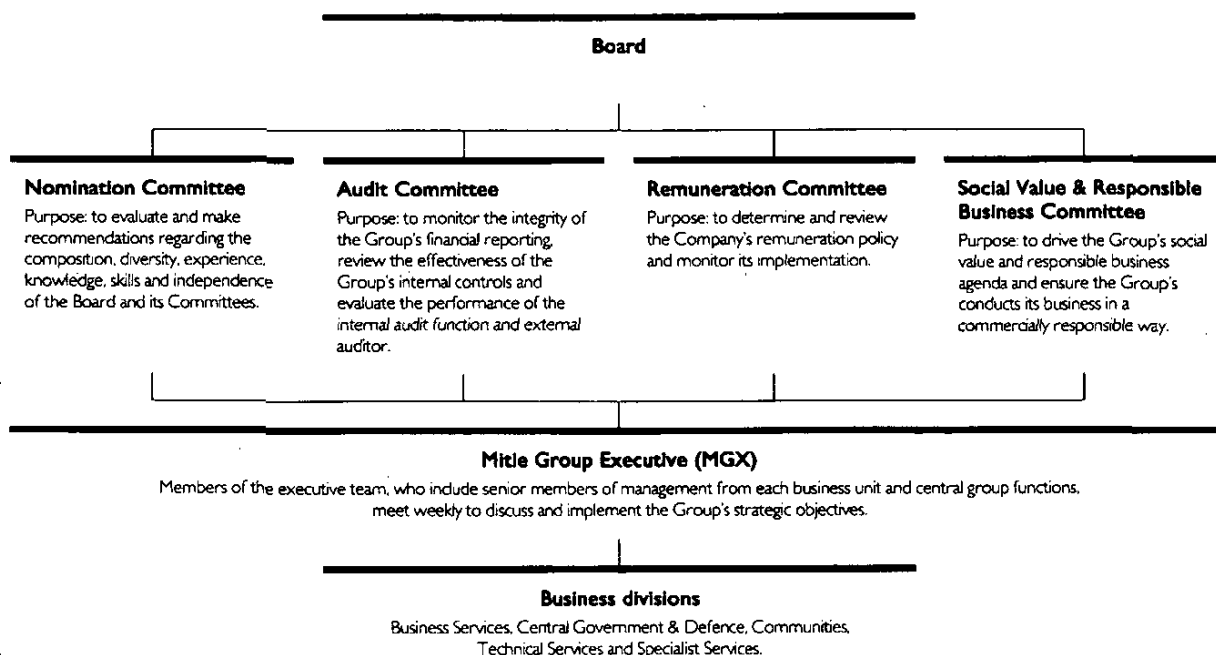
Purpose of the Board

The purpose of the Board is to provide leadership and direction to the Group's management within a framework of controls which enable risk to be adequately assessed and managed. The Board is responsible and accountable to shareholders for the sustainable long-term success of the Company. Subject to UK company law and the Articles of Association, the Directors may exercise all the powers of the Company, may delegate authorities to Committees, and may delegate day-to-day management and decision-making to individual Executive Directors. The purpose of each Committee to which the Board has delegated parts of its responsibilities is summarised below and set out in more detail in the Committee report.

Governance framework

The Company's formal governance framework underpins the Company's operations. In addition to the four Board Committees detailed below, the Board has a Disclosure Committee which meets on an ad hoc basis (further detail can be found on page 123) and an informal Bid Committee. The Bid Committee comprises the Chief Executive Officer, Chief Financial Officer, Chief of Staff, General Counsel & Company Secretary, Chief Government & Strategy Officer and members of the sales team. The Bid Committee meets weekly to consider any material bid submissions and to determine whether such bids meet the Group's financial, commercial and legal objectives.

Terms of Reference for the Company's Board Committees are available at www.mitie.com/investors/corporate-governance.



	Read more:
Board	pages 72 to 90
Nomination Committee	pages 91 to 93
Audit Committee	pages 94 to 98
Remuneration Committee	pages 99 to 120
Social Value & Responsible Business Committee	pages 121 to 122

Membership of Board Committees

Position	Name	Nomination Committee	Audit Committee	Remuneration Committee	Social Value & Responsible Business Committee [*]
Chairman	Derek Mapp	Chair	–	–	–
Executive Directors	Phil Bentley	–	–	–	–
	Simon Kirkpatrick ^{**}	–	–	–	–
	Andrew Peeler ^{**}	–	–	–	–
Independent Non-Executive Directors	Nivedita Krishnamurthy Bhagat	Member	Member	–	–
	Baroness Couttie	Member	Member	–	Chair
	Jennifer Duvalier	Member	–	Chair	–
	Alan Lovell ^{***}	–	–	–	–
	Mary Reilly	Member	Chair	Member	–
	Roger Yates	Member	Member	Member	–

* Membership of the Social Value & Responsible Business Committee includes senior management as detailed on page 121.

** Simon Kirkpatrick was appointed to the Board on 1 April 2021 and replaced Andrew Peeler who resigned from the Board on 31 March 2021.

*** Alan Lovell, Chairman of Interserve Group Limited, was appointed to the Board on 1 January 2021 following Mitie's acquisition of Interserve Facilities Management from How Group Limited (a subsidiary of Interserve Group Limited) on 30 November 2020. Alan Lovell resigned from the Board on 5 March 2021 following the sale by How Group Limited of shares representing 10.5% of the Company's issued share capital.

Gender diversity

as at 31 March 2021

● Female	4
● Male	4

Director age range

as at 31 March 2021

● 41-50	1
● 51-60	3
● 61-70	4

Corporate governance continued

Setting strategy

The Board reviews and agrees the strategy for the Group on an annual basis and reviews aspects of strategy at Board meetings during the year.

The Board considers a wide range of matters when setting Group strategy including, but not limited to:

- Market overview
- Customer trends
- Competitor environment
- Investor sentiment and shareholder returns
- Divisional business strategies
- Environmental, Social and Governance (ESG) and sustainability
- Finance
- People and talent

A strategy day was held in September 2020 which all Directors attended. On the day, the Board discussed the impact of COVID-19 on Mitie's business model, Interserve Facilities Management (Interserve) integration strategy including measures of integration success, wider Group strategic methodology and recommendations, target operating model and execution risks.

How governance contributes to the delivery of strategy

Details of how opportunities and risks to the future success of the business have been considered and addressed, and the sustainability of the Company's business model can be found in the Strategic report on pages 8 to 9. Mitie's governance framework underpins the delivery of strategy and can be found on page 72. An overview of Mitie's strategy in action can be found on pages 12 to 13.

Boardroom discussions

The Board held ten formal scheduled meetings during FY21. Individual Director attendance at each meeting and a timeline setting out stakeholder related events attended by members of the Board can be found on pages 83 and 74 respectively.

Between March 2020 and the end of June 2020 the Board also held weekly calls focused on:

- The operational impacts of COVID-19 and the measures needed to ensure Mitie's businesses were able to continue to operate with minimal disruption and deliver essential services to clients
- The impacts of COVID-19 on employees, including on their health and safety, and employee views communicated through 'Grill Phil', Jennifer Duvalier as Designated NED and other employee communication channels
- Measures to be taken to preserve the financial strength of the Group in light of developments in the COVID-19 pandemic

Other Board activities during FY21 included those set out below. In undertaking their duties, the Directors act in a way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders as a whole, having regard also to other stakeholders.

Board activities: Stakeholder engagement

Members of the Board attended several stakeholder events during FY21.

June 2020

Held a virtual Town Hall event and The Big Equality at Mitie Summit, with all colleagues invited to join

June 2020

Employee engagement survey responses discussed by the Board

June and July 2020

Held 1-1 meetings with institutional investors following publication of the FY20 results and in connection with the rights issue

June to November 2020

Held 1-1 meetings with institutional investors in connection with the acquisition of Interserve

Strategic pillar:

Customer: Build market-leading positions in higher growth sectors, deliver best in class customer services (as evidenced by industry leading NPS) and focus on extending the lifetime value of strategic clients

Interserve acquisition and Integration	The Board debated and approved the acquisition of Interserve which completed on 30 November 2020. Regular updates on integration activities were provided to the Board and discussed at meetings. Further detail on Boardroom discussions relating to the acquisition can be found in the Section 172(1) statement on pages 42 to 45
Net Promoter Score	A Net Promoter Score survey was conducted, the results of which were discussed by the Board at its March 2021 meeting. The survey involved 959 customers from Mitie's top 442 accounts being asked how likely they were to recommend Mitie to a friend or colleague and for feedback on Mitie's COVID-19 response. Further detail can be found on page 17.
UK exit from European Union (Brexit)	The Board was regularly updated on the operational and commercial impacts of Brexit on Mitie's business, including on general preparations with key strategic and business critical suppliers, and contingency planning owing to uncertainty as to future trading relationships with the European Union.
People: Create a 'Great Place to Work', be the 'Employer of Choice' generating social value and becoming known as a leading ESG company	
Employee engagement	The Board received and discussed the results of the March 2020 employee engagement survey. Upload, and agreed actions to be taken in FY21. Regular updates on employee related matters, including learning and development, rewards and benefits, employee appraisal outcomes and talent and recruitment, were also received and discussed.
Diversity	The Board was updated on Mitie's bespoke conscious inclusion programme, Count Me In. Approx. 6,000 employees took part in the programme's introductory exercise.
Employee voice in the Boardroom	Jennifer Duvalier voiced what she heard and learnt from frontline employees at Employee Listening Events and discussed key themes with the Board. After each employee event Jennifer also shared a summary of specific items of feedback with the Board via an electronic board portal 'Reading Room'. Jennifer Duvalier is Mitie's designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce. Further information on Jennifer Duvalier's activities in this role can be found on pages 80 to 81
Social value	The Board was updated on progress in Mitie's social value initiatives including: <ul style="list-style-type: none"> • Launch of Mitie's 'Giving Back' programme for employee volunteering • Plan Zero education initiatives for employees
COVID-19	The Board regularly discussed the impacts of COVID-19 on employees, including on their health and safety and employee views communicated through pulse surveys, 'Gill Phil' and other channels. The Board was also updated on employees' response to initiatives taken in response to COVID-19 including: <ul style="list-style-type: none"> • Access to a virtual GP service for all employees • An extra day of holiday in FY21 for all frontline employees • Life assurance for all permanent and fixed term employees • Implementation of an Agile Working Policy
Interserve Integration	The Board was updated on employee sentiment and feedback on the integration of Interserve, including on the thematic outcomes of a pulse survey conducted in January 2021 in which nearly 2,000 employees shared how they were feeling about the integration.

July 2020
General Meeting to approve the rights issue and 2020 Annual General Meeting

October 2020
Virtually held Mitie's Big Equality Summit #2 with all colleagues invited to join

October 2020
Cabinet Office Strategic Supplier Annual Review

November 2020
General Meeting to approve the acquisition of Interserve

December 2020
Held a "New Mitie Day 1" virtual meeting with all colleagues from across Mitie and Interserve invited to join

February 2021
Plan Zero anniversary call with all colleagues invited to join

February and March 2021
Engagement with a significant proportion of major shareholders on remuneration policy matters

March 2021
Cabinet Office Partnership Executive Meeting

March 2021
Government Customers: One Government Day

March 2021
Client Net Promoter Score survey responses discussed by the Board

Corporate governance continued

Strategic pillar:

Technology: Embed intelligent technology into the heart of our offering, reduce cost to serve and lead the industry in digital transformation and decarbonisation

Project Forte	The Board was regularly updated on Project Forte, the digital transformation and modernisation of the technology infrastructure for Engineering Services.
SAP implementation	The Board was regularly updated on the project to move Engineering Services off the Oracle finance platform and Interserve off the AX12 finance platform onto SAP. Implementation of SAP is expected to bring better control as it allows greater automation and control of transaction processes.
Aria / ESME	The Board was regularly updated on Aria product development and roll out. Aria allows for the reporting of facilities management issues through ESME, Mitie's chatbot, which links to client Computer-Aided Facilities Management systems to raise and process jobs.
Cost: Strengthen our balance sheet and maintain cost discipline to remain competitive	
Rights issue	The Board debated and approved the decision to seek shareholder approval for the 11 for 5 rights issue announced on 25 June 2020 (the Rights Issue). Further detail on Boardroom discussions relating to the Rights Issue can be found in the Section 172(1) statement on pages 42 to 45.
Re-financing	The Board debated and approved an agreement with holders of its US Private Placement Notes and lenders to its Revolving Credit Facility to grant covenant amendments and an extension to the Revolving Credit facility, conditional upon completion of the Rights Issue. Further detail on Boardroom discussions relating to the re-financing can be found in the Section 172(1) statement on pages 42 to 45.
COVID-19	The Board discussed measures taken to preserve the financial strength of the Group in light of developments in the COVID-19 pandemic, including self-help measures and the use of certain Government initiatives. Further detail on Boardroom discussions relating to self-help measures and the use of Government initiatives can be found in the Section 172(1) statement on pages 42 to 45.
Results	The Board reviewed and approved the half-yearly financial report and Annual Report and Accounts.
Budget	The Board had delayed the review and approval of the Group's budget for FY21 from its March 2020 meeting to allow the impacts of COVID-19 to be more fully considered. The Board reviewed the Group's FY21 budget at its June 2020 meeting and further reviewed and approved the Group's FY21 budget at its July 2020 meeting. The Board reviewed and approved the Group's budget for FY22 at its March 2021 meeting.

Standing agenda items:	
Committee updates	At every Board meeting a verbal update was provided by the chair of each Board Committee. Updates included an overview of the Committee meeting and any recommendations from the Committee requiring approval by the Board.
Chief Executive Officer's update	At every Board meeting the Chief Executive Officer presented a paper on topics such as: <ul style="list-style-type: none"> • Financial highlights • Business development • Sector considerations • Customers • Sales • Information systems and technology • Key project and divisional updates
Chief Financial Officer's update	At every Board meeting the Chief Financial Officer presented a paper on topics such as: <ul style="list-style-type: none"> • Financial performance of the Group • Finance modernisation
Chief of Staff, General Counsel & Company Secretary's update	At every Board meeting the Chief of Staff, General Counsel & Company Secretary presented a paper on topics such as: <ul style="list-style-type: none"> • COVID-19 response • QHSE performance, strategy and indicator statistics • Any significant incidents/accidents • Reportable and recordable events • Fleet road safety and electric vehicle numbers • HR and employee matters • Procurement • Internal communications and engagement • External communications and public affairs • Whistleblowing • Material litigation • Governance and regulatory matters
Investor relations	At every Board meeting an investor relations report was presented on topics such as: <ul style="list-style-type: none"> • Share price performance • Investor engagement and feedback • ESG ratings • Analyst research and consensus • Share register analysis • Sector news

Corporate governance continued

Culture at Mitie

Culture at Mitie is underpinned by its purpose: to create exceptional work environments.

Mitie is the UK's leading facilities management company, providing a range of critical engineering, security, cleaning, and sustainability services to customers across government and the private sector.

Mitie's people's expertise and insight combined with its innovative and technology-led approach, enables tailored solutions that anticipate and meet customers' needs to create safe, secure and sustainable work environments for colleagues, customers and communities.

All Directors lead by example and promote the desired culture.

How the Board assesses and monitors culture

Mitie's core values help define the behaviour of its people and underpin its vision of **The Exceptional, Every Day**. An important element of Mitie's culture is establishing a 'One Mitie' way of operating across the business. The 'One Mitie' way leads to consistent, high quality and relevant information flows across the business (see more on Mitie's values on page 8).

These information flows together with direct engagement from each business are key to the Board's oversight of cultural matters. Set out below are examples of how the Board monitors culture:

Ethics, whistleblowing, fraud and bribery

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

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

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

All reports are copied to the Deputy General Counsel, to ensure transparency and enable any trends across different divisions and functions to be identified and addressed. An update on whistleblowing activity is provided to the Board at every Board meeting and to the MGX as appropriate. The update to the Board includes details of incident reports received in the period between meetings, together with aggregated details of all reports received since the launch of the service in September 2017.

QHSE/Livesafe

The health and safety of its people is the highest priority for Mitie as a business. Mitie is constantly striving to develop a zero-harm workplace. Coordinated by Mitie's QHSE team, the LiveSafe programme was launched in December 2018. This highlights the importance of workplace safety and was developed out of the need to constantly improve QHSE performance across the business. A non-financial QHSE KPI is included in the Group's reporting; the lost time injury frequency rate (read more on page 17).

Measuring culture

Board members were not able to attend Mitie sites and speak to employees face to face during FY21 due to the COVID-19 pandemic, however all-employee calls were held by Phil Bentley and the MGX throughout the year. The calls included the ability for employees to ask questions of management via a chat box (anonymously if preferred). Whilst using this method alone as a way of assessing culture may not be considered the most effective, it demonstrates the use of alternative methods for Board and senior management interaction with the workforce during the COVID-19 pandemic. It is intended that members of the Board resume site visits once the UK Government's guidelines on social distancing allow.

Mitie also measures a number of non-financial KPIs such as staff turnover, employee engagement, Net Promoter Score and lost time injury frequency rate which allow trends and changes to be identified and monitored.

Alignment of remuneration and culture

Successful people and organisations are clear about what they want to achieve, how they are going to get there and their progress along the way. The annual employee appraisal (MiReview) process allows Mitie to set quality objectives in areas that really add value to the business, build development plans that help colleagues achieve their objectives and ensure pay reviews are carried out in a transparent way, related directly to individual performance.

Details on Mitie's approach to investing in and rewarding its workforce are set out on pages 38 to 40 and Mitie's Real Living Wage commitment on page 38.

Views of employees

Jennifer Duvalier is Mitie's designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce. Jennifer champions the voice of Mitie employees at Board discussions and participates directly in employee engagement initiatives, providing the benefit of further employee feedback for the Board.

Mitie's annual employee engagement survey, Upload, provides feedback that can be acted upon by management to improve the experience of working at Mitie. The results of the survey provide the Board with a Group-wide snapshot of how employees rate Mitie's culture and employee engagement. A timeline with details of how this information reaches and is considered by the Board can be found below.

Date	Action
March 2020	The 2020 Upload engagement survey was launched. The survey was open to all employees and could be completed through several different mediums to enable maximum participation.
June 2020	Survey results were presented to the Board at its June 2020 meeting. The Board agreed next steps and a plan to address matters raised. As Mitie's designated Non-Executive Director for workforce engagement, Jennifer Duvalier worked closely with management to analyse the results of the survey. Further detail on Jennifer's activities in this role can be found on pages 80 to 81.
July 2020	The 'You Said, We Did' campaign was launched to highlight the work of management in addressing four key areas of focus identified from the 2020 Upload survey results. The campaign identified initiatives introduced in direct response to employee feedback including: the launch of monthly 'all manager' calls to update on Mitie's short-term and long-term goals; implementation of a career band framework to facilitate a consistent, transparent and objective approach to managing benefits and reward; integration of SmartRecruiters, SuccessFactors, SAP, WorkPlace+, Learning Hub and Concur to save the need for data rekeying and to remove the need for multiple usernames and passwords; and the roll out of LiveSafe training for all employees. The campaign was communicated to employees through several different mediums.
August 2020 – March 2021	Periodic updates on 'You Said, We Did' initiatives were communicated to employees. Employees were actively encouraged to respond with further feedback on how the initiatives were progressing and their thoughts on the impact that the initiatives were having, both positive and negative. This additional feedback allowed management to review, consider and shape the initiatives to ensure that they continued to effectively address the matters raised in the Upload survey.

Stakeholder engagement mechanisms and Section 172(1) statement

The Board acknowledges the importance of forming and retaining sound relationships with all stakeholder groups. Accordingly, the Board reviewed and discussed the Group's key stakeholders along with the engagement mechanisms in place to ensure that they support effective, two-way communication. These are kept under periodic review to ensure on-going effectiveness. The Board maintains a stakeholder map which is used to support the Board's reporting requirements under Section 172(1) of the Companies Act 2006. More details on the Group's stakeholder engagement mechanisms can be found on pages 48 to 53. Details of stakeholder activities undertaken by the Board can be found on pages 74 to 75. Details of activities undertaken by Jennifer Duvalier in her role as designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce can be found on pages 80 to 81.

Mitie's Section 172(1) statement detailing how the Board has engaged with the Group's stakeholders and approached decisions made during the year can be found in the Strategic report on pages 42 to 45.

Dialogue with shareholders

The Board is committed to ongoing and proactive dialogue with shareholders. A full programme of formal and informal events, institutional investor meetings and presentations is held throughout the year. This programme of shareholder engagement aims to ensure that the performance, strategies and objectives of the Group are clearly communicated to the investment community and provides a forum for institutional shareholders to address any issues. Mitie engages proactively with the investment community, sell-side and buy-side analysts and accommodates requests for meetings and calls with senior management from existing and potential institutional investors. The programme is led by the Executive Directors with support from the Investor Relations team.

In June, following publication of the FY20 results, 1-1 meetings were held with institutional investors.

In June and July, 1-1 meetings were held with institutional investors in connection with the rights issue.

In July, a General Meeting and the 2020 Annual General Meeting were held in London. Due to the UK Government's guidance on social distancing and prohibitions on public gatherings at the time, shareholders were not able to attend these meetings in person. Shareholders were encouraged to submit any questions to the Board in advance of the meetings via email. At the General Meeting the resolution authorising the Directors to allot ordinary shares in connection with the Rights Issue passed with more than 99% of the votes cast in favour. At the 2020 Annual General Meeting all resolutions passed with more than 91% of the votes cast in favour.

Between June and November, 1-1 meetings were held with institutional investors in connection with the acquisition of Interserve.

In November, following publication of the HY21 results, meetings were held with institutional investors.

In November, a General Meeting was held in London. As with the July meetings, shareholders were not able to attend the meeting and were encouraged to submit any questions to the Board in advance of the meeting via email. At the General Meeting all resolutions, which related to the acquisition of Interserve, passed with more than 86% of the votes cast in favour.

In February and March, Mitie engaged with a significant proportion of its major shareholders on remuneration policy matters. Engagement on remuneration policy matters continued into FY22.

Ad hoc meetings were also held with institutional and retail investors throughout the year.

The Board is regularly kept informed of investor feedback, stockbroker updates and detailed analyst reports. A Board report is prepared by the Group IR Director for every Board meeting as set out under Boardroom discussions on page 77. The Chairman is responsible for ensuring that the Board is made aware of any issues or concerns of major shareholders, and the Chairman and Senior Independent Director are available to meet with shareholders upon request. Committee chairs seek engagement with shareholders on significant matters related to their area of responsibility. In the early part of FY22 the Chairman, accompanied by a non-executive Director, met all top ten shareholders as part of an annual roadshow.

2021 Annual General Meeting

Mitie's Annual General Meeting (AGM) will be held on 27 July 2021 at 11.30am at Level 12, The Shard, 32 London Bridge Street, London SE1 9SG and on an electronic platform.

Mitie is closely monitoring the impact of the COVID-19 pandemic and public health concerns and will review attendance restrictions if the UK Government's guidance has changed by the date of the meeting. Shareholders should carefully consider whether to attend the physical meeting in the current circumstances.

The Board recognises that the AGM is an important event in the Company's corporate calendar, providing an opportunity to engage with shareholders. Therefore, to maximise engagement whilst respecting any restrictions and guidance on public gatherings, the Company will for the first time hold the AGM as a combined physical and electronic meeting (a hybrid meeting). This will enable shareholders to attend the AGM remotely and to vote and ask questions in real time. Shareholders will be able to attend and vote at the AGM using electronic facilities and ask

Corporate governance continued

questions using either the telephone or electronic facilities – instructions on how to do this are set out in the Notice of AGM.

The Board also encourages shareholders to appoint the chairman of the AGM as their proxy and provide voting instructions in advance of the meeting in accordance with the instructions set out in the Notice of AGM.

Resources for shareholders and other stakeholders

Mitie has a specific area dedicated to investor relations on its website (www.mitie.com/investors) where the information detailed below can be found:

- Latest results including half-year and full-year results presentations
- Financial reports and calendar
- Shareholder information
- Share price tools
- Corporate governance information
- Regulatory announcements

Designated NED for workforce engagement

Jennifer Duvalier is Mitie's designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce. Jennifer carried out a full programme of activities during FY21 to encourage employees to share their views.

Why Jennifer

Prior to joining the Board in 2017, Jennifer had a long career in HR working in several large, people driven companies going through real transformation. Jennifer brings this wealth of experience to Mitie and therefore the Board considered Jennifer to be the Board member most suited to becoming Mitie's Designated Non-Executive Director for workforce engagement.

Board expectations

The Board is at the forefront of the journey to make Mitie a great place to work and is keen to understand the views of all employees and the impact its decisions have on them.

Jennifer engages with the workforce on behalf of the Board and provides a channel for employees in the boardroom. At regular Board meetings, Jennifer shares what she has heard and learnt with the Board, using her insights to add an important perspective to discussions and decisions. This ensures employee voices are heard and considered as the Board makes decisions that influence the future of Mitie.

A summary of Jennifer's discussions is also shared with the Board ahead of meetings and, where there are specific matters raised, with members of senior management to ensure those matters are considered and appropriately addressed.

Jennifer's thoughts

“

I have always come away from my visits, in person and virtual, with a very strong and positive impression of how dedicated our frontline colleagues are to supporting our customers, in very challenging circumstances, and I emphasise this to my Board colleagues in my reports back to them.

Given that Mitie is the sum total of our people, this commitment is such a source of strength, and is to be valued as highly as our other assets.”

Site visits

Jennifer's role as Designated Non-Executive Director for workforce engagement is supported by members of Mitie's HR team. The team approaches account directors and managers from across the Mitie business to ask if they would like to host Jennifer at their site.

Following each visit (in person and/or virtually) the HR team prepares an article which is shared across Mitie's internal communication channels including MiNet and Recap newsletter. With each of these articles the team encourages people to get in touch if they would like to arrange a visit with Jennifer for their site.

Whilst each event varies in structure, generally Jennifer has a tour or receives an overview of the site and a 1-1 meeting with managers followed by an informal session with the site teams without managers present. No specific topics for discussion are provided in advance, though site teams are advised that Jennifer would like to hear from them about their experience of working at Mitie, whether they have any challenges, concerns or ideas for improvement, and the things that they consider Mitie does well.

Activities

The Board considers it important that employee views are heard through several mediums including, great people management, surveys, internal communications, and digital channels (such as Yammer) to develop a positive culture across the business.

Therefore, as well as the site visits noted above, Jennifer is fully involved in a range of other activities including, analysing the feedback from Mitie's Upload surveys, championing Back to the Floor events for the Board and senior management, spending time with HR teams, attending listening and virtual Q&A events, and inviting employees to contact her directly via her Mitie email address.

During the COVID-19 pandemic Jennifer continued her work by hosting numerous virtual meetings with employees.

Designated NED for workforce engagement

Jennifer Duvalier's activities during FY21

April 2020

Virtual meeting with team at LBG Edinburgh. Jenny virtually met the Campus Manager and then met 1:1 with a member of the frontline team.

May 2020

Virtual employee listening event with Security team at British Airways.

Why the role adds value (over and above other employee engagement mechanisms)

In carrying out her role, Jennifer travels out across the business, meeting people face to face and listening to their views and experiences to understand first-hand what they value about Mitie and what they would like to be different. Being a member of the Board, Jennifer is also able to instil confidence that employees' views are being heard at the highest level of the organisation. In analysing the feedback received from Jennifer, the Board can quickly identify any recurring concerns across the business and provide assurance that these will be managed effectively and efficiently.

Conflicts of interest

The Board has a policy on the declaration and management of Directors' conflicts of interests. Any potential situation or transactional conflict must be reported as soon as possible to the Chairman, Chief Executive Officer and Chief of Staff, General Counsel & Company Secretary. Where a potential conflict is authorised under statutory powers and powers granted under the Company's Articles of Association, such conflict is kept under ongoing review.

Executive Directors are permitted to accept external appointments provided these do not interfere with the Director's ability to discharge his/her duties effectively and permission is sought from the Board.

Executive Directors are entitled to retain fees earned from any external appointments. Phil Bentley did not hold any external positions during FY21. Andrew Peeler, who resigned from the Board on 31 March 2021, was a director and chair of the Finance Committee of Fair Finance, a micro finance social enterprise. Simon Kirkpatrick, who was appointed to the Board on 1 April 2021 does not hold any external positions.

External positions held by the Chairman and current Independent Non-Executive Directors are detailed in their biographies on pages 69 to 71.

Noting of Directors' concerns

The Chairman encourages openness and debate at Board meetings. Should a Director have concerns about the operation of the Board or management of the Company that cannot be resolved, such concerns would be recorded in the minutes of the relevant meeting. If, on resignation, a Non-Executive Director had any such concerns they would be invited to provide a written statement to the Chairman that would be circulated to the Board.

Employee feedback on Designated Non-Executive Director role:

“

We were very fortunate to meet Jenny when she visited The Bank of Ireland Temple Quay this time last year. We found Jenny to be a very pleasant lady, a good listener and very engaging. A great strategy and idea to come and visit the everyday people who are the backbone of Mitie. I think this should be more of a regular event. The front of shop people and at lower levels, often feel that they are not noticed, left behind and don't have a voice that can be heard in the higher places. Three cheers for Jenny Duvalier!”

Vincent Costigan

Electrician, Integrated Facilities Management
21 January 2021

July 2020

Back to the Floor at Heathrow IRC with the Care & Custody team. Jenny met with the Centre Manager and dialled into the daily operational meeting with the entire team. Jenny was then taken on a tour of the Harmondsworth site before returning to the Colnbrook site where she worked with a Detention Custody Officer.

October 2020

Virtual meeting with Amazon team at BHX1. Jenny met some of the management team and then held conversations with frontline team members. They discussed what was working well for them on the contract and what could be improved.

November 2020

Virtual colleague listening session with Co-op team in Manchester. Interactive discussions with the SAM, contract senior leadership team and groups of frontline team members from Cleaning, Security and IAS/IFM.

January 2021

Virtual Back to the Floor with members of the Landscapes team. Jenny heard views on what drives Mitie colleagues to show up to work each day and empowers them to perform. It was an open and honest conversation, which gave Jenny great insight into the culture of Landscapes and the work Mitie's teams do across the UK.

The Code: Division of responsibilities

Board composition

Chairman	Derek Mapp
Executive Directors	Phil Bentley Andrew Peeler (until 31 March 2021) Simon Kirkpatrick (from 1 April 2021)
Senior Independent Non-Executive Director	Roger Yates
Independent Non-Executive Directors	Nivedita Krishnamurthy Bhagat Baroness Coughtie Jennifer Duvalier Alan Lovell (from 1 January 2021 until 5 March 2021) Mary Reilly

Biographies of the current Directors can be found on pages 69 to 71.

All Non-Executive Directors are considered independent when assessed against the circumstances set out in Provision 10 of the Code. The Chairman was considered independent against these circumstances on appointment.

The Board continues to support separation of the roles of Chairman and Chief Executive Officer and considers itself to have an appropriate balance of Executive Directors and Independent Non-Executive Directors. No one individual or small group of individuals dominates Board decision-making.

There is a clear division of responsibilities between leadership of the Board and executive management leadership of the Company's business. Key responsibilities of the Board, its Committees and its members are agreed by the Board and documented in writing.

These responsibilities are summarised below. Further detail is publicly available at www.mitie.com/investors/corporate-governance where the following documents are published:

- Matters reserved for the Board
- Terms of Reference for each Committee of the Board
- Division of Responsibilities between the Chairman and Chief Executive Officer

Director independence

as at 31 March 2021

● Chairman	1
● Executive	2
● Independent	5

Matters reserved for the Board

A schedule of key matters and responsibilities that are to be dealt with exclusively by the Board is maintained and regularly reviewed. The schedule was last updated in January 2021.

The key responsibilities of the Board include:

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

Board Committees

The responsibilities of each formal Committee of the Board are set out in its Committee report.

Nomination Committee	pages 91 to 93
Audit Committee	pages 94 to 98
Remuneration Committee	pages 99 to 120
Social Value & Responsible Business Committee	pages 121 to 122

Director attendance at meetings of the Board and its Committees

Position	Name	Board	Nomination Committee	Audit Committee	Remuneration Committee	Social Value & Responsible Business Committee
Chairman	Derek Mapp	10/10	3/3	–	–	–
Executive Directors	Phil Bentley	10/10	–	–	–	–
	Andrew Peeler*	10/10	–	–	–	–
Independent Non-Executive Directors	Nivedita Krishnamurthy Bhagat	10/10	3/3	11/11	–	–
	Baroness Coughtie	10/10	3/3	11/11	–	7/7
	Jennifer Duvalier	10/10	2/3	–	7/7	–
	Alan Lovell**	1/1	–	–	–	–
	Mary Reilly	10/10	3/3	11/11	7/7	–
	Roger Yates	10/10	3/3	10/11	7/7	–

* Andrew Peeler resigned from the Board on 31 March 2021 and was replaced by Simon Kirkpatrick on 1 April 2021.

** Alan Lovell, Chairman of Interserve Group Limited, was appointed to the Board on 1 January 2021 following Mitie's acquisition of Interserve Facilities Management from How Group Limited (a subsidiary of Interserve Group Limited) on 30 November 2020, and resigned from the Board on 5 March 2021 following the sale by How Group Limited of shares representing 10.5% of the Company's issued share capital.

In addition to the formal scheduled Board and Committee meetings held during the year, attendance at which is reported above, the Board held weekly calls from the start of the COVID-19 pandemic in March 2020 until the end of June 2020.

Division of responsibilities

Chairman

In his role as Chairman, Derek Mapp's responsibilities include:

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

Senior Independent Director

In his role as Senior Independent Director, Roger Yates' responsibilities include:

- Act as a sounding board for the Chairman
- Serve as an intermediary for other Directors when necessary
- Conduct the Chairman's annual performance evaluation (without the Chairman present)
- Lead the appointment process for any new Chairman
- Act as chairman of the Board in the absence of the Chairman
- Be available as an alternative point of contact for shareholders if they have concerns which have not been resolved through the normal channels, or for which such contact is inappropriate in the circumstances

Non-Executive Directors

The responsibilities of the Board's Non-Executive Directors include:

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

Chief Executive Officer

In his role as Chief Executive Officer, Phil Bentley's responsibilities include:

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

Corporate governance continued

Chief Financial Officer

In his role as Chief Financial Officer, Simon Kirkpatrick's responsibilities include:

- Lead, direct and oversee all aspects of the finance and accounting functions of the Group
- Evaluate, approve and advise on the financial and commercial impact of material contracts and transactions (including mergers and acquisitions), technology investments, long-range planning assumptions, investment return metrics, risks and opportunities and the impact of changes in accounting standards
- Manage relationships with the external auditor and key financial institutions and advisors
- Ensure effective internal controls are in place and compliance with appropriate accounting regulations for financial, regulatory and tax reporting
- Lead, direct and oversee the Group's Finance, Treasury, Tax and Internal Audit functions

Simon Kirkpatrick replaced Andrew Peeler as Chief Financial Officer on 1 April 2021.

Chief of Staff, General Counsel & Company Secretary

In his role as Chief of Staff, General Counsel & Company Secretary, Peter Dickinson's responsibilities include:

- Advise the Board on governance matters and the Directors on their duties
- Ensure compliance with corporate legislation and the Company's Articles of Association
- Support the Board in ensuring it has the policies, processes, information, time and resources needed to function effectively and efficiently
- Lead, direct and oversee the Group's Legal, Company Secretarial, HR, Pensions, Property, Procurement, Insurance, Health & Safety, Risk & Compliance, Sustainability and Fleet functions
- Identify and recommend to the Board acquisitions and disposals
- Drive projects relating to mergers and acquisitions within the Group in line with authorities delegated by the Board
- Lead, direct and oversee the integration of Interserve
- Oversight of the Specialist Services division
- Provide an underpin to all aspects of the Group's governance framework and the application of its delegated authorities

Board meeting process

The Chairman is responsible for setting the Board meeting agenda and for ensuring that the style and tone of Boardroom discussions promote effective decision making and constructive debate.

Each Board meeting agenda is produced in consultation with the Chairman using items from a yearly meeting planner, actions arising from prior meetings, project progress updates and any relevant governance and regulatory matters. Items may also be added to the agenda at the request of a Board member or in response to emerging issues. Attention is given to timings for each agenda item to ensure that adequate time is allocated for effective discussion and debate.

To allow sufficient time for the Directors to review Board meeting materials and seek any clarification needed ahead of the meeting, Board meeting materials are distributed to the Directors not less than five clear calendar days prior to the meeting via a secure electronic board portal.

To ensure that Board meeting materials are of a consistent high standard, Board paper guidelines and templates are issued to authors of those materials.

An important element of Mitie's culture is that the Group operates as 'One Mitie' and collaborates effectively across business areas. Mitie's culture facilitates greater consistency in processes and information control which in turn facilitates the preparation of consistent, high quality and relevant Board meeting materials. Authors of those materials seek to appropriately consider the impact, views and needs of key stakeholder groups as well as the likely consequences of decisions in the long term, helping to aid Board discussions and decision making.

The Chairman ensures that all Directors feel they can voice their opinion, be listened to, and contribute to the decision-making process.

Function heads and members of management are invited to attend Board meetings to present their items to the Board and answer questions.

During FY21 most Board meetings were held virtually due to UK Government social distancing requirements.

Advice of the Company Secretary

All Directors have access to the advice of the Company Secretary through various channels including the Chief of Staff, General Counsel & Company Secretary's Board report which is presented at every Board meeting, and a secure electronic board portal which is kept up to date with the latest governance-related information and guidance. The Chief of Staff, General Counsel & Company Secretary and Company Secretariat team are also available to the Directors on an ad hoc basis as required. The Chief of Staff, General Counsel & Company Secretary helps the Board ensure it has the appropriate policies, processes, information, time and resources it needs in order to function effectively and efficiently.

The Board is responsible for the appointment and, where applicable, removal of the Company Secretary.

Director external appointments and time commitments

Directors are permitted to accept additional external appointments but must seek approval from the Board in advance. If a Director held significant additional external appointments, the reasons for permitting such appointments would be explained in the annual report. The Board remains confident that all Board members continue to have sufficient time to dedicate to their duties.

When considering the appointment of a new Director, the Board reviews other demands on the candidate's time. Prior to appointment, the candidate must disclose any significant commitments and provide an indication of the time involved. The Board fully considered the time commitments of Simon Kirkpatrick prior to his appointment as Chief Financial Officer and no concerns were raised.

Alan Lovell, Chairman of Interserve Group Limited, was appointed as a Non-Executive Director of Mitie on 1 January 2021 following Mitie's acquisition of Interserve Facilities Management from How Group Limited (a subsidiary of Interserve Group Limited) on 30 November 2020. Alan Lovell resigned from the Board on 5 March 2021 following the sale by How Group Limited of shares representing 10.5% of the Company's issued share capital, thereby reducing their shareholding from 17.5% to 7%.

The Nomination Committee conducts an annual review of Directors' time commitments, further details of which can be found on page 93.

The Code: Composition, succession and evaluation

Board effectiveness

The performance of the Board is an essential component of the Company's success. The Board undertakes a formal and rigorous evaluation of its own performance and that of the Board Committees, Chairman and individual Directors annually. The evaluation considers composition, diversity and how effectively members work together to achieve objectives. The evaluation provides an opportunity for the Board to enhance its effectiveness and identify any areas for improvement. All Directors fully engage in the evaluation process and take appropriate action if development needs are identified. The evaluation is externally led every three years and internally led in other years. In years in which the evaluation is led internally, the Chairman leads this for the Independent Non-Executive Directors and Executive Directors, and the Senior Independent Director facilitates the evaluation for the Chairman.

The Board engaged an independent consultant, Belinda Hudson, to conduct the FY20 Board evaluation. This external Board evaluation was delayed due to the COVID-19 pandemic and took place during FY21. The external Board evaluation was completed by Belinda Hudson in December 2020 and discussed by the Board and Nomination Committee at their March 2021 meetings. Outcomes and actions from the external evaluation are detailed in the Nomination Committee report on page 92. Belinda does not have any known connection with the Company or any individual Directors.

Individual Director contribution

The individual skills and experience of each Director contribute to the overall effectiveness of the Board in promoting the long-term sustainable success of the Company. The table below sets out how each Director's individual skills and experience contribute to the balance required by the Board to deliver the Group's strategy and manage risk.

Further details of each Director's skills and experience is set out in their biographies on pages 69 to 71.

Skills / experience area	Derek Mapp	Phil Bentley	Simon Kirkpatrick	Nivedita Krishnamurthy Bhagat	Baroness Crouble	Jennifer Duvalier	Mary Reilly	Roger Yates
Leadership and business operations	Exceptional	Exceptional	✓	✓	✓	✓	✓	✓
Strategy development	✓	Exceptional	✓	✓	✓		✓	✓
Corporate governance	Exceptional	✓	✓	✓	✓	✓	✓	✓
Audit/risk management and assurance		✓	✓		✓		Exceptional	✓
Remuneration/HR						Exceptional		✓
Commercial	✓	Exceptional	✓	✓	✓	✓	✓	✓
Technology/digital				Exceptional	✓	✓		
Finance		Exceptional	Exceptional	✓	✓		✓	✓
Investment community		Exceptional	✓		✓			Exceptional
Government/ public sector experience					Exceptional		✓	

The collective skills and experience of individual Directors support the work of the Board and there is clear alignment between their respective competencies and the Group's strategy. Board discussions further benefit from the diversity of approach taken by each Director due to their individual background, career development and training.

Director tenure

The Board considers tenure when determining a Non-Executive Director's independence. No Non-Executive Director has served more than four years on the Board.

Director tenure

as at 31 March 2021

● 0-2 years	1
● 2-4 years	6
● 4-6 years	1

Corporate governance continued

Re-election of Directors

In accordance with the Code and the Company's Articles of Association, all Directors are subject to election or re-election by shareholders. At the 2020 AGM each Director in post at the time stood for re-election and was re-appointed by shareholders. At the 2021 AGM Simon Kirkpatrick will stand for election and all other Directors will stand for re-election.

The rules governing the appointment and replacement of Directors are set out in the Articles. The UK Corporate Governance Code (July 2018), Companies Act 2006 and other related legislation.

The terms of appointment for Non-Executive Directors and service contracts for Executive Directors are available for inspection at the Company's registered office and head office and will be available at the 2021 Annual General Meeting.

Director induction process

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

- Meetings with Executive Directors, the Chief of Staff, General Counsel & Company Secretary and other members of senior management
- An overview of the Group's governance policies, corporate structure and business functions
- Details of risks and operating issues facing the Group
- Visits (in person and/or virtually) to divisional offices
- A briefing on key contracts

Alan Lovell's induction included the above as well as virtual meetings with the Non-Executive Directors. Simon Kirkpatrick joined Mitie in July 2019 and has received a detailed hand-over from Andrew Peeler who will leave Mitie on 30 June 2021.

Board training and development

Mitie is committed to the continual professional development of its Directors.

All Directors have access to Mitie's Board Handbook on the electronic board portal which includes:

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

The Board Handbook is subject to regular review and was last updated in early 2021.

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

Online training is also available to all Directors on topics such as the Bribery Act 2010, GDPR, Criminal Finance Act 2017 and anti-slavery. Additionally, Mitie's Licence to Operate training is available to all Directors, and Licence to Lead training is available to the Chairman and Executive Directors. Further detail on Mitie's Learning & Development core offering can be found on page 39.

Visits (in person and/or virtually) to different business sites and offices are arranged for Directors to facilitate a deeper understanding of the business.

Nomination Committee

The Nomination Committee Report on pages 91 to 93 contains information on the Company's compliance with Provision 23 of the Code.

Equality, diversity and inclusion

One of Mitie's strategic pillars is to create a 'Great Place to Work' for employees, and one of Mitie's values is 'Our diversity makes us stronger'.

Female employees accounted for 40% of the workforce and 21% of senior management and their direct reports (MGX and Mitie Leadership Team combined) at 31 March 2021.

The Group's approach to business is underpinned by a belief that all individuals should be treated fairly and have access to equal opportunities. To attract, recruit, develop and retain the very best people at all levels, Mitie is committed to respecting and embracing talent and working to support a culture that is inclusive and reflective of Mitie's visions and values. In recognition of the Group's diversity-related initiatives and achievements, Mitie has won several awards and accreditations.

Mitie has a Group-wide Equality, Diversity & Inclusion Policy, the requirements of which include that:

- No job applicant or employee will receive less favourable treatment on the grounds of sex, race, age, ethnic origin, marital status, pregnancy and maternity, civil partnership status, any gender re-assignment, religion or belief, sexual orientation, disability or part-time/fixed-term work
- Inclusion, equality and diversity will be promoted within the workplace
- An environment will be created where anyone believing they have been subjected to discrimination, victimisation, bullying or harassment in the workplace, is entitled and feels safe to raise such concerns

In implementing the policy, Mitie:

- Ensures that all policies, processes, procedures and practices underpin delivery of the Equality, Diversity & Inclusion policy
- Cascades inclusion lessons learned and shares best practice throughout the business
- Identifies key issues and recommends any changes

Mitie has six employee diversity networks, details of which can be found on page 38. The networks host a variety of face-to-face and virtual events and contribute to online platforms designed to interact and share ideas.

In connection with the Group's wider diversity initiatives and its Equality, Diversity & Inclusion Policy, Mitie is committed to:

- Giving full and fair consideration to applications for employment by disabled persons, having regard to their particular aptitudes and abilities
- Continuing the employment of, and arranging appropriate training for, employees who have become disabled during their employment
- The training of, career development and promotion of disabled employees

Mitie is a signatory of the Disability Confident scheme with the Department for Work and Pensions.

Further details of the Group's commitment to diversity can be found on page 38 and on the website: www.mitie.com.

The Code: Audit, risk and internal control

Board accountability and assurance

Risk management approach

Mitie has continued to develop and improve its approach to governance, risk management and internal control during FY21. During the year, the risk management framework has been reviewed to make sure it is aligned to the organisational processes and strategy as well as helping to support corporate governance requirements. The risk management policy and supporting processes have been assessed and revised, and a Group Risk Committee has been introduced, which helps coordinate the risk processes across the Group. This also allows better coordination of reporting of risks to the MGX, the Audit Committee and the Board. The impact of the COVID-19 pandemic, as well as the Rights Issue and acquisition of Interserve Facilities Management (Interserve) have also served as valuable learning points to help improve the consistency of risk processes and ensure risk is managed effectively.

The Board considers the nature and extent of significant risks in setting the Group's strategy. The Group's delegated authority register (DAR), which sets out the accountabilities and authority to take decisions on specific matters within defined financial limits, has been revised during the year and authority limits are being aligned at divisional level as part of the integration of Interserve. This approach helps to disseminate clearly the appetite of the Board to key risks. This structure ensures a consistent approach to acceptance and management of risk across the business and provides the Board with greater visibility of how effectively risks are being managed.

IT operational and financial systems improvement projects have been continuing in the Technical Services division and have commenced in Interserve in order to bring the business onto consistent platforms. The review and documentation of key internal controls in the internal control framework has also continued during the year. These programmes will help ensure further the reliability and accuracy of management information as well as providing greater visibility of the effectiveness of internal controls. The work of the Internal Audit function targets areas of the business where risk management and internal controls are suspected of requiring improvement, which has helped to improve the risk management and internal control frameworks. The Group has an externally hosted whistleblowing line, and all reports are reviewed, investigated and action taken as appropriate.

The Group's approach to risk is set out in more detail below. The approach to risk management is regularly reviewed by the Board and MGX and continues to evolve in line with the business structure and risk profile. The Board understands that effective risk management and a sound system of internal control are essential to the achievement of the Group's strategy and supporting objectives. The Group Risk Committee focuses on the risk management framework to increase understanding of the nature of the risks faced by the Group and the actions and controls in place to mitigate them. The Audit Committee monitors the effectiveness of this process.

Risk culture

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

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

In addition, in the past year the response to the COVID-19 pandemic has served to provide valuable learning points to enhance the risk management and continuity processes.

Risk management process

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

Corporate governance continued

Risk Identification and assessment

The Board carries out robust assessments of the Company's principal risks, including emerging risks. In doing so, the Board takes both internal and external perspectives into account to ensure the risk identification process is thorough. The internal perspective takes into account factors such as the changing and developing business profile, operational processes, technology and people, while the external perspective includes the economic environment, political factors and sector and geographical risks. During FY21, the MGX and Board have regularly reviewed the impact on the business of the risks associated with the COVID-19 pandemic and the associated disruption to the Group's operations and strategy. In addition, the risks associated with the Rights Issue and the acquisition of Interserve were specifically reviewed and disclosed as part of those transactions. A top-down and bottom-up approach ensures the systematic identification of significant risks to the business. Once identified, risks are assessed using standard impact and likelihood ratings to quantify the risk to the achievement of business objectives.

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

Risk mitigation

Each identified risk has a defined control owner who is responsible for developing and implementing a risk mitigation plan. As part of the risk review process, each action and control is required to be reviewed and formally assessed for its effectiveness in mitigating risk. The Group Risk Committee provides oversight of the risk processes and monitors risk mitigation actions.

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

Assessment of the effectiveness of the control environment is undertaken at both business and Group level, led by the Head of Internal Audit. The Audit Committee formally reviews performance throughout the year and advises on the effectiveness of the risk management system in place.

Risk monitoring and review

Risk registers are formally reviewed twice a year. Principal risks to the business and associated mitigation plans are reviewed by the Group Risk Committee and then presented to the Board and are monitored on an ongoing basis. In doing so, the Board considers the level of exposure for each risk against an agreed appetite to the level of risk. During FY21, the Principal Risks were also reviewed for the Rights Issue and the proposed acquisition of Interserve, and were published in the associated prospectuses along with specific risks associated with the transactions.

The risk management framework is designed to manage, rather than eliminate, the risk of failing to achieve the objectives and strategy of the Group and can therefore only provide reasonable, and not absolute, assurance against material risk and loss. Details of the principal risks of the Group are set out on pages 56 to 65. It should be noted that other risks are identified as part of the risk management process, but these are not considered to have a material impact on the Group's overall ability to achieve its business objectives.

The Audit Committee confirms that this risk management process has been in place throughout FY21 and remains in place up to the date of approval of the Annual Report. The process is continuing to evolve and will be subject to review and improvement.

Internal controls

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

The system covers both monitoring and oversight controls at business unit level, comprising business leadership review and direction, and detailed process controls and control activities, which are embedded in business processes. A comprehensive internal control framework is being developed which has involved reviewing, improving and documenting internal controls across the Group and helping to raise awareness at all levels within the organisation of the importance of effective controls. The framework will also help to ensure compliance with impending UK legislation on corporate governance, specifically the internal control reporting requirements.

Mitie's policies and procedures are documented in the Integrated Management System (IMS) and are available to management and employees through an intranet portal. Divisional and functional leadership teams ensure that controls are operating within the processes and procedures, and that risks are being appropriately managed. The process of integrating Interserve is ensuring that policies and procedures, as well as internal controls, are harmonised across the Group.

The Audit Committee conducts a review of the effectiveness of the systems of risk management and internal control annually. This review is supported by a report from the Head of Internal Audit and includes a control assessment exercise undertaken by the Internal Audit function in conjunction with the business leadership teams. The review focuses on the key internal controls which manage the risks faced by the business. The Audit Committee also considers the results of the work completed by the Internal Audit team, which are reported to it in regular updates. The internal audit work plan is targeted at areas known, or suspected to have, weak or ineffective internal controls. Remedial action plans developed by management to address any control weaknesses found are monitored by the Audit Committee to ensure timely closure of the actions. Further detail on this can be found in the Audit Committee report on pages 94 to 98.

Internal Audit

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

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

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

Going concern statement

In adopting the going concern basis for preparing the financial statements, the Directors have considered the Group's business activities as set out on pages 8 to 29 as well as the principal risks and uncertainties as set out on pages 56 to 65 and the reverse stress testing outlined on page 66.

Based on the Group's forecasts for the going concern assessment period, which include the benefit of the Rights Issue and amendment to the terms of the revolving credit facility, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

Further details of the going concern assessment are set out in Note 1 to the financial statements on page 146.

Viability statement

The statement is detailed in full on page 66.

In accordance with the Code, the Directors have assessed the viability of the Group over the three-year period to 31 March 2024 taking into account its current position and the potential impact of the principal risks set out in the Strategic report. Based on this assessment the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 March 2024.

Fair, balanced and understandable

In accordance with Provision 27 of the Code, the Directors confirm that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. When arriving at this position the Board was assisted by various processes including the following:

- The Annual Report and Accounts was drafted by senior management with overall coordination by Group Finance to ensure consistency across the relevant sections
- A review was undertaken to assess the consistency of the Annual Report and Accounts with internally reported information and investor communications, and to assess the balance between reported measures and alternative performance measures
- Reviews of drafts of the Annual Report and Accounts were undertaken by the Executive Directors, Chief of Staff, General Counsel & Company Secretary, other senior management and external advisors
- The final draft is reviewed by the Audit Committee prior to consideration by the Board

Details of the basis on which the Company generates and preserves value over the longer term and the strategy for delivering the Company's objectives are set out in the Strategic report. An explanation by the Directors of their responsibility for preparing the Annual Report and Accounts can be found on page 128.

Corporate governance continued

The Code: Remuneration

Remuneration policies and practices

The Company's remuneration policies and practices are designed to support strategy and promote long-term sustainable success. The Remuneration Report on pages 99 to 120 contains information on the Company's compliance with the Code provisions relating to remuneration.

Nomination Committee report

Report from the Nomination Committee Chair

Nomination Committee members

At the date of this report and throughout FY21 the Nomination Committee comprised:

Chairman*	Derek Mapp
Committee members	Nivedita Krishnamurthy Bhagat Baroness Couttie Jennifer Duvalier Mary Reilly Roger Yates

- * The Senior Independent Director chairs the Committee in circumstances where it would be inappropriate for the chairman of the Board to chair the Committee.

All members of the Nomination Committee are considered independent in accordance with the Code.

Nomination Committee meetings

The Nomination Committee met three times during FY21. The attendance of individual Committee members can be found on page 83.

Key purpose of the Nomination Committee

The Nomination Committee evaluates the skills and characteristics required by the Board and its Committees. In doing so, the Committee considers the challenges and opportunities facing the Group and the expertise and diversity required for the future. This ensures membership of the Board and its Committees continue to remain appropriate.

Key responsibilities of the Nomination Committee

The key responsibilities of the Nomination Committee include:

- Regularly review the structure, size and composition (including the skills, experience and knowledge required) of the Board compared to its current position and make recommendations to the Board with regard to any changes
- Ensure plans are in place for an orderly succession to Board and senior management positions and oversee the development of a diverse pipeline for succession
- Consider the length of service of the Board as a whole so that membership of the Board is regularly refreshed
- Identify and nominate, for approval by the Board, candidates to fill Board vacancies as and when they arise
- Keep under review the number of external directorships held by each Non-Executive Director
- Review the results of the Board performance evaluation process that relate to the composition of the Board
- Keep the Board Inclusion Policy under review to ensure its effectiveness and alignment with best practice

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

Key activities during the year

Composition

As it does annually, the Nomination Committee reviewed the composition and leadership of the Board and each of its Committees during FY21. The Nomination Committee is satisfied that the Board's composition and diversity has been appropriate throughout the year, having regard in particular to the integrity, skills, knowledge and experience of its Directors and the size and nature of the business. A skills matrix can be found on page 85.

Nomination Committee report continued

External Board evaluation process

Outcomes from the externally led evaluation conducted for FY20, were reviewed at the March 2021 Nomination Committee meeting and Board meeting and are set out below.

Process followed for FY20 evaluation

March 2020

Engagement, scope and focus of review agreed



May 2020

A review of the previous 12 months' minutes and papers for Board and Committee meetings, output from previous evaluation, terms of reference, matters reserved for the Board and other related governance material was conducted by Belinda Hudson



September 2020

List of interviewees confirmed, and interview slots diarised



October-November 2020

Belinda Hudson conducted confidential interviews with Board members and senior management



November 2020

Belinda Hudson attended and observed Board and Board Committee meetings



November-December 2020

Findings were collated and evaluated by Belinda Hudson



December 2020

Belinda Hudson provided a report to the Board



March 2021

Outcomes of the external Board evaluation were established, and actions agreed

Outcomes/suggestions

Actions undertaken or planned

To review any gaps in experience of the Board.

The Nomination Committee reviewed and discussed the Board skills matrix (see page 85) at its March 2021 meeting.

To ensure the Chairman shares his thinking and insights to a greater extent and to hold Non-Executive Director only sessions.

Two Non-Executive Director only sessions have been diarised for FY22.

To encourage the Non-Executive Directors to provide a better balance of constructive challenge, support and recognition.

Non-Executive Directors have been encouraged to undertake without compromising depth of questioning.

To undertake a regular review of the CEO and MGX members both in performance and behaviour.

To be undertaken at the two Non-Executive Director only meetings. CEO to be invited to attend in part.

To encourage the CEO to have regular sessions with each individual Non-Executive Director.

NED/CEO meetings to be diarised.

To encourage the Board to plan longer term strategic options.

To be undertaken at annual strategy day in September 2021 and updated at each Board meeting.

The Board to regularly review the culture within the Board, MGX and across the Group for consistency with the Purpose, Values and Strategy.

Is already assessed via several mechanisms such as the Designated Non-Executive Director, through the NPS and Upload Survey. Will be enhanced by the whole Board through site visits when COVID-19 permits.

To include broader management team members at Board dinners.

To be planned when appropriate, subject to COVID-19 restrictions.

Succession planning

The Board recognises the importance of succession planning and Board refreshment and maintains succession plans for the Board and senior management.

During FY21, the Nomination Committee discussed succession planning at two of its meetings.

The Board considered both the Board skills matrix and the Board Diversity and Inclusion Policy in the context of succession planning as tools to help identify potential composition needs for the future, and to ensure that plans are pro-active, and not just reactive in nature.

The tenure of members of the Board is relatively short. The Chairman was appointed in May 2017 and, except for the Chief Executive Officer, all other Directors have been appointed subsequently. All Non-Executive Directors had served for less than four years at 31 March 2021. While no immediate changes to the Board are anticipated, there may be some changes in Committee membership in order to ensure that all Non-Executive Directors receive experience and exposure on all main Board committees.

The meetings also focused on succession planning for the position of Chief Financial Officer to replace Andrew Peeler. All appointments to the Board are subject to a formal, rigorous, and transparent appointment process, and are made based on merit and objective criteria. The appointment process followed for the position of Chief Financial Officer is detailed below.

1	Candidate requirements	A detailed candidate profile setting out required capabilities and experience was agreed. The Lygon Group was appointed to facilitate the process*
2	Search	The process to appoint the new Chief Financial Officer was led by the Chief Executive Officer who considered a list of diverse candidates. A shortlist of candidates was invited for interview.
3	Assessment tools	To deliver an objective, well founded assessment of capability and potential, the candidates were also invited to complete a short round of occupational tests and questionnaires aimed at measuring key personal competencies according to success factors already identified.
4	Interviews & presentation	The first round of interviews was conducted by The Lygon Group to assess the candidates' fit with the role and key competencies, and to allow a discussion of the highlights from the psychometric tests. A written report was then submitted to the Chief Executive Officer. Subsequent interviews were held with the Chief Executive Officer and other members of the Board. Shortlisted candidates were asked to perform a set exercise involving a presentation to the Charman and Chair of the Audit Committee. They also met with members of the MGX.
5	Announcement	The relative merits of each candidate were discussed, and it was agreed that Simon Kirkpatrick should be proposed to the Board for appointment. The Board approved Simon's appointment as Chief Financial Officer effective 1 April 2021.

* The Lygon Group had no other connection with the Company or individual Directors.

Mitie's other succession planning measures include Leadership Team Development Programmes and Strategic Account Manager Academy, the latter now also including Strategic Account managers from Interserve Facilities Management. These help to ensure the business develops a diverse pipeline of talented individuals ready to step up to senior and business-critical roles. Further detail can be found on page 39.

Director external appointments and time commitments

The Nomination Committee reviewed the time commitments of Non-Executive Directors to ensure that there were no concerns regarding overcommitment. This review considered the number of appointments, their scope and the size and type of company in which the role is held, the views of major shareholders and the latest published guidelines and recommendations.

Diversity and inclusion

Mitie has a Board Inclusion Policy which recognises the importance of the Board's membership reflecting diversity in its broadest sense. At its meeting in March 2021, the Nomination Committee agreed an additional objective should be added to the policy with regard to ethnicity, and in line with the Parker Review, to ensure there is at least one Director from Black, Asian and Minority Ethnic communities, provided this remains consistent with the skills and diversity requirements when seeking a new appointment to the Board.

The policy also sets diversity objectives including to:

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

It is the Board's intention that female representation on the Board be maintained at a level higher than the 33% recommended by the Hampton-Alexander review, although it is recognised that there may be periods of time when the balance falls below this during the search and recruitment process. The Committee is pleased to report that 50% of the Directors are women. A breakdown of the gender balance of those in senior management and their direct reports can be found on page 86.

Mitie's Board Inclusion Policy is available at www.mitie.com/investors/corporate-governance.

Derek Mapp

Chair of the Nomination Committee

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Audit Committee report

Report from the Audit Committee Chair

Audit Committee members

Mary Reilly was appointed as Chair of the Audit Committee on 31 July 2018, having been a member of the Committee since 1 September 2017. Mary has a wealth of experience as a non-executive director and chairing audit and risk committees. She has extensive relevant and recent accounting, finance and management experience. Mary's full biography can be found on page 71.

At the date of this report, and throughout FY21, the Audit Committee comprised independent Non-Executive Directors who are all considered appropriately experienced to fulfil their duties, having held senior finance roles across a number of sectors. Their full biographies can be found on pages 69 to 71.

Chair	Mary Reilly
Committee members	Nivedita Krishnamurthy Bhagat Baroness Courtie Roger Yates

Frequency of Audit Committee meetings

The Audit Committee met 11 times during FY21. For the Directors' attendance, see table on page 83. Invitations to attend meetings are normally extended to the Group's external auditor, the Chairman, the Chief Executive Officer, the Chief Financial Officer, other members of the Board, the Chief of Staff, General Counsel & Company Secretary, the Director of Group Finance, the Group Financial Controller and the Head of Internal Audit.

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

Report from the Audit Committee Chair

As Chair of the Audit Committee, I am pleased to present my report to shareholders.

It has been an intensive year for the business, and therefore also for the Audit Committee. The COVID-19 pandemic has presented an evolving risk environment, the rights issue and refinancing have brought technical challenges, and the acquisition of Interserve Facilities Management (Interserve) has added opportunity but also complexity to the business. The business also appointed a new Chief Financial Officer on 1 April 2021, following an extensive search.

Given this complex environment, I have made a conscious effort to increase the frequency of contact with senior finance staff throughout the year, which gave me an opportunity to gauge the extent of any significant issues that emerged and monitor progress.

Despite the challenges, good progress has been made by the Group during the year to standardise processes and controls across the enlarged business, manage the associated risks and ensure rigour around the related financial reporting, including:

- The adoption of a new risk framework (ISO31000) and establishment of a plan to drive improvements in risk management. One of the key steps was the creation of the Group Risk Committee to facilitate and ensure alignment with corporate deliverables and drive the risk management process across Mitie.
- The review of Interserve's balance sheet, accounting policies, processes and controls as part of the acquisition accounting and integration processes. Training has been provided to the Interserve FM finance teams to ensure consistent application of Mitie's accounting policies, and areas of good practice have been identified within the Interserve processes which have been retained.
- The annual Internal Audit plan was kept under continual review to adapt to the changing risk environment facing the business, mainly the impact of the COVID-19 pandemic and the acquisition of Interserve. This resulted in multiple changes to the plan with a focus on supporting the business teams in maintaining effective internal controls throughout the period of disruption and integration. The development of the internal control framework has also continued, which will ensure Mitie is able to comply with impending UK legislation in this area.
- The divisional finance teams were also guided through the impacts of the COVID-19 pandemic on complex areas such as revenue recognition and the UK Government's job retention (furlough) scheme, to ensure compliance with laws and regulations and consistent application of Mitie's accounting policies.

The COVID-19 pandemic continued to have an impact in FY21 on Mitie's business, both in terms of the delivery of services to customers and the way in which the Group has operated. However, through rigorous planning and regular communication both between Mitie's finance teams and with the external audit teams, we were able to overcome the challenges of social distancing restrictions and working remotely, with no major impacts to systems, financial reporting, internal controls or the external audit. The FY21 financial reporting process was conducted in this environment and I am pleased to say that this reporting has maintained the high standards required and has been delivered in a robust and transparent manner.

In a letter dated 19 January 2021, the Financial Reporting Council (FRC) informed Mitie that it had carried out a review of Mitie's Annual Report and Accounts (ARA) for the year ended 31 March 2020 (FY20). I am pleased to report that in that letter, the FRC noted that it had no questions or queries that it wished to raise. The FRC did highlight a number of matters to be considered during preparation of the FY21 ARA, to the extent that users of the accounts would benefit from enhanced disclosure, which have been duly incorporated.

Matters presented to the Audit Committee related to the acquisition of Interserve were often complex and judgemental. These included matters in relation to the shareholder circular on the proposed acquisition, such as the historic financial information, the pro forma financial information and risk factors. Subsequent to completion of the acquisition on 30 November 2020, matters in relation to year-end reporting of the acquisition were also challenged by the Audit Committee including judgements on the opening balance sheet, and in particular the valuation of acquired intangible assets.

The business continues to progress its transformation programme, which was reflected in the nature of some of the matters presented for consideration by the Audit Committee. These judgements also had to be assessed in the context of the COVID-19 pandemic, which added another layer of complexity in some areas. This transformation programme was scheduled to complete by the end of FY21. However, the COVID-19 pandemic caused some workstreams to be put on hold and, as a result, the programme is now expected to complete in FY22.

In addition to fulfilling its normal programme of activities this year, the areas of focus for the Audit Committee in relation to the FY21 financial statements have been:

- Assessing the judgements made by management in respect of acquisitions and disposals made by the Group. In particular the Audit Committee has assessed and challenged management's judgements related to the acquisition of Interserve, including the determination of fair values of assets and liabilities on the opening balance sheet, and valuation of the consideration paid. The Audit Committee also considered and questioned judgements related to prior year disposals, such as the retained liabilities related to the Social Housing business.
- Considering the appropriateness of disclosures made in relation to the Interserve acquisition.
- Challenging management's judgements in relation to areas potentially impacted by the COVID-19 pandemic, such as the estimate of deferred contingent consideration for the Catering business disposal, the testing of the carrying value of goodwill for impairment, the adequacy of provisions for the recoverability of debtors, the recoverability of deferred tax assets in relation to losses and the evaluation of potential onerous contract provisions.
- Considering the classification of certain costs within Other Items and associated disclosure, by reviewing the framework of controls around the assessment by management, and challenging the nature of the costs, to ensure the result is that a reader of the Annual Report and Accounts is provided with an improved understanding of the underlying results of the business.
- Challenging the approach taken by management to support the going concern and viability statements set out on pages 146 and 66 respectively, taking into account the potential impacts of the COVID-19 pandemic.

Further detail regarding the Audit Committee and its work can be found on pages 94 to 98.

In conclusion, the Audit Committee can provide positive assurance to the Board that the Annual Report and Accounts 2021, when taken as a whole, are fair, balanced, and understandable, and provide shareholders with sufficient and appropriate information to enable shareholders to assess the Group's position and performance, business model and strategy. As Chair of the Audit Committee, I will be available at the 2021 AGM to answer any questions about the work of the Audit Committee.

Mary Reilly

Chair of the Audit Committee

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Mary Reilly

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Audit Committee report continued

Key purpose of the Audit Committee

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

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

Key responsibilities of the Audit Committee in relation to financial reporting

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

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

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

Significant issues considered by the Audit Committee during the year

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

The Audit Committee considered the significant matters set out below, and in all cases considered to what extent these judgements could be impacted by the COVID-19 pandemic. Papers were presented to the Audit Committee by management, setting out the relevant facts, material accounting estimates, and the judgements associated with each item. The external auditor provided a paper setting out its views on each area of judgement.

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

Interserve acquisition

The Audit Committee considered and questioned papers prepared by management in relation to the proposed acquisition of Interserve. These papers included judgements made in the shareholder circular, including those related to the historic financial information, the pro forma financial information and the assessment of risk factors. Subsequent to completion of the acquisition on 30 November 2020, the Audit Committee has also challenged papers on the opening balance sheet process, including the determination of fair values assigned to assets acquired and liabilities assumed, and also the fair value of consideration. As part of this the Audit Committee sought to understand the approach taken to the valuation of the acquired intangible assets, which included the involvement of an external valuations specialist, and the Audit Committee discussed the methodology used and assumptions applied.

The Audit Committee is satisfied that the disclosures made within the FY21 financial statements in relation to the Interserve acquisition are sufficient.

Evaluation of the gain on disposal of the Catering business

The Group disposed of its Catering business in FY20, which resulted in a gain on disposal. The Audit Committee has considered papers prepared by management explaining the judgments made to remeasure the gain on disposal in FY21. This remeasurement involved the estimation of the deferred contingent consideration receivable, which the Audit Committee questioned in the context of the impact that the COVID-19 pandemic is having on the catering sector. Following this assessment, the Audit Committee concurred with management's view on the associated impairment.

Provisioning for legacy contractual liabilities

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

Revenue recognition

Due to the complexity and scale of many of the Group's contracts, and the impact of the COVID-19 pandemic, revenue recognition continues to be an area of focus for the Audit Committee. The Audit Committee has received updates from management throughout the year and has also reviewed and discussed papers by management on specific areas of revenue recognition where judgement is required, including long-term private finance initiative (PFI) lifecycle contracts. In particular management presented papers covering a revenue recognition review performed in relation to the contracts acquired with the Interserve business, which the Audit Committee discussed and challenged.

Valuation of goodwill

The Group carries goodwill as an intangible asset on its balance sheet in respect of businesses it has acquired (see Note 12 to the consolidated financial statements).

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

The cash flow forecasts used in the review were derived from the most recent strategic forecast, which was updated to reflect the expected impacts of the COVID-19 pandemic on the business and was reviewed and approved by the Board.

Management concluded that there was no impairment using either the updated forecast or the downside scenario. The Audit Committee has considered papers prepared by management and has challenged the assumptions and methodology applied to assess the carrying value of goodwill.

The need for provisions in respect of potentially onerous contracts

As part of the year-end process, management performs a review of contracts to assess whether any contracts may be onerous over the remaining term of the contract, and therefore may require an onerous contract provision. The COVID-19 pandemic was specifically considered as part of this review, both in terms of the short-term impacts, but also the potential longer-term effects.

The Audit Committee has reviewed the information provided by management, as well as the views expressed by the external auditor, and has challenged the bases for conclusions on key contracts.

The Audit Committee also specifically challenged management's assessment of the requirement for the recognition of a liability, or disclosure of a contingent liability, for the potential Information Commissioner's Office (ICO) fine related to the Interserve cyber incident.

Other material accounting judgements

Management has continued to operate the structured process for the identification of material accounting judgements made, which are assessed at both a divisional and Group level, in arriving at the results. The judgements with a significant actual or potential impact on the Group's results are presented to the Audit Committee for consideration.

In addition to the matters outlined above, the Audit Committee has also considered papers prepared by management in respect of the following matters:

- The recoverability of trade receivables and accrued income, with specific challenge from the Audit Committee related to the potential impacts of the COVID-19 pandemic
- Provisioning for, and disclosure of contingent liabilities related to, the Group's participation in multi-employer pension schemes
- The recoverability of deferred tax assets, in particular in relation to losses, where recoverability may be impacted by the effects of the COVID-19 pandemic
- Provisioning for commercial settlements, disputes and other contractual liabilities

Allegations of fraud

In instances where allegations of fraud have been reported, these were investigated as a matter of priority by the Internal Audit function and reported to the Audit Committee. The Internal Audit reports summarising the issues, conclusions and recommendations, were reviewed and discussed by the Audit Committee. The Audit Committee then supported the implementation of any required actions, aimed at preventing future occurrence of similar issues and enhancing internal processes and controls.

Use of Alternative Performance Measures (APMs)

The Group's performance measures continue to include some measures which are not defined or specified under IFRS. The Audit Committee has considered presentation of these additional measures in the context of the guidance issued by the European Securities and Markets Authority (ESMA) and the Financial Reporting Council (FRC) in relation to the use of APMs, challenge from the external auditor, and the requirement that such measures provide meaningful insight for shareholders into the results and financial position of the Group.

In particular the Audit Committee challenged the classification of certain costs within Other Items, ensuring that there is a robust framework of controls around the assessment, and that the classification and disclosure is appropriate, with the aim of providing a reader of the Annual Report and Accounts with an improved understanding of the underlying results of the business. This was achieved through the review by the Audit Committee of detailed papers prepared by management throughout the year, setting out each category of Other Items, analysing the costs reported within each category and documenting the rationale as to why these costs were both incremental to business as usual and directly related to the category.

The Audit Committee challenged as to whether any costs had been rejected from the Other Items category, based on the framework of controls around the reporting of Other Items. Management confirmed that the divisions continued to engage proactively with Group Finance to discuss whether potential costs would qualify as Other Items.

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

A reconciliation of the APMs to the equivalent IFRS measures is provided in the Appendix – Alternative Performance Measures on pages 211 to 213.

Review of the Group's going concern and viability statements

The Audit Committee has reviewed the Group's assessment of going concern. The base case forecast used for this assessment includes the ongoing impact of the COVID-19 pandemic on each of the Group's operations. The Audit Committee also reviewed the Group's viability

assessment over a period of three years to 31 March 2024, which considered a range of scenarios that were based on the potential financial impact of the Group's principal risks and uncertainties.

After due consideration, the Committee concluded that the assumptions used in both these assessments were appropriate, and reflected the Group's principal risks and uncertainties. The Committee has also reviewed the Group's reverse stress tests and challenged management as to the likelihood of any such scenario occurring, to assess whether it was reasonable to assume that the likelihood of any such scenario was remote. Factors that were considered include the current trading performance compared with the base case, the severity of the downside scenarios considered in the context of how the Group has traded since the impact of the COVID-19 pandemic commenced, and further mitigation actions available to management.

Given that the Group's £250m revolving credit facility and £121.5m of US Private Placement notes mature during the forecast period, the Committee questioned management to test the assumption that the facilities will be refinanced on materially similar terms.

As a result of these discussions, the Committee concurred with management that no material uncertainty existed.

The more detailed assessment of the Group's long-term viability is set out in the Viability Statement on page 66.

Internal Audit

The COVID-19 pandemic and the acquisition of Interserve had a significant impact on the risk profile of the business during the year, and consequently the Internal Audit plan for FY21 was subject to greater review and change than in previous years. The initial plan was presented to and approved by the Audit Committee in March 2020, prior to the initial lockdown period for the pandemic. All changes to the plan were discussed with the Chair of the Audit Committee and approved by the Audit Committee.

During the initial months of FY21, which coincided with the first COVID-19 lockdown, the Internal Audit team concentrated their efforts on helping to advise the business units on internal control and business continuity enhancements, to ensure that a robust control environment was maintained throughout this period. Subsequently, the focus moved to delivery of the annual Internal Audit plan.

The audit plan considered the effectiveness of internal processes and controls, Group-wide and functional processes, major contracts, individual divisional processes and strategic processes; as described, the impact of the COVID-19 pandemic and the Interserve acquisition have also been major considerations.

Some key areas of focus in the FY21 audit plan have included:

- A review of the internal controls in the 'purchase to pay' processes across the Group;
- A post-implementation review of a time and attendance system introduced into the Cleaning business within the Business Services division;
- An audit of the contract management processes in a major account focusing on governance, reporting and ongoing contract management processes; and
- An audit of compliance with the furlough scheme.

Regular updates were provided to the Audit Committee throughout FY21 by the Head of Internal Audit. These covered the results of the audit work undertaken and developments in the internal control environment, highlighting areas where improvements in risk, governance and control processes were required. In addition, progress on the development of the internal control framework, in which the key internal controls across the business are being reviewed and documented, was presented to the Audit Committee. As well as improving the awareness of the importance of internal controls in the business, the framework will ensure Mitie is able to comply with impending UK legislation on corporate governance.

Through the updates from the Head of Internal Audit, the Audit Committee also monitored the progress by management in completing actions to address the findings from Internal Audit reports. There has been good progress in ensuring the actions are closed by the agreed

Audit Committee report continued

completion date, however this remains an important area of focus for the Audit Committee, and management is required to provide an explanation if planned closure dates are missed.

Senior Accounting Officer update

The Chief Financial Officer presented a paper to the Audit Committee detailing the processes in place to ensure that the relevant controls had operated effectively during FY21, thereby supporting signature of the Senior Accounting Officer certificate. The Audit Committee considered this paper and was satisfied with the approach taken by management.

External audit

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

External auditor effectiveness

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

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

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

The Audit Committee is aware that the external auditor (BDO) has been subject to a review by the FRC's Audit Quality Review (AQR) team in respect of the audit for the year ended 31 March 2020. The Audit Committee Chair shared the AQR Inspection Report with the Audit Committee, and also discussed the findings directly with the BDO partner. The Audit Committee noted the scope of the review, the key findings raised, and an area of good practise identified, together with BDO's proposed plan to address the findings. The Audit Committee was satisfied with BDO's response to address the findings raised, and the BDO plan was implemented as part of the audit for the year ended 31 March 2021.

Non-audit services provided by the external auditor

The Group has a non-audit services policy, approved by the Audit Committee, that ensures the external auditor remains independent and objective throughout the provision of its independent audit services and when formulating its audit opinion. This non-audit services policy is underpinned by principles that ensure that the external auditor does not:

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

The Group non-audit services policy has been updated to reflect the requirements of the FRC's Revised Ethical Standard 2019, which became effective from 15 March 2020 and further limits the types of non-audit services that external auditors can provide. Under the revised requirements, permitted services are largely those required by law or regulation, loan covenant reporting, other assurance services closely related to the audit or annual report, and reporting accountant services. The Audit Committee confirms that the updated Group non-audit services policy is consistent with the FRC's Revised Ethical Standard 2019.

Under this policy, prior to the appointment of the external auditor to provide any permitted non-audit services, approval must be obtained from the Chair of the Audit Committee. A report of all non-audit services performed by the external auditor during FY21, irrespective of value, was submitted to the Audit Committee.

A summary of the fees paid to the external auditor for FY21 is set out in Note 6 to the financial statements. Fees for other audit-related services of £115,000 primarily related to the review of the half-yearly financial report, fees for reporting accountant services of £1,875,000 related to the rights issue and Interserve acquisition, which were permitted under

the Group non-audit services policy, and fees for other non-audit services of £9,000. The Audit Committee considered reports from both management and the external auditor, which included monitoring of fees for permitted non-audit services compared with the FRC fee cap, none of which raised concerns about external auditor independence.

Appointment and reappointment of the external auditor

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

Scott McNaughton was the lead partner for BDO on the audit of Mitie for the year ended 31 March 2021 and was the lead partner for the previous three years.

For FY21, BDO continued to provide external audit services to the Group. However, BDO acting as the Group auditor utilised the services of Grant Thornton who acted as component auditors for Interserve.

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

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

Assurance

In accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the Code, the Board performs a formal annual assessment of the operation and effectiveness of the Group's internal control framework, covering all material controls including financial, operational and compliance controls, and updates this assessment prior to the signing of the Annual Report and Accounts.

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

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

- A culture of good governance, integrity, competence, fairness, and responsibility
- Group policies and procedures to support and ensure consistency throughout the business
- Clearly defined responsibilities, delegated in accordance with the Group's delegated authority register
- A defined and agreed approach and appetite to managing risks facing the business
- The identification of key internal controls and clearly defined responsibility for their effective functioning

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

Review of whistleblowing processes

Part of the Audit Committee's role is to ensure that appropriate procedures are in place in relation to whistleblowing. Mitie has continued to operate its independent whistleblowing service via an independent third-party provider. An update on whistleblowing activity is provided to the Board at every Board meeting.

Directors' remuneration report

Statement from the Remuneration Committee Chair

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FY21 was a transformative year for Mitie. Following the acquisition of Interserve Facilities Management, the Remuneration Committee has reviewed the remuneration policy to ensure that it continues to support the Group's strategy and promotes the long-term sustainable success of Mitie.

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 March 2021.

The report is split into three main parts:

- **Executive remuneration at a glance.** This sets out a summary of our approach, including how we intend to operate under our policy and remuneration outcomes for the year.
- **The Annual Report on Remuneration.** This provides more detail on the above, as well as setting out other remuneration-related disclosures.
- **The remuneration policy.** Our existing policy has been in place since it was approved by 99.7% of shareholders at the 2018 AGM. In accordance with the normal three-year cycle we are presenting a new policy for approval at the 2021 AGM. The policy review and the main changes are summarised below.

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

Response to COVID-19

Mitie's main aim during the COVID-19 pandemic was to ensure its colleagues felt informed, supported and recognised for their efforts. Mitie introduced new benefits to support the health, financial and mental wellbeing of colleagues, and produced a dedicated benefits guide, which was publicised throughout the year. More information is available in the People Section on pages 38 to 40.

As part of the Group's cost-saving measures in response to the COVID-19 pandemic the Non-Executive Directors and Chief Executive Officer (CEO), and members of the Mitie Group Executive (MGX) (including the Chief Financial Officer (CFO)) volunteered 30% and 20% reductions to their fees/salaries respectively for a period of five months from April 2020. Salaries and fees returned to their normal level in September 2020.

In addition, taking into account the impact of the COVID-19 pandemic and the decision to not recommend a final dividend for FY20, Phil Bentley waived his FY20 bonus, for which the formulaic outcome was 65% of the maximum. This is consistent with how all senior executives at Mitie were treated, in that no FY20 bonuses were paid.

Remuneration review and new policy

Over the last year, the Committee has reviewed the remuneration arrangements for Executive Directors and the management team, to make sure they best support the Group's business strategy, reflect best practice and are aligned with shareholders' interests. As part of our review of the policy we consulted with major shareholders. We have taken into account the feedback we received and incorporated it into the development of the new policy.

Our review concluded that our existing policy was generally aligned with Mitie's underlying purpose and values. However, taking into account the acquisition of Interserve Facilities Management ('Interserve'), the Committee identified an opportunity to improve the alignment of the policy with the long-term strategy through the introduction of the one-off Enhanced Delivery Plan. Other than the addition of the Enhanced Delivery Plan, the current policy is largely being rolled forward with a small number of changes to reflect emerging views on executive pay and the requirements of the updated UK Corporate Governance Code.

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Directors' remuneration report continued

- **Pensions.** For any new Executive Director appointments, including the new CFO, Simon Kirkpatrick, pension benefits offered will be in line with the wider workforce. We will also be reducing the existing pension benefits of the CEO, Phil Bentley, to this rate by 1 January 2023. In light of the Interserve acquisition, we are in the process of reviewing pension arrangements across the Group and will disclose details of the workforce pension rate once this review has taken place.
- **Post-employment share ownership requirements.** In line with evolving market practice Executive Directors will be expected to maintain a shareholding in Mitie post departure.
- **Introduction of the Enhanced Delivery Plan.** This is a one-off plan for the three-year performance period ending 31 March 2024, which will sit alongside our usual framework and is described in more detail below.

Further detail on the changes to the policy are provided in the Executive remuneration at a glance section following this statement. The new policy is set out in full in our policy report.

Enhanced Delivery Plan (EDP)

In November 2020, shareholders approved Mitie's acquisition of Interserve. This is a transformative acquisition for Mitie, expanding its scale, footprint and penetration of key segments, creating the UK's largest facilities management company and accelerating the delivery of the Group's long-term technology-led strategy. The acquisition enhances Mitie's competitive positioning with customers, unlocks significant growth opportunities through strategic account management. We set our aim to generate cost synergies at a monthly run rate equivalent to £35m per annum by end of FY24, while strengthening its balance sheet and margin accretion. It also provides a broader platform for Mitie's ESG activities, including its Plan Zero commitment, and for developing its people, creating a great place to work.

To incentivise Mitie's senior leadership team to deliver the benefits from the acquisition and the generation of superior shareholder value, the Committee is proposing the introduction of a one-off share plan, the EDP.

The EDP will be linked to superior Return on Invested Capital performance, as well as exceptional cost and revenue synergy targets, measured over the three years ending 31 March 2024.

Phil Bentley and Simon Kirkpatrick will be granted core awards of 160% and 65% of base salary respectively, which are subject to the achievement of stretching performance measures. They will have the opportunity to earn up to 4x the core award for truly exceptional performance. The Committee has adopted a number of safeguards to ensure that out-turns are commensurate with performance. Awards will be subject to a cap so that the maximum share price growth delivered at vesting cannot exceed 200% growth in the face value of the award at grant. The vesting of awards will also be subject to both an absolute share price underpin and a net debt underpin.

The Committee believes that the EDP is the right plan for Mitie to support the business at a key stage in its transformation and in a competitive market will work to secure the management team for the next three years in generating superior shareholder value. The detailed features of the plan, including the performance measures and underpins, have been developed following an extensive shareholder consultation process and I would like to thank those shareholders who took the time to engage with us and to provide input.

Further details on the EDP are set out on pages 110 and 116.

Remuneration decisions and outcomes in respect of FY21

Salary and fees

In recognition of the impact of COVID-19 the Committee decided to freeze the salary for the CEO, Phil Bentley, for FY22. The CEO's salary will therefore remain at £900,000. The CEO's salary has been unchanged since his appointment in 2016. The salary of Andrew Peeler, who was interim CFO until 31 March 2021, was £400,000 per annum since his appointment in 2019 and has remained unchanged.

FY21 bonus

Phil Bentley's annual bonus for FY21 was based on profit, revenue and strategic/individual performance. At the end of the year the Committee assessed performance against the targets and was mindful of the latest shareholder guidance and market sentiment. As such the Committee gave careful consideration to the year's context taking into account the experience of colleagues, stakeholders and shareholders.

FY21 was an exceptional year. The Company continued its swift and decisive response to the COVID-19 pandemic protecting the business, colleagues and customers from unprecedented levels of uncertainty. Mitie management recognised the importance of caring for colleagues and the great work they do, providing critical services to Mitie's clients and keeping the country running. During the year Mitie has been able to enhance the reward offering for all colleagues as detailed below and has recruited more than 15,000 people since the start of the pandemic many of whom are frontline workers or directly supporting the fight against COVID-19 by working in test centres.

Despite the challenges of the pandemic, during the year management were also able to recognise a significant opportunity for Mitie shareholders in the form of the acquisition of Interserve. This transformative acquisition required the raising of capital which the management team were also able to successfully deliver through the rights issue which was supported by a significant majority of shareholders.

As well as successfully completing the Interserve acquisition and caring for colleagues, Mitie management maintained a focus on the core business and delivered resilient financial performance exceeding targets set at the start of the year. Revenue for the year was £2,589m, including the impact of Interserve. Strong cash management in the year has also resulted in a closing net debt of £86.7m which exceeded expectations. Taking into account the robust financial performance, management made a decision to repay the furlough support received in respect of colleagues employed directly by Mitie's operations as well as the amounts in respect of PAYE and VAT deferral.

As a result of the exceptional efforts of the management team Mitie has entered FY22 in a robust position with a major opportunity to deliver significant benefits for colleagues, shareholders and other stakeholders. As such the Committee determined that it would be appropriate for executives to receive an annual bonus in respect of FY21. In making this decision the Committee also took into account the leadership shown by Phil Bentley since his appointment and the fact that he has voluntarily waived annual bonus payments in respect of FY17, FY18 and FY20 totalling £1,656,000. Following their assessment, the Committee has determined that Phil Bentley will receive an annual bonus of 78.6% of maximum. Further details are provided in the Annual Report on Remuneration.

Andrew Peeler's bonus arrangement which was capped at 50% of base salary and tied to role-specific objectives for FY21 was paid in part in January 2021 (£125,000) and the remainder (£75,000) is not due for payment until the end of his assignment which was extended to 30 June 2021.

2018 LTIP

The Committee assessed the outcome of the August 2018 LTIP awards granted under the plan against two performance measures: Adjusted Earnings per Share (EPS) growth; and cash conversion. Following a review of performance against targets, the Committee determined that 50% of the award would vest in August 2021. This is described in more detail in the Annual Report on Remuneration.

The Committee challenged itself to ensure that bonus and LTIP outcomes were appropriate in the round and was comfortable that the outcomes were appropriately commensurate with both organisational and individual performance. The Committee therefore considers that the policy operated as intended.

Incentives approach for FY22

For FY22 the Committee is intending to operate the annual bonus and LTIP using the same broad framework that was used for FY21. Phil Bentley's maximum bonus and LTIP opportunity will be unchanged at 160% and 200% of base salary respectively. The annual bonus will be based on financial and strategic targets with the mix of measures as follows: revenue (35%); profit (35%); free cash flow (10%); individual objectives (10%); and other strategic targets (10%). Following a review of the performance measures used under the LTIP the Committee is intending to introduce a measure linked to ESG performance. The introduction of this measure recognises the importance of sustainability to the business and supports and aligns with Mitie's Social Value Framework. The LTIP will be based on performance against: adjusted EPS (50%), cash conversion (35%) and ESG targets (15%).

Andrew Peeler will receive the remainder of his FY21 bonus (£75,000) and will not participate in the annual bonus plan or LTIP for FY22. Andrew receives a cash allowance of 3% of base salary in lieu of pension, which is in line with the rate currently available to the majority of the workforce.

CFO appointment

On 17 March 2021 the Company announced the appointment of Simon Kirkpatrick as CFO with effect from 1 April 2021. Simon's remuneration arrangements have been set in line with the shareholder-approved remuneration policy. Simon will receive a pension cash allowance equivalent to 3% of base salary, which is in line with the rate currently available to the majority of the workforce. He will be eligible for a maximum annual bonus of 130% of base salary and a maximum LTIP award of 150% of base salary. Simon's annual bonus and LTIP will be subject to the same framework set out above for Phil Bentley. Recognising that this will be Simon's first executive director appointment, his salary has been set at £350,000, which is at the lower end of the market and more than 18% lower than the salary of the previous CFO to serve on a non-interim basis (Paul Woolf at £430,000). Over the coming years, as Simon develops in the role, the Committee expects to increase his salary to be in line with the market. As a result, we anticipate awarding salary increases that are above the rate received by the wider workforce, subject to his performance and development. The Committee acknowledges that proxy advisory bodies may highlight these phased salary increases as a repeated annual area of concern. However, the Committee considers that this is the most appropriate approach in the circumstances and provides Simon with the opportunity to develop in the role. Simon will participate in the EDP and will be granted a core award of 65% of base salary.

Workforce remuneration

The Interserve acquisition is transformative for Mitie and the Committee considers that it also presents a significant opportunity for the wider Mitie workforce to contribute to the success of the combined business. The Committee has finalised proposals to reward colleagues and to encourage wider share ownership through enhancements to the Share Incentive Plan (SIP). In April 2021 the Company launched Mitie Free Shares, which focus on rewarding the Group's frontline heroes. Those colleagues earning under £30,000 per annum will be given 100 free shares, and there is a sliding scale up to colleagues earning in excess of £60,000 per annum who will be given 25 free shares. The Company has also announced that the current One-for-Ten matching share offer under the SIP will be enhanced through the One-for-Two Share Plan that will be launched in summer 2021.

Within the wider workforce there was an annual pay review in April 2021, which for salaried colleagues received increases of between 0% and 4% depending on performance rating (the overall cost being 2.5% of the salary budget) and for hourly colleagues was in line with obligations through the Real Living Wage and National Living/Minimum Wage. The Group Annual Bonus Plan for FY21 paid out for eligible colleagues. In FY21 enhancements to the benefits package were rolled out to all frontline colleagues, including those who were formerly with Interserve, and a review is planned of pension arrangements.

The Remuneration Committee

The members of the Remuneration Committee are all Non-Executive Directors and are listed in the table on page 83. During the year ended 31 March 2021, the Committee met seven times. For the Directors' attendance, see the table on page 83.

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

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

The Committee regularly consults with the CEO and key HR executives on various matters relating to the appropriateness of rewards for the Executive Directors. However, the CEO and other Executive Directors are not present when matters relating directly to their own remuneration are determined. This is also the case for other executives attending Committee meetings. The Company Secretary attended the meetings as Secretary to the Committee. The CEO and HR executives attended the meetings by invitation only.

Share plan renewals

Our all-employee share plan rules are due to expire in 2021 and we are therefore asking shareholders to approve renewed plan rules along with new rules for the LTIP which is not due to expire until 2025. The majority of existing plan rules have broadly been rolled forward with minor updates to reflect the latest market practice. At the 2021 AGM shareholders will be asked to approve the Mitie Group plc Long Term Incentive Plan, the Mitie Group plc Savings Related Share Option Scheme and the Mitie Group plc Share Incentive Plan.

Conclusion

In addition to the approval of the renewed plan rules mentioned above, we will be seeking approval for the Directors' remuneration report (advisory vote), the policy report (binding vote) and the plan rules for the Enhanced Delivery Plan (binding vote) at the 2021 AGM. I welcome your views and feedback on any item.

Jennifer Duvalier

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

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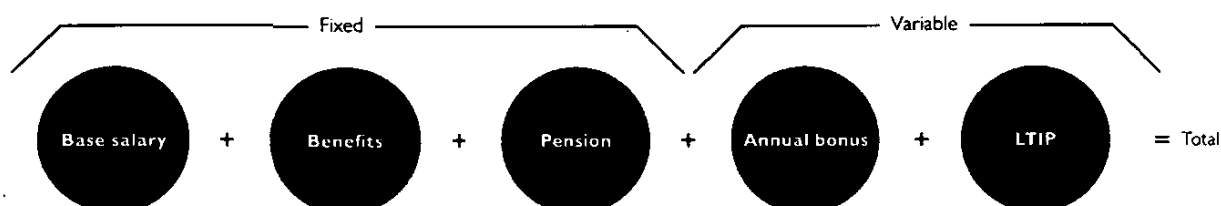
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Directors' remuneration report continued

Summary of remuneration policy

Excluding the one-off awards to be made under the Enhanced Delivery Plan for FY22, the Executive Directors' standard remuneration approach is made up of the following elements:



Executive incentives and link to strategy

The following table sets out how the intended measures across the incentive plans for FY22 support the Group's strategy and KPIs:

	Sustained and renewed profit growth	Quality client base	Strong cash-generative business	Strategic targets
Annual bonus	✓ 35% profit	✓ 35% revenue	✓ 10% free cash flow	✓ 20% strategic objectives (inc. ESG)
LTIP	✓ 50% adjusted EPS		✓ 35% cash conversion	✓ 15% ESG measures
EDP	✓ 25% synergies		✓ 75% ROIC	

Note: details of the FY22 annual bonus targets will be disclosed in the FY22 remuneration report.

UK Corporate Governance Code: Provision 40

The following table sets out how the revised Remuneration Policy addresses the factors set out in the UK Corporate Governance Code:

Clarity	The Committee considers that Mitie's remuneration structures are transparent and welcomes open and frequent dialogue with shareholders on its approach to remuneration. Major shareholders have been consulted on the Committee's approach to remuneration, including the proposed changes to the Remuneration Policy and introduction of the Enhanced Delivery Plan which are subject to approval by shareholders at the 2021 AGM.
Simplicity	The overall remuneration policy is designed to be comprehensive without becoming overcomplicated and to encourage Executive Directors to concentrate on the profitable growth of the business. When developing the remuneration arrangements, the Committee was conscious of ensuring the overarching structure remained simple and easy to understand for both shareholders and participants.
Risk	<p>The Committee considers that the structures of the incentive arrangements do not encourage inappropriate risk-taking. The following best-practice measures are in place to minimise risks:</p> <ul style="list-style-type: none"> • Deferral under the Annual Bonus, the LTIP holding period, the EDP holding period and the shareholding requirement, including post-cessation, provide a clear link to the ongoing performance of Mitie's business and the experience of shareholders; • The Committee has discretion to adjust the formulaic outcomes if it considers that they are not reflective of the underlying performance of Mitie or the individual; • Malus and clawback provisions apply to the Annual Bonus, LTIP and EDP.
Predictability	One of the Committee's principles is that the majority of reward opportunity for Executive Directors should be provided through performance-related incentives linked to the Group's strategic goals and taking account of the Group's attitude to risk; reward under these incentives is linked to both individual and Group performance. Page 118 sets out four illustrations of the application of the proposed remuneration policy including the potential opportunity levels resulting from threshold, target and maximum performance under the Annual Bonus, LTIP and EDP.
Proportionality	<p>Performance measures and target ranges under the Annual Bonus, LTIP and EDP are designed to be sufficiently stretching in order to ensure out-turns are fully aligned with Mitie's performance.</p> <p>As above, the Committee has discretion to override formulaic outcomes in order to ensure performance is reflective of Mitie's underlying performance.</p>
Alignment to culture	The Committee believes in an approach to executive pay which is commensurate with value creation for shareholders. The proposed remuneration policy and the Company's incentive schemes have been designed to drive appropriate behaviours consistent with Mitie's purpose, values and strategy.

All employee incentive arrangements

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

Workforce engagement on executive remuneration

In addition to her role as the Chair of the Remuneration Committee, Jennifer Duvalier acts as the Company's designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce. In this role Jennifer has engaged regularly with the workforce on a broad range of topics including reward and benefits. The Company also undertakes an annual engagement survey which includes a range of specific questions on the Company's pay practices. This survey also presents the workforce with the opportunity to ask its own questions about employee or executive reward.

Through the feedback from the engagement survey, supplemented with Jennifer's findings from her regular direct engagement with the workforce, the voice of Mitie employees is heard at Remuneration Committee meetings. This enables the Remuneration Committee to take into account the views of employees when considering executive remuneration and the pay and employment conditions throughout the wider workforce.

Directors' remuneration report continued

Executive remuneration at a glance

How we intend to operate our policy for FY22

This table summarises the approach for remuneration arrangements for Phil Bentley as CEO for FY21 under the current policy approved by shareholders at the 2018 AGM, alongside how the Committee intends to apply the new policy in FY22 for Phil Bentley as CEO and Simon Kirkpatrick as CFO, subject to shareholder approval at the 2021 AGM. Andrew Peeler's remuneration arrangements as interim CFO are set out separately on page 106.

At a glance	FY21	FY22
Base salary	CEO: £900,000 As part of the Group's COVID-19 cost saving measures the CEO volunteered a 30% reduction in his salary for five months from April 2020.	CEO: £900,000 CFO: £350,000
Pension cash allowance	CEO: 20% of base salary	CEO: 20% of base salary CFO: 3% of base salary
Maximum bonus opportunity	CEO: 160% of base salary	CEO: 160% of base salary CFO: 130% of base salary
Bonus deferral	50% of bonus deferred into shares which vest after at least two years	50% of bonus deferred into shares which vest after at least two years
Bonus performance measures – mix	70% financial, 30% strategic	70% financial, 30% strategic
Bonus performance measures – metrics	Revenue (35%), profit (35%), and strategic targets (30%)	Revenue (35%), profit (35%), and strategic targets (30%)
Maximum LTIP opportunity	CEO: 200% of base salary	CEO: 200% of base salary CFO: 150% base of salary
LTIP performance measures	Adjusted EPS (50%), and cash conversion (50%)	Adjusted EPS (50%), cash conversion (35%), and ESG measures (15%)
LTIP holding period of two years after vest	Shares released after at least five years (vesting after three years plus two-year holding period)	Shares released after at least five years (vesting after three years plus two-year holding period)
Enhanced Delivery Plan opportunity	N/A	CEO: core award of 160% of base salary CFO: core award of 65% of base salary Awards are subject to a multiplier of up to 4x based on stretching performance measures
Enhanced Delivery Plan performance measures	N/A	Return on invested capital (75%) and synergies (25%) Vesting is also subject to both an absolute share price underpin and a net debt underpin

At a glance	FY21	FY22
Enhanced Delivery Plan holding period of two years after vest	N/A	Shares released after at least five years (vesting after three years plus two-year holding period)
Share ownership requirements	200% of base salary	200% of base salary Executive Directors will be expected to maintain their shareholding at 100% of their ownership requirement for one year post departure, reducing to 50% for the second year post departure, or in either case the actual shareholding on departure if lower
Malus and clawback provisions	As per policy approved by shareholders at 2018 AGM	As per policy approved by shareholders at 2021 AGM

Single figure for FY21

The table below reports a single figure of total remuneration for each of the Executive Directors for the financial year ended 31 March 2021 and their comparative figures for the financial year ended 31 March 2020.

Note: Andrew Peeler joined the Board as interim Chief Financial Officer on 2 January 2020 and the information in the single figure of total remuneration for FY20 only reflects his period as an Executive Director. The LTIP figure disclosed for Phil Bentley for FY20 is in respect of the 2016 and 2017 LTIPs and has been adjusted from the figure included in the FY20 remuneration table to reflect the actual valuation based on the closing share price on the first date of vesting of the awards, being 3 August 2020 (32.35p) and includes dividend equivalents accrued until the first vesting date.

Phil Bentley

£	2021
● Salary	787,500
● Benefits	20,625
● Pensions	180,000
● Bonus	1,131,186
● LTIP	622,086
Total	2,741,397

£	2020
● Salary	900,000
● Benefits	27,508
● Pensions	180,000
● Bonus	–
● LTIP	922,348
Total	2,029,856

Andrew Peeler

£	2021
● Salary	366,666
● Benefits	997
● Pensions	12,000
● Bonus	200,000
● LTIP	–
Total	579,663

£	2020
● Salary	98,551
● Benefits	–
● Pensions	2,957
● Bonus	–
● LTIP	–
Total	101,508

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

Directors' remuneration report continued

Annual Report on Remuneration

Executive Director remuneration (subject to audit)

The table below reports a single figure of total remuneration for each of the Executive Directors for FY21 and their comparative figures for FY20.

	Year	Salary ¹	Benefits ²	Pension ³	Total fixed pay	Annual bonus ⁴	LTIP ⁵	Total variable pay	Total
Phil Bentley	2021	£787,500	£20,625	£180,000	£988,125	£1,131,186	£622,086	£1,753,272	£2,741,397
	2020	£900,000	£27,508	£180,000	£1,107,508	£0	£922,348	£922,348	£2,029,856
Andrew Peeler ¹	2021	£366,666	£997	£12,000	£379,663	£200,000	£0	£200,000	£579,663
	2020	£98,551	£0	£2,957	£101,508	£0	£0	£0	£101,508

Notes:

- Andrew Peeler was appointed to the Board as interim Chief Financial Officer on 2 January 2020 and the information in the table in respect of FY20 sets out his earnings as an Executive Director from that date to 31 March 2021 when he resigned from the Board.
- To mitigate the impact of the COVID-19 pandemic Phil Bentley and Andrew Peeler volunteered a 30% and 20% reduction respectively in their salaries for a five-month period from 1 April 2020.
- Benefits are calculated in terms of UK taxable values and relate to the cost of private medical cover, car allowance and financial/tax planning advice. Phil Bentley has received the use of an electric car for a period of eight months during FY21, which attracts 0% benefit in kind tax.
- The pension benefit disclosed above comprises cash allowances in lieu of pension contributions for Phil Bentley and Andrew Peeler of 20% and 3% of base salary respectively. Due to an administrative error, Andrew Peeler's pension cash allowance of £2,957 in respect of FY20 was omitted from the FY20 remuneration table.
- Annual bonus payable in respect of the financial year includes any deferred element at face value at the date of award. Further information about how the level of the award for FY21 was determined is provided on pages 107 and 108.
- The LTIP figure disclosed for Phil Bentley for FY21 is in respect of the 2018 LTIP and has been valued, in line with the regulations, using the average share price of the last three months of FY21 (£1.74p) and includes dividend equivalents accrued over this period. This share price is below the share price at the grant date and therefore none of the amount in the table above is attributable to share price appreciation. Further information about how the level of vesting was determined is provided on page 110. The LTIP figure disclosed for Phil Bentley for FY20 is in respect of the 2016 and 2017 LTIPs and has been adjusted from the figure included in the FY20 remuneration table to reflect the actual valuation based on the closing share price on the first date of vesting of the awards, being 3 August 2020 (32.35p) and includes dividend equivalents accrued until the first vesting date.

Non-Executive Director remuneration (subject to audit)

The fees for the Non-Executive Directors for FY21 and their comparative figures for FY20 are set out below:

	2021 ¹ £'000	2020 £'000
Derek Mapp	197	225
Nivedita Krishnamurthy Bhagat	46	52
Baroness Couttie ²	52	59
Jennifer Duvalier	52	60
Mary Reilly	52	60
Roger Yates	52	59
Alan Lovell ³	10	–
Total	461	515

Notes:

- To mitigate the impact of the COVID-19 pandemic the Non-Executive Directors volunteered 30% reductions in their fees for a five-month period from April 2020.
- All amounts were paid in cash and no other UK taxable benefits were received in either year.
- Alan Lovell, Chairman of Interserve Group Limited, was appointed to the Board on 1 January 2021 following Mitie's acquisition of Interserve Facilities Management from How Group Limited, a subsidiary of Interserve Group Limited, on 30 November 2020. Alan resigned from the board on 5 March 2021 following the sale by How Group Limited of shares representing 10.5% of the Company's issued share capital.

Base salary and benefits

Since his appointment on 1 November 2016, Phil Bentley's annual base salary has been £900,000. Taking into account the impact of COVID-19 the Committee has decided to freeze the salary for the CEO for FY22.

Commencing 9 December 2019, with no review planned, the annual base salary for Andrew Peeler was £400,000. Andrew resigned from the Board on 31 March 2021 and will leave the Company on 30 June 2021.

Simon Kirkpatrick was appointed as Chief Financial Officer and to the Board with effect from 1 April 2021 and his annual base salary for FY22 will be £350,000.

Benefits are as described in the notes to the Executive Director remuneration table on page 106. No changes in benefits are planned for FY22.

The Non-Executive Director fees were last reviewed by the Board in March 2019. Taking into account the impact of COVID-19 no increases are proposed for FY22 which will therefore be in line with FY21 as follows:

	2021 ¹ £'000	2020 £'000
Chairman fees ²	225	225
Non-Executive Director core fees ³	52	52
Additional fees:		
Senior Independent Director	7	7
Chair of a Committee	8	8

Notes

- The core fees of £52,000 per annum paid to each Non-Executive Director (including the Chairman) would ordinarily total £312,000 for FY22. Total fees including additional duties would ordinarily amount to £516,000 for FY22 (£461,109 actual for FY21).
- The Chairman's fee is inclusive of the Non-Executive Director core fee and no additional fees are paid to the Chairman where he is chairman or a member of other Committees.
- For Non-Executive Directors, individual fees comprise the core fee and additional supplemental fees for the Senior Independent Director and for chairing Committees to reflect the greater responsibility and time commitment required.

Annual Bonus Plan FY21

Awards in respect of FY21 were considered under the ABP. Phil Bentley was eligible for a maximum bonus opportunity of 160% of base salary. Andrew Peeler was eligible for a maximum bonus opportunity of 50% of base salary.

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

As set out in the Remuneration Committee Chair's statement, FY21 was a transformative year for Mitie. Although the business was negatively impacted by the COVID-19 pandemic, the response was strong, both in terms of ensuring the health and wellbeing of frontline colleagues, but also in terms of refinancing of the RCF and completing the acquisition of Interserve to position Mitie strongly for the future.

The Remuneration Committee gave careful consideration to the annual bonus out-turn for FY21 and took into account the experience of Mitie shareholders, colleagues and other stakeholders. Recognising the exceptional performance of management in balancing the many challenges of the year, the Committee considered that it would be appropriate to pay an annual bonus.

The Group performed strongly in respect of FY21. As set out in the table below the formulaic outcome for the annual bonus for Phil Bentley was 78.6% of the maximum.

Performance measure	Weighting	Performance range ³	Performance	Out-turn (% of bonus opportunity)
Operating profit ¹	35% of the award	£59.1m threshold £65.7m target £72.2m maximum	£63.4m	14.6%
Revenue ²	35% of the award	£2,251m threshold £2,370m target £2,488m maximum	£2,589m	35%
Free cash flow	10% of the award	-£112m threshold -£92m target -£72m maximum	-£24.5m	10%
Other strategic targets	10% of the award	N/A	The Committee considered performance against the strategic objectives set out below and determined that the out-turn was 90% of the maximum for the CEO.	9%
Individual objectives	10% of the award	N/A	The Committee considered performance against the strategic objectives set out below and determined that the out-turn was 100% of the maximum for the CEO.	10%

Notes

- Operating profit before other items from continuing operations.
- Revenue including share of joint ventures and associates from continuing operations.
- Performance targets have been increased to reflect the contribution of Interserve for the period following the acquisition. The Committee is comfortable that the adjusted figures are appropriate and are no less stretching than the original targets.

Directors' remuneration report continued

The strategic targets and individual objectives set for Phil Bentley were as follows:

Strategic targets

Strategy	<ul style="list-style-type: none"> £200m rights issue fully underwritten and supported by existing shareholders Extension of Revolving Credit Facility, to December 2022 supported by existing bank syndicate Interserve acquisition cleared by the Competition and Markets Authority and approved by shareholders Accelerated acquisition synergies, delivering more than £4m in-year synergies
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Individual objectives

Mobilise integration PMO, comprising external change experts and combination of Mitie/Interserve resources	<ul style="list-style-type: none"> Integration PMO successfully mobilised Composition of Integration PMO transitioned from majority external resources to majority Mitie/Interserve resources Specialist external resource in Procurement assisting in transformation of procurement function, leveraging the enlarged Mitie Group's approximately £1.5bn of spend with suppliers
Develop plan to deliver synergies from Interserve transaction	<ul style="list-style-type: none"> Multiple synergies identified and plan developed to deliver synergies by end of FY23
Enhance net promoter score	<ul style="list-style-type: none"> Net Promoter Score increased by 20ppt to +50
Enhance employee engagement	<ul style="list-style-type: none"> Employee engagement increased by 9ppt to 55%
Launch Plan Zero and gain ESG accreditation	<ul style="list-style-type: none"> Successfully launched Plan Zero Playbook Secured Industry recognition of Mitie's ESG focus, as evidenced by: <ul style="list-style-type: none"> Increase in Carbon Disclosure Project rating to A- in December 2020, making Mitie the only UK-based FM provider with a Leadership rating Ranked number 1 Business Support Services company globally by Sustainalytics MSCI rating increased to AA in December 2020 SFMI Gold Award (Sustainable Facilities Management Index)
Increase MGX diversity	<ul style="list-style-type: none"> MGX gender diversity increased from 0% to 20% MGX BAME diversity increased from 0% to 10% Led two Big Equity summits and mentored several BAME employees
Maintain talent pipeline	<ul style="list-style-type: none"> Simon Kirkpatrick announced as Group CFO on 17 March 2021

The bonus structure and assessment was as follows:

	Financial performance				Non-financial performance				Total bonus payable		
	% of salary payable at threshold	% of salary payable at target	% of salary payable at maximum	% of salary payable	% of salary payable at threshold	% of salary payable at target	% of salary payable at maximum	% of salary payable	Total bonus £'000	Cash £'000	Deferred shares £'000
Phil Bentley	28%	56%	112%	79.4%	0%	24%	48%	46.4%	1,131	566	565

Andrew Peeler's award was structured by reference to performance against objectives specific to his roles as Chief Financial Officer, as detailed below.

Bonus objectives

- To mentor and develop internal Finance heads with a view to establishing their candidacy for the Group role
- To achieve Group Centre cost savings
- To successfully complete the refinancing of the Company's Revolving Credit Facility

The Committee considered the objectives set for Andrew Peeler and were satisfied that they had been successfully achieved during his role as interim CFO.

Annual Bonus Plan FY22

The ABP will be operated on similar terms for FY22. The maximum bonus opportunity for FY22 for Phil Bentley and Simon Kirkpatrick will be 160% and 130% of base salary respectively. Their awards will be payable by reference to performance against a blend of financial (70% of the bonus opportunity) and strategic targets (the remaining 30%). However, if none of the financial targets have been achieved, no bonus will be payable by reference only to the strategic targets. 50% of any bonus entitlement will be deferred.

Details of the targets will be disclosed in the FY22 remuneration report.

LTIP awards granted in FY21 (subject to audit)

On 11 August 2020, the following conditional LTIP awards were granted to the Executive Directors:

	Award	Type	Number of shares ¹	Face value (£'000)	% of base salary	Performance conditions	Performance period	% vesting at threshold
Phil Bentley	Performance LTIP Aug 20	Nil-cost options	5,278,592	£1,800,000	200%	Performance conditions are set out in the table below	Three financial years ending 31 March 2023	25%

Notes

1 Number of shares was calculated based on the average closing middle market price of 34.1p for the last five trading days before the date of grant.

LTIP awards granted in FY21 are subject to two performance measures, adjusted EPS and cash conversion. These awards will vest in 2023 conditional on performance against the following measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2023)
Adjusted Earnings per Share (EPS) growth	50% of the award	6% – 12% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 6% pa. If EPS growth is equal to 6% pa, 25% of the award will vest. If EPS growth of 9% pa is achieved, 70% of the award will vest. Full vesting for this portion will occur if EPS growth of 12% pa or more is achieved. Between 6% and 9% and 9% and 12%, the proportion of awards vesting will be determined on a linear sliding scale basis.
Cash conversion	50% of the award	80% – 90% pa	Zero vesting if cash conversion is less than 80% pa. At 80% pa cash conversion, 25% of the award will vest. 70% of the award will vest if 85% pa cash conversion is achieved. Full vesting for this portion will occur if 90% pa cash conversion is achieved. Between 80% and 85% and 85% and 90%, the proportion of awards vesting will be determined on a linear sliding scale basis.

At vesting the Committee will take into account the impact of the Rights Issue and the Interserve acquisition on the performance measures set and the Company's performance. The Committee will make any necessary adjustments to ensure that the targets are appropriate and not materially easier or harder to satisfy than originally intended.

The Committee has the discretion to determine the performance measures and how the performance ranges applicable to the award are applied, including discretion to adjust them in the event of changes in IFRS accounting standards, while ensuring that they are not materially easier or harder to satisfy than the original performance measures and ranges.

LTIP FY22

Phil Bentley and Simon Kirkpatrick will be granted LTIP awards of 200% and 150% of base salary respectively in respect of FY22.

The Committee has reviewed the performance measures used under the LTIP and, recognising the importance of Mitie's Social Value Framework, determined that it would be appropriate to introduce a third measure linked to the achievement of ESG targets. The performance measures will be: Adjusted EPS (50%); cash conversion (35%); and ESG targets (15%). Recognising that this is the first year that ESG targets have been used for the LTIP the Committee will determine the vesting in respect of this element based on an assessment of progress against six ESG metrics for which aspirational targets have been set which the Committee will take into account when assessing overall performance. In recognition of the volatility impacting FY21 given the impact of COVID-19 and the Interserve acquisition, the Committee determined that the EPS performance targets would be set as absolute targets instead of growth targets.

The awards will vest in 2024 conditional on performance against the following measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2024)
Adjusted Earnings per Share (EPS)	50% of the award	6.9p – 7.8p	Zero vesting if EPS, as adjusted by the Committee as appropriate, is less than 6.9p. If EPS is equal to 6.9p, 25% of the award will vest. If EPS of 7.4p is achieved, 70% of the award will vest. Full vesting for this portion will occur if EPS of 7.8p or more is achieved. Between 6.9p and 7.4p and 7.4p and 7.8p the proportion of awards vesting will be determined on a linear sliding scale basis.
Cash conversion	35% of the award	80% – 90% pa	Zero vesting if cash conversion is less than 80% pa. At 80% pa cash conversion, 25% of the award will vest. At 85% pa cash conversion, 70% of the award will vest. Full vesting for this portion will occur if 90% pa cash conversion is achieved. Between 80% and 85% and 85% and 90%, the proportion of awards vesting will be determined on a linear sliding scale basis.
ESG targets	15% of the award	<ul style="list-style-type: none"> Greenhouse gas emission reduction: 60% reduction in Scope 1 and 2 net emissions versus the FY20 baseline Fleet zero carbon: 65% of Mitie's total fleet is zero tailpipe emissions Employee engagement: improve employee engagement by 6ppt Customer engagement: improve net promoter score (NPS) by 6ppt Gender diversity: increase percentage of women holding senior leadership roles to 30% Ethnic diversity: increase percentage of BAME colleagues holding senior leadership roles to 10% 	

The Committee has full discretion to ensure that the level of any vesting outcome is appropriate based on the overall performance of the Group and the shareholder experience.

Directors' remuneration report continued

Details of August 2018 LTIP award vesting in FY22

The Committee assessed the outcome of the August 2018 LTIP awards (based on FY21 results) granted under the plan against a basket of performance measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2021)	Mitie performance	Vesting (% of max)
Adjusted Earnings per Share (EPS) growth	50% of the award	5% – 12% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 5% pa. If EPS growth is equal to 5% pa, 25% of the award will vest. If EPS growth of 8.5% pa is achieved, 70% of the award will vest. Full vesting for this portion will occur if EPS growth of 12% pa or more is achieved. Between 5% and 8.5% and 12%, the proportion of awards vesting will be determined on a linear sliding scale basis.	less than 5% pa	0%
Cash conversion	50% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At 75% pa cash conversion, 25% of the award will vest. At 80% pa cash conversion, 70% of the award will vest. Full vesting for this portion will occur if 85% pa cash conversion is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.	117.4% pa	50%

As part of their assessment the Committee took into account the wider context. Following their assessment of performance, the Committee determined that the formulaic outcome of 50% of maximum was appropriate for the July 2018 LTIP awards. Awards to Executive Directors will vest in August 2021 and are subject to a two-year post-vesting holding period.

Enhanced Delivery Plan

As set out in the Statement from the Remuneration Committee Chair, following the acquisition of Interserve the Committee has proposed the introduction of a one-off share plan in FY22. Developed in conjunction with a significant shareholder consultation process the EDP has been introduced in order to incentivise and reward management for successfully unlocking the growth opportunities presented by the Interserve acquisition. The EDP operates alongside the existing framework and directly measures the success of the acquisition over the next three years. Stretching performance targets have been set with maximum payouts under the plan requiring truly exceptional performance and resulting in superior returns for shareholders.

In addition, the plan incorporates several best practice features to ensure that executives are aligned with shareholders, including the following:

- **Award cap:** the maximum share price growth delivered at vesting cannot exceed 200% growth in the face value of the award at grant.
- **Holding period:** To provide additional alignment with shareholders, awards to Executive Directors will be subject to a two-year post-vesting holding period so that the total time horizon is five years.
- **Share price underpin:** The vesting of awards will be subject to an absolute share price underpin. The Committee's intention is that awards will be granted shortly after the approval of the EDP by shareholders at the 2021 AGM, with the number of shares under award determined using the average closing share price for the five dealing days prior to the start of the financial year on 1 April 2021 (being 60.5p), to provide direct alignment with the performance period. If the average closing share price for the five days prior to 31 March 2024 does not exceed 60.5p, awards would lapse in full.
- **Net debt underpin:** Following direct feedback from the shareholder consultation, at vesting the Committee shall also have reference to a net debt underpin that the average daily net debt for FY24 does not exceed 1x EBITDA when determining whether remuneration outcomes under the EDP remain appropriate. This is intended as an additional safeguard rather than a performance hurdle.

Phil Bentley and Simon Kirkpatrick will be granted a core award of 160% and 65% of salary respectively with the opportunity to earn up to 4x this level for delivering truly exceptional performance.

The awards will vest in 2024 conditional on performance against the following measures:

Performance measure	Weighting	Threshold (1x multiplier)	Maximum (4x multiplier)
Return on invested capital (ROIC)	75% of the award	20.5% This is 1,140 bps above Mitie's WACC at 31 March 2021 of 9.1%.	24.5% This is 400 bps above the threshold level
Synergies split as cost-saving 25% of the award synergies (85%) and cross-selling revenues (15%)		Cost-saving synergies of £35m, in line with the enhanced synergies set out in the November 2020 acquisition announcement. Cross-selling revenues into the Interserve customer base of £50m (Measured as revenue from services not currently provided by Interserve to its clients).	Cost-saving synergies of £56m, representing over-performance of 60% against the £35m threshold (Interserve total overheads are c.£80m). Cross-selling revenues into the Interserve customer base of £100m.
For performance between threshold and maximum the proportion of awards vesting will be determined on a linear sliding scale basis.			

Loss of office payments (subject to audit)

There have been no loss of office payments to past Directors during FY21.

Payments to past Directors (subject to audit)

There have been no payments to past Directors during FY21 that relate to their period as a Director.

Percentage change in remuneration of Directors and employees

The table below sets out the change in remuneration of the directors who served on the Board and Mitie's UK employees, which is considered the most appropriate group for comparison purposes.

	Salary ¹	Benefits ¹	Bonus
Average pay based on Mitie's UK employees ¹	2.5%	(20.8)%	(23.9)%
Executive Directors			
Phil Bentley ⁴	(12.5)%	(25.0)%	N/A
Andrew Peeler ⁵	(8.3)%	N/A	N/A
Non-Executive Directors			
Derek Mapp	(12.5)%	—	—
Nivedita Krishnamurthy Bhagat	(12.5)%	—	—
Baroness Couttie	(10.5)%	—	—
Jennifer Duvalier	(12.5)%	—	—
Mary Reilly	(12.5)%	—	—
Roger Yates	(12.5)%	—	—
Alan Lovell ⁶	N/A	—	—

Notes

- Reflects the change in average annual pay for UK employees employed throughout FY20 and FY21. Employees who have been on furlough during FY21 have been excluded for the purposes of this analysis.
- As part of Mitie's actions to mitigate the impact of COVID-19, the Non-Executive Directors and Phil Bentley, and Andrew Peeler volunteered 30% and 20% reductions in their fees/salaries respectively for five months from 1 April 2020.
- Includes taxable benefits such as car/car allowance, private medical benefit and private fuel. The increase in the number of electric vehicles, due to Mitie's commitment to Plan Zero, has impacted the benefit figure.
- Phil Bentley's FY20 bonus was £nil as he waived it.
- Andrew Peeler was appointed to the Board on 2 January 2020 and resigned from the Board on 31 March 2021. Andrew's percentages have been calculated by comparing his FY21 salary to an annualised figure for FY20 based on the figures for his period as a Director during that year; his FY20 benefits and bonus were £nil.
- Alan Lovell was appointed to the Board on 1 January 2021 and resigned from the Board on 5 March 2021.

CEO pay ratio

The table below sets out the CEO pay ratio in respect of FY21. The previous year's CEO pay ratio data, as published in the FY20 remuneration report, is provided for reference.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
FY21	Option B	143:1	122:1	110:1
FY20	Option B	154:1	139:1	108:1

The pay ratios set out above were calculated using the Group's FY21 gender pay data based on employees as at 5 April 2020 under method B. Method B was selected because it made use of robust, readily available data and did not require additional analysis into the more than 45,500 UK employees employed by the Group. Total pay was calculated for a sample of employees at each quartile in order to ensure that the three identified employees were suitably representative of their quartile. A full-time equivalent total pay figure was calculated for each identified employee using the single figure methodology. The hourly pay rates were converted into full-time equivalents based on an assumed 40 working hours per week and excluding overtime payments.

The CEO pay ratio figures for FY21 are broadly comparable to the figures reported for FY20. The ratios at the 25th and 50th percentile have decreased slightly. The CEO's single figure has increased year on year, primarily as a result of an annual bonus being payable in respect of FY21 whereas the bonus for FY20 was waived. As a Real Living Wage service provider, Mitie continues to increase pay levels amongst its various contracts and invest in competitive pay for all employees. Given that Mitie's workforce profile is made up of predominantly frontline customer-facing roles, the employees at each quartile used to compare Mitie's CEO's remuneration all operate within a frontline role. The Committee is comfortable that the pay ratios are consistent with the pay, reward and progression policies at Mitie.

The following table sets out the base salary and total pay figures for the employees identified at each quartile.

Year	Element of pay	25th percentile employee	Median employee	75th percentile employee
FY21	Base salary (FTE)	£18,781	£20,304	£24,347
	Total pay (FTE)	£19,206	£22,484	£24,973

Relative spend on pay

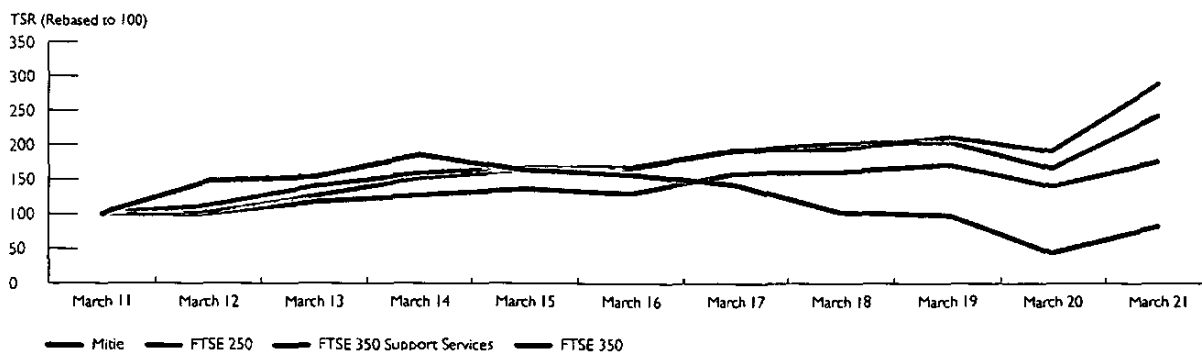
The table below shows the total cost of remuneration in the Group, compared with dividends distributed.

	Year ended 31 March 2021 £m	Year ended 31 March 2020 £m	Change
Aggregate employee remuneration	1,473	1,269	16.1%
Equity dividends	0	14	(100)%

Directors' remuneration report continued

Assessing pay and performance

The table below provides a summary of the Chief Executive Officer's single figure remuneration over the past ten years, as well as the pay-out and vesting levels of variable pay plans in relation to the maximum opportunity. The chart below shows the historical TSR performance over the same period, with Mitie's TSR restated for the bonus element of the 2020 rights issue. Three indices (FTSE 250, FTSE 350 Support Services and FTSE 350) have been chosen as they are widely recognised and Mitie has been a member of these indices during the period:



	FY12	FY13	FY14	FY15	FY16	FY17 Ruby McGregor Smith ¹	FY17 Phil Bentley ¹	FY18	FY19	FY20	FY21
Single figure remuneration	£2431,773	£2,105,131	£1,447,266	£1,525,824	£2,448,161	£530,628	£479,073	£1,102,549	£2,248,948	£2,029,856 ²	£2,741,397
Annual bonus element (actual as a % of max)	100%	85%	90%	50%	73%	0%	waived	waived	79%	waived	78.6%
LTP element (actual vesting as a % of max)	87.2%	57.2%	0%	25%	69.5%	0%	n/a	n/a	n/a	79.7% ²	50%

Note:

- Ruby McGregor-Smith stepped down as Chief Executive Officer on 12 December 2016. Phil Bentley joined the Board on 1 November 2016 and assumed the position of Chief Executive Officer on 12 December 2016. The figures above include Phil Bentley's remuneration from 1 November 2016.
- This figure includes two LTP awards that vested based on performance to 31 March 2020 which vested at 100% and 53% respectively, and share price has been adjusted to the share price on the first vesting date, 3 August 2020.

Share ownership (subject to audit)

	Number of shares owned as at 31 March 2021 ¹	Value of target holding	Target shareholding	Percentage of salary held as at 31 March 2021	Percentage of target achieved as at 31 March 2021	Compliance with Share ownership guidelines
Phil Bentley ²	9,154,496	£1,800,000	2,849,905	642%	321%	Achieved

Notes:

- Includes shares owned by connected persons.
- Value of target holding is 200% of base salary for Phil Bentley. Historically the target shareholding was calculated by reference to the share price on Phil's appointment as CEO. In order to align with typical market practice and the approach that applies to other members of the MGX, the target shareholding will now be calculated using the average share price for the five business days prior to the end of FY20 (63.16p).

Andrew Peeler is not subject to the shareholding guidelines.

Directors' outstanding share interests (subject to audit)

The following tables provide the outstanding share interests for the Executive Directors:

Directors' interests granted under the LTIP

	Year of grant	Options outstanding as at 31 March 2020 ^a	Granted in year	Lapsed in year	Exercised in year	Options outstanding as at 31 March 2021 ^a	Exercise price	Earliest normal exercise date ^d
Phil Bentley	Nov 2016 ¹	1,700,370	–	–	(1,275,276)	425,094	Nil-cost	May 2020
	Jul 2017 ²	1,294,783	–	(608,549)	(343,117)	343,117	Nil-cost	Jul 2020
	Aug 2018 ³	2,283,069	–	–	–	2,283,069	Nil-cost	Aug 2021
	June 2019 ⁴	2,275,608	–	–	–	2,275,608	Nil-cost	June 2022
	Aug 2020 ⁵	–	5,278,592	–	–	5,278,592	Nil-cost	Aug 2023

Notes

- The performance criteria applicable to the November 2016 award were provided on pages 154 and 155 of the FY20 remuneration report.
- The performance criteria applicable to the 2017 awards were provided on pages 155 and 156 of the FY20 remuneration report, and 47% of the award is shown as lapsed in FY21.
- The performance criteria applicable to the 2018 awards were disclosed on page 110 of this FY21 remuneration report.
- The performance criteria applicable to the 2019 awards were provided on page 154 of the FY20 remuneration report.
- The performance criteria applicable to the 2020 awards are disclosed on pages 108 and 109 of this FY21 remuneration report.
- For all awards prior to August 2020, the number of options has been adjusted for the bonus element of the Rights Issue (x1.93426825).
- The closing market price of the Company's shares as at 31 March 2021 was 62.9p. Adjusting for the bonus element of the Rights Issue the highest and lowest closing market prices during FY21 were 62.9p and 27.25p respectively.
- Awards are subject to an additional two-year holding period.

Directors' interests granted under the Deferred Bonus Plan

	Year of grant	Options outstanding as at 31 March 2020 ^a	Granted in year	Lapsed in year	Exercised in year	Options outstanding as at 31 March 2021	Exercise price	Earliest normal exercise date
Phil Bentley	June 2019	722,847	–	–	–	722,847	Nil-cost	June 2021

Notes

- Granted as part of the ABP 2019 and the number of options has been adjusted for the bonus element of the Rights Issue.

Directors' share ownership

	Number of ordinary shares beneficially owned as at 31 March 2021 (or date of cessation if earlier) ¹	Number of ordinary shares beneficially owned as at 31 March 2020 (or date of cessation if earlier) ²
Executive Directors		
Phil Bentley	9,154,496	3,905,551
Andrew Peeler	0	0
Non-Executive Directors		
Derek Mapp	494,806	270,798
Nivedita Krishnamurthy Bhagat	75,108	0
Baroness Couttie	70,582	0
Jennifer Duvalier	67,581	35,724
Mary Reilly	79,698	22,646
Roger Yates	160,000	96,713
Alan Lovell ¹	0	0

Notes

- Alan Lovell was appointed to the Board on 1 January 2021 and resigned from the Board on 5 March 2021.
- Number of shares owned as at 31 March 2021 has been adjusted for the bonus element of the Rights Issue.
- The number of shares beneficially owned since 31 March 2021 has changed due to a planned purchase that took place on 1 April 2021. The revised figures are as follows: Derek Mapp – 510,605 shares, Nivedita Krishnamurthy Bhagat – 78,925, Baroness Couttie – 74,691, Jennifer Duvalier – 70,464 and Mary Reilly – 83,204.

There have been no changes in Director share ownership between 2 April 2021 and 8 June 2021, the last practicable date prior to the date of this report.

Directors' remuneration report continued

Share dilution

The Company manages dilution rates within the standard guidelines of 10% of issued ordinary share capital in respect of all employee schemes and 5% in respect of discretionary schemes. In calculating compliance with these guidelines the Company allocates available headroom on a ten-year flat-line basis, making adjustments for projected lapse rates and projected increases in issued share capital.

LTIP and deferred bonus awards are satisfied through the market purchase of shares held by the Mitie Group plc Employee Benefit Trust. The potential dilution of the Company's issued share capital is set out below in respect of all awards granted in the last ten years under the Company's equity-based incentive schemes which are being satisfied through the allotment of new shares or treasury shares.

Share dilution at 31 March 2021	Dilution
All share plans (maximum 10%)	8.1%
Discretionary share plans (maximum 5%)	3.9%

Shareholder voting

Mitie remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the Group seeks to understand the reasons for any such vote, and will detail here any actions in response to it.

A resolution to approve the Directors' remuneration policy as set out in the Annual Report and Accounts 2018 was passed at the Company's 2018 AGM. At the Company's 2020 AGM, a resolution was passed to approve the 2020 Directors' remuneration report (excluding the summary of the Directors' remuneration policy). The results of the votes on these resolutions were as follows:

Number of votes	Votes in favour	Votes against	Withheld ¹
2018 Directors' remuneration policy – 2018 AGM	276.8m	0.8m	0.1m
	99.7%	0.3%	–
2020 Directors' remuneration report – 2020 AGM	242.9m	9.8m	0.0m
	96.1%	3.9%	–

Note:

¹ Votes withheld are not counted in the calculation of the proportion of votes for or against a resolution.

Remuneration Committee and its advisors

The Remuneration Committee seeks and considers advice from independent remuneration advisors where appropriate.

Deloitte LLP has acted as independent remuneration advisors to Mitie since September 2017. The advisors attended Committee meetings and provided advice and analysis of executive remuneration. During their tenure, the advisors provide no other services to the Company (save in relation to services connected to executive remuneration and share plans) and also comply with the Code of Conduct for Remuneration Consultants. The advisors' total cost of advice to the Committee for the year was £58,093 (such fees being charged in accordance with their standard terms of business).

The Committee specifically considered the position of the advisors and was satisfied that the advice the Committee received from them was objective and independent, given that they provided no other services to the Company.

Directors' remuneration policy report

Decision-making process and changes to the policy

The following tables and accompanying notes in this section of the report set out the remuneration policy for Executive Directors and Non-Executive Directors. The policy is intended to apply, subject to approval by shareholders, for three years from the 2021 AGM.

Following a considered decision-making process, changes have been made to the policy approved by shareholders at the 2018 AGM, as detailed in the Statement from the Remuneration Committee Chair on pages 99 to 101. These include the introduction of post-employment shareholding requirements, the reduction of pension contribution rates for new Executive Directors in line with the wider workforce rate and (for 2021 only) the introduction of the one-off Enhanced Delivery Plan. Minor drafting changes have also been made to clarify the Committee's intentions for the operation of the policy.

As part of its review the Committee consulted with Mitie's major shareholders and took into account their views when considering changes to the policy. In addition, the Committee considered the input of the Mitie Group Executive (MGX) (whilst ensuring conflicts of interest were appropriately mitigated) and its independent advisors (Deloitte LLP).

The policy

The key elements of the policy, to be approved at the 2021 AGM, are set out below.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary Set at levels to attract and retain individuals of the calibre required to drive the vision and direction of Mitie.	Salaries are generally reviewed annually, effective from 1 April. The review may be influenced by: <ul style="list-style-type: none"> the individual's role, experience and performance; business performance and the wider market and economic conditions; the range of increases across the Group; and an external comparator group comprised of sector comparators and size adjusted comparator organisations. 	Base salary increases will normally be in line with the average increase for the salaried non-contract UK employees whose salaries Mitie determines, although on occasion other specific circumstances such as changes of responsibilities, progression in role, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group may also be taken into consideration.	N/A
Benefits To aid retention and be competitive within the marketplace.	The Group provides a range of benefits which may include a company car/car allowance, private fuel, private health insurance, life assurance and annual leave. Benefits are reviewed periodically against market and new benefits may be added and/or amended as required to support the attraction and retention of key talent. Additional benefits may be awarded in certain recruitment circumstances which may include relocation expenses and housing allowance. Other benefits may be offered if considered appropriate and reasonable by the Committee.	Benefits are set at a level which the Committee considers: <ul style="list-style-type: none"> is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; and provides a sufficient level of benefit based on the role and individual circumstances (e.g. relocation). The Committee retains discretion to approve a higher cost than currently incurred where factors outside the Company's control have changed materially (e.g. medical inflation) or in exceptional circumstances (e.g. relocation).	N/A
All Employee Share Schemes To provide opportunities for the Directors to voluntarily invest in the Company on the same terms as other employees.	Executive Directors are eligible to participate in any all-employee share plan operated by the Company, in line with prevailing HMRC guidelines (where relevant), on a basis consistent with other eligible employees.	N/A	N/A
Pension To aid retention and be competitive within the marketplace.	Executive Directors are eligible to participate in the defined contribution pension scheme or to receive a cash allowance in lieu of a pension contribution.	The maximum pension contribution or cash allowance for any newly appointed Executive Director will be aligned with the rate available to the wider workforce. The maximum pension cash allowance for the incumbent Chief Executive Officer is currently 20% of base salary and will be aligned with the rate of the wider workforce by 1 January 2023. The maximum pension contribution or cash allowance for the incumbent Chief Financial Officer is 3% of base salary, and is aligned with the wider workforce.	N/A

Directors' remuneration policy report continued

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual Bonus Plan (ABP) To incentivise and recognise execution of the Company's strategy on an annual basis. Rewards the achievement of annual financial and strategic goals. Deferral provides alignment with shareholder interests.	Measures and targets are set annually and pay-out levels are determined by the Committee after the year-end based on performance against those targets. The Committee may, in exceptional circumstances, amend the bonus pay-out should this not, in the view of the Committee, reflect overall business performance or individual contribution. 50% of the bonus is normally deferred into shares which vest after a minimum of two years (subject to continued employment). Dividend equivalents are paid in cash on deferred shares which vest. Malus and clawback provisions apply as detailed below this table.	Maximum bonus opportunity is 160% of base salary for the Chief Executive Officer and up to 135% of base salary for any other Executive Director.	Bonuses are based on stretching financial and strategic objectives assessed by the Committee at the end of the year, with the underlying aim of encouraging and rewarding the generation of sustainable returns to shareholders. The Committee has discretion to determine the appropriate weightings each year depending on business priorities. The financial measures will represent the majority of the bonus, with any strategic objectives representing the balance. These elements are measured and calculated independently of each other. For the financial element no more than 25% of maximum is normally payable for threshold performance.
Long Term Incentive Plan (LTIP) To motivate and incentivise delivery of sustained performance and provide alignment with shareholder interests.	Annual awards (in the form of nil-cost options, conditional share awards or cash settlements) are made with vesting dependent upon the achievement of performance conditions over three years. Award levels and the framework for determining vesting are reviewed annually to ensure they continue to support the Group's strategy. The Committee has the discretion to decide whether, and to what extent, targets have been met, and, if an exceptional event occurs that causes the Committee to consider that the targets are no longer appropriate, the Committee may adjust them. Awards will normally be subject to an additional holding period of at least two years. Dividend equivalents may be paid on shares that vest. Malus and clawback provisions apply as detailed below this table.	Awards may be made up to a maximum level of 200% of base salary for any Executive Director.	Performance over at least three financial years is measured against stretching objectives which have the underlying aim of encouraging and rewarding the generation of sustainable returns to shareholders. Vesting under the LTIP depends on the achievement of performance conditions. Awards attributable to each performance condition vest at 25% on achievement of the minimum performance threshold, rising to 100% for achievement of a defined upper performance level.
Enhanced Delivery Plan (EDP) To incentivise and reward the delivery of benefits from the acquisition of Interserve Facilities Management and the accelerated delivery of shareholder value.	One-off award (in the form of conditional share awards) to be granted in 2021 subject to approval of the EDP at the AGM, with vesting dependent upon the achievement of performance conditions measured over three years. Awards will be subject to an additional holding period of two years. Dividend equivalents may be paid on shares that vest. Malus and clawback provisions apply as detailed below this table.	Maximum award of up to 640% of base salary for the Chief Executive Officer and up to 260% of base salary for the Chief Financial Officer. Awards are to be structured as a core award (up to 160% of base salary for the Chief Executive Officer and up to 65% of base salary for the Chief Financial Officer) with a performance multiplier of up to four times. The value of vested shares from this award will be limited to three times the face value of these shares at grant.	Awards will vest based on performance over three years against the following measures: <ul style="list-style-type: none"> • Synergies • Return on Invested Capital The vesting of awards is also subject to a net debt underpin and an absolute share price underpin. These measures have the underlying aim of encouraging and rewarding the generation of sustainable returns to shareholders. For achievements at threshold levels of performance, up to 25% of maximum under each element may vest, rising to 100% for achievement of exceptional performance.
Share ownership To ensure alignment of interests between Executive Directors and shareholders.	Executive Directors are required, over time, to build and maintain a minimum shareholding in the Company worth 200% of base salary. They are required to retain half of the post-tax shares vesting under the LTIP and other share schemes until the guideline is met. Executive Directors are normally expected to maintain a shareholding for two years following stepping down from the Board, as described on page 105.	N/A	N/A

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Chairman and Non-Executive Director fees To attract and retain high-calibre individuals. Non-Executive Directors do not participate in any incentive schemes.	Fees are normally reviewed every three years. The fee structure is as follows: <ul style="list-style-type: none"> the Chairman is paid an all-inclusive single fee for all Board responsibilities; the Non-Executive Directors are paid a basic fee, plus additional fees for further responsibilities, such as the chairing of Board Committees; fees are currently paid in cash but the Company may choose to provide some of the fees in shares; and benefits, including expenses, can be provided if considered necessary on a case-by-case basis. 	Fees are set at a level which: <ul style="list-style-type: none"> reflects the commitment and contribution that is expected from the Chairman and the Non-Executive Directors; and is appropriately positioned against comparator roles in companies of a similar size and complexity in the relevant market. Actual fees are disclosed in the Directors' remuneration report for the relevant financial year. Aggregate fees/value of benefits are capped at the amount set out in the Company's Articles of Association.	N/A

Malus and clawback provisions

The malus and clawback provisions under the ABP, the LTIP and the EDP may be operated if it comes to light within two years from vesting that information used to determine performance was materially inaccurate and resulted in a material overstatement of an award or in the event of any act/omission by an individual that would give grounds for summary dismissal (with no time limit). For the avoidance of doubt, the clawback provisions apply to any cash payments made and/or any shares into which bonus is deferred in relation to the ABP, LTIP awards made after the 2021 AGM and/or the Enhanced Delivery Plan awards.

Clawback provisions are such that:

- cash payment in relation to the ABP can be reclaimed for a period of up to two years after payment; and
- vested share awards under the deferred element of the ABP, LTIP and the EDP can be reclaimed for a period of up to two years after vesting (effected through the operation of malus provisions during the holding period).

Malus and clawback will apply in four main circumstances:

- misstatement of results or an error in the calculation of performance;
- misconduct;
- reputational damage; or
- failure of risk management or control.

Discretions retained in operating the incentive plans

The Committee will operate the ABP, LTIP and EDP according to their respective rules and the above policy table. The Committee retains discretion, consistent with market practice, in a number of respects, in relation to the operation and administration of these plans.

These discretions include, but are not limited to, the following:

- the selection of participants;
- the timing of grant of an award/bonus opportunity;
- the size of an award/bonus opportunity subject to the maximum limits set out in the policy table;
- the determination of performance against targets and resultant vesting/bonus pay-outs;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- the annual review of performance measures, weightings and targets.

In relation to the ABP, the LTIP and the EDP, the Committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. Any use of these discretions would, where relevant, be explained in the Directors' remuneration report and may, where appropriate and practicable, be the subject of consultation with the Company's major shareholders.

Legacy commitments

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out in this report where the terms of the payment were agreed (i) before the date Mitie's first shareholder-approved Directors' remuneration policy came into effect; (ii) before the policy set out in this report comes into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' remuneration policy in force at the time they were agreed or were otherwise approved by shareholders; or (iii) at a time when the relevant individual was not a Director (or other person to whom this policy applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director or such other person. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted. This policy applies equally to any individual who is required to be treated as a Director under the applicable regulations.

Directors' remuneration policy report continued

Remuneration scenarios for Executive Directors

Under the Company's policy, a significant proportion of remuneration is linked to performance. The charts below show how much the Executive Directors could earn under Mitie's remuneration policy (as detailed above) under different performance scenarios. The following assumptions have been made:

- minimum performance (below threshold) – fixed pay only, comprising base salary effective as at 1 April 2021 and the full year effect of ongoing benefits and cash allowances in lieu of pension contributions;
- on-target performance – fixed pay plus an on-target bonus and 25% of the maximum possible LTIP award vesting and a multiplier of 1x for the EDP award vesting. On-target bonus for FY22 represents 50% of the maximum bonus; and
- maximum performance – fixed pay plus maximum bonus for FY22 of 160% of base salary for the Chief Executive Officer and 130% for the Chief Financial Officer (structured 70% financial targets and 30% strategic/other), maximum LTIP awards (of 200% of base salary for the Chief Executive Officer and 150% for the Chief Financial Officer) and the maximum multiplier of 4x for the EDP award vesting (i.e. 640% of base salary for the Chief Executive Officer and 260% of base salary for the Chief Financial Officer);
- maximum performance with share price appreciation – as per maximum performance with illustrative share price appreciation of 50% on the LTIP and EDP elements.

The scenarios do not include dividend assumptions.

Phil Bentley, Chief Executive Officer (£'000)

Simon Kirkpatrick, Chief Financial Officer (£'000)

Composition of package (%)	Fixed	ABP	LTIP	EDP	Total	Composition of package (%)	Fixed	ABP	LTIP	EDP	Total
Minimum	100%	–	–	–	100%	Minimum	100%	–	–	–	100%
On-target	30%	19%	12%	39%	100%	On-target	39%	24%	13%	24%	100%
Maximum	11%	14%	18%	57%	100%	Maximum	17%	20%	23%	40%	100%
Maximum with share price appreciation	8%	10%	20%	62%	100%	Maximum with share price appreciation	13%	15%	26%	46%	100%

Value of package (£'000)	Fixed	ABP	LTIP	EDP	Total	Value of package (£'000)	Fixed	ABP	LTIP	EDP	Total
Minimum	1,100,625	–	–	–	1,100,625	Minimum	372,070	–	–	–	372,070
On-target	1,100,625	720,000	450,000	1,440,000	3,710,625	On-target	372,070	227,500	131,250	227,500	958,320
Maximum	1,100,625	1,440,000	1,800,000	5,760,000	10,100,625	Maximum	372,070	455,000	525,000	910,000	2,262,070
Maximum with share price appreciation	1,100,625	1,440,000	2,700,000	8,640,000	13,880,625	Maximum with share price appreciation	372,070	455,000	787,500	1,365,000	2,979,570

Executive Directors' service contracts

All Executive Directors are appointed on rolling service contracts but are subject to annual re-election at the AGM in accordance with the Code.

Under the service contracts, the Company is required to give 12 months' notice of termination of employment; Phil Bentley and Simon Kirkpatrick are required to give 12 months' notice.

For Executive Directors, if notice is served by either party, the Executive Director can continue to receive base salary, benefits and pension cash allowance for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave.

The Company has the right to make a payment in lieu of notice equivalent in value up to 12 months' base salary payable either in monthly instalments or as a lump sum. The Company may also pay for any benefits, pension contributions or cash allowances for which the individual would have been eligible until the date of cessation had full notice been given.

The Executive Directors' service contracts are available for inspection at Mitie's registered office, Mitie's head office and at the 2021 AGM. There are no other provisions for compensation on termination of employment set out within the contracts of the Executive Directors.

For any newly appointed Executive Directors, notice periods will not exceed 12 months, save in exceptional circumstances; should a notice period longer than 12 months be necessary the Committee would expect this to reduce to 12 months over time.

The effective dates of the service contracts of the current Executive Directors are set out below:

	Date of agreement
Phil Bentley	9 October 2016
Simon Kirkpatrick	1 April 2021

External appointments

The Board recognises that the appointment of Executive Directors to non-executive positions at other companies can be beneficial for both the individual director and the Group through the broadening of their experience and knowledge, and individuals are entitled to retain any fees earned in respect of these appointments.

Non-Executive Directors' remuneration and appointment terms

The Chairman and Non-Executive Directors receive an annual fee which is paid in monthly instalments. The Chairman's fee is set by the Remuneration Committee and the fees for the Non-Executive Directors are approved by the Board, on the recommendation of the Chairman and the Chief Executive Officer. The Non-Executive Directors are paid a basic fee with an additional fee for the Senior Independent Director, for chairing a Committee, and for being the Designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce, together with expenses incurred in carrying out their duties on behalf of the Company. Non-Executive Directors are not eligible to participate in any of the Company's share schemes, ABP or the pension scheme. They do not receive any ancillary benefits.

The terms of appointment of the Non-Executive Directors are available for inspection at Mitie's registered office, Mitie's head office and at the 2021 AGM. The Non-Executive Directors are engaged for an initial term of three years which is terminable on three months' notice and thereafter on a rolling term. They are also subject to annual re-election at the AGM in accordance with the Code.

Non-Executive Directors' engagement terms

The engagement terms of the current Non-Executive Directors are set out below:

	Additional duties	Date of commencement	Initial contract term	Notice period
Derek Mapp	Chairman, Chairman of Nomination Committee	9 May 2017	3 years	3 months
Roger Yates	Senior Independent Director	1 March 2018	3 years	3 months
Jennifer Duvalier	Chair of Remuneration Committee	26 July 2017	3 years	3 months
Mary Reilly	Chair of Audit Committee	1 September 2017	3 years	3 months
Nivedita Krishnamurthy Bhagat		1 June 2017	3 years	3 months
Baroness Philippa Courtie	Chair of Social Value and Responsible Business Committee	15 November 2017	3 years	3 months

How the executive pay policy differs from that for other Mitie employees

The remuneration policy for the Executive Directors is significantly more heavily weighted towards variable pay than for other employees, ensuring that the greater part of their pay is conditional on the successful delivery of the Group's business strategy. This helps create a clear link between the value created for shareholders and the remuneration received by the Directors. Awards under the LTIP and EDP are limited to those in the most senior leadership roles. For employees below this level, variable pay may consist of share-based awards and annual bonus (both of which will be based on role). UK-based employees (and Ireland-based employees in the case of the SAYE) have the opportunity to participate in the SAYE and SIP share schemes and become shareholders in Mitie. From summer 2021 the offering of the SIP share scheme will be enhanced to provide employees with a greater incentive to invest in Mitie shares, and free shares have been awarded to UK-based employees. Mitie is currently reviewing extending the free shares principle to employees in other countries.

How employment conditions elsewhere in the Group are taken into account

The Committee is responsible for overseeing the remuneration policy for the Group as a whole and is mindful of pay and employment conditions in the wider workforce within the Group and externally when determining executive remuneration. When considering base salary increases, benefits and pension provision, the Committee reviews overall levels and increases offered to employees across the Group. The Committee also reviews information with regard to share awards made to other senior management of the Group, noting that: (i) all UK-based employees (and Ireland-based employees in the case of the SAYE) can participate in the SAYE and SIP share schemes; and (ii) participation in the LTIP and EDP is limited to a selection of senior executives.

How shareholder views are taken into account

The Committee is committed to a continuing discussion with major shareholders and obtains their views when any significant changes to remuneration arrangements are being proposed. The Committee has undertaken an extensive two-stage consultation process to discuss the proposed changes to the Remuneration Policy, including the introduction of the EDP. Initially the Committee discussed the proposals with the Company's largest shareholders and, after refining them taking into account the feedback from this initial consultation, returned to a larger group of shareholders to obtain a wider range of views. The Committee was pleased that shareholders were broadly supportive of the proposals.

Directors' remuneration policy report continued

Policy on loss of office

The rules of the ABP, LTIP and EDP set out what happens to awards if a participant ceases to be an employee or Director of Mitie before the end of a vesting period, with the relevant service contracts also determining the general treatment of Executive Directors on cessation.

Regarding the ABP, in the event that the participant ceases to be an eligible employee before the date the bonus is paid or is subject to notice of termination of employment on the bonus date, all entitlement to the bonus in respect of that financial year would be forfeited, unless the Committee in its absolute discretion determines otherwise. Deferred shares would vest in full on the date of cessation for 'good leaver' reasons, but otherwise the shares lapse on cessation of employment.

Generally, any outstanding LTIP and EDP awards would lapse on cessation of employment, except in certain circumstances. Specifically, if the participant ceases to be an employee or Director of Mitie as a result of death, injury, disability, redundancy, retirement, the sale of the business or company that employs the individual or any other reason at the discretion of the Committee, then they would be treated as a 'good leaver' under the LTIP and EDP rules in which case awards subsist subject to any performance conditions and any applicable holding period and, if the Committee determines, a pro-rata reduction. A good leaver has a 12-month period following the cessation of employment or the end of the holding period if applicable, in which to exercise their vested awards.

In addition, and consistent with market practice, in the event of termination of an Executive Director's employment, the Company may settle any claims that may arise and pay a contribution towards the individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees would be disclosed as part of the detail of termination arrangements. Should it become necessary to make additional payments in respect of such professional fees that were not ascertained at the time of reporting, the Company may do so up to a level of a further £10,000. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

Policy on the recruitment of a new Director

For a new hire, the Committee will typically align the Executive Director's remuneration package to the above remuneration policy. However, where appropriate, the Committee retains discretion to make decisions outside of policy to facilitate hiring key talent as set out below.

Base salary will be set based on the individual's role and experience, with consideration given to internal equity.

Benefits will be provided in line with those offered to other employees at a similar level, with relocation expenses/arrangements provided if necessary. Individuals will be given a choice of either participation in a defined contribution pension scheme or a cash allowance in lieu of pension, with a maximum pension contribution or cash allowance set in line with the rate available to the wider workforce.

The maximum level of variable pay that may be offered on an ongoing basis and the structure of remuneration will be in accordance with the approved policy detailed above (i.e. for the Chief Executive Officer an aggregate maximum of 360% of base salary – 160% annual bonus and up to 200% for LTIP awards; and, for any other Executive Director an aggregate maximum of 335% of base salary – 135% annual bonus and up to 200% for LTIP awards). This limit does not include the value of buyout arrangements.

The above policy applies to both internal promotions to the Board and external hires. For external hires, if it is necessary to buy out existing incentive pay or benefit arrangements (which would be forfeited on leaving their previous employer), this would be provided taking into consideration relevant factors such as the commercial value of the amount forfeited from the previous employer, the performance conditions (i.e. the likelihood of achieving those) and timing (i.e. where the award is in the vesting cycle). Buyout awards, if used, would be granted under Mitie's existing share plans, although, if necessary, additional buyout awards may be made on more bespoke terms regarding matters such as vesting and performance conditions as permitted under Listing Rule 9.4.2.

In the case of an internal promotion to the Board, any outstanding variable pay awarded in relation to the individual's previous role will be allowed to pay out according to its terms of grant.

On appointment of a new Chairman or Non-Executive Director, his or her fee will be set taking into account the existing fee structure.

Social Value & Responsible Business Committee report

Report from the Social Value & Responsible Business Committee Chair

Social Value & Responsible Business Committee members

At the date of this report and throughout FY21, the Social Value & Responsible Business Committee comprised:

Chair	Baroness Courtie
Committee members	<p>Peter Dickinson, Chief of Staff, General Counsel & Company Secretary</p> <p>Colin Dobell, Managing Director of Care & Custody (until 22 September 2020)</p> <p>Kath Fontana, Managing Director, Public Sector, Critical Infrastructure & Projects</p> <p>Jasmine Hudson, Group HR Director</p> <p>Simon King, Director of Sustainability & Social Value</p> <p>Claire Lovegrove, Head of Media Relations</p> <p>Jason Towse, Managing Director, Business Services</p> <p>Simon Venn, Chief Government & Strategy Officer</p>

Social Value Committee & Responsible Business Committee meetings

The Social Value & Responsible Business Committee met seven times during FY21. Baroness Courtie attended all meetings as detailed on page 83.

Key purpose of the Social Value & Responsible Business Committee

The purpose of the Social Value & Responsible Business Committee is to provide oversight and governance for all of Mitie's social value and responsible business initiatives, ensuring they are aligned to Mitie's Purpose, Promises and Values.

Key responsibilities of the Social Value & Responsible Business Committee

The key responsibilities of the Social Value & Responsible Business Committee include:

- Drive the social value and responsible business agenda on behalf of the Group
- Ensure that the Group conducts its business in a commercially responsible way to achieve maximum positive impact on the communities, people and the environment in which it works
- Benefit Mitie's customers, staff and shareholders

The Social Value & Responsible Business Committee
Terms of Reference are available at

www.mitie.com/investors/corporate-governance.

Key activities during the year

Embedded governance structures

The Social Value & Responsible Business Committee met more frequently during FY21 reflecting the importance of this area to Mitie's business. The bi-monthly meetings also support effective updates on progress from Baroness Courtie at each Board meeting.

The Committee reviewed the progress of the Plan Zero Steering Group and Plan Zero Working Group which were created to oversee the successful implementation of the three aspects of Plan Zero of 'doing it ourselves', 'leading the industry' and 'delivering for clients'. In addition, at two meetings the Committee reviewed Mitie's Climate Change Risk Assessment document, which captures climate-related risks and opportunities in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

Developed Environmental, Social and Governance (ESG) performance

During FY21 the Committee reviewed proposed activities to improve Mitie's ESG scores from a number of ESG rating agencies. These activities when implemented successfully improved Mitie's scores with several agencies. This includes Sustainalytics whose rating for Mitie moved to 'Negligible' risk and resulted in Mitie ranking as the Number 1 in the Business Support Services sector business globally in the January 2021 report. Mitie's CDP rating improved from C to an A- Leadership rating in December 2020 and MSCI also increased its score from A to AA in the same month.

Integral to the ESG development activities was internal and external communication of Mitie's strategy and approach to social value and Plan Zero. Webinars for both employees and external attendees have been run as well as sessions with clients to share Mitie's performance and plans.

Social Value & Responsible Business Committee report continued

The Committee has overseen significant progress across all aspects of ESG, including Mitie's Social Value Framework and Plan Zero. Details of the progress made is included in the ESG section of the Annual Report on pages 30 to 41 as well as being referenced in the Chairman's statement and Chief Executive's strategic review on pages 7 and 20 respectively.

Progress on Plan Zero

During FY21, Mitie made significant progress on transitioning its fleet to electric vehicles (EV) with its 1,000th EV being delivered, making Mitie's the largest pure electric fleet in the UK. Mitie also completed a desktop analysis of all sites and a physical survey of the 15 main sites, resulting in energy optimisation interventions which will reduce emissions by an estimated 300 tonnes of CO₂ annually. In addition to carbon emission savings, 228 tonnes of waste was diverted from landfill to energy from waste during FY21.

Mitie's leadership position has been recognised by winning both the GreenFleet Private Sector Fleet of the Year (medium/large) and Business Car Green Fleet of the Year awards, as well as being shortlisted for the Business of the Year award at the edie Sustainability Leader Awards. Mitie was also invited to join Aldersgate Group, one of the UK's leading sustainability organisations, driving policy and debate regarding environmental issues in the UK.

The Committee reviewed and approved the Plan Zero Playbook which lays out the 'A to E' methodology Mitie uses to deliver Plan Zero solutions for its clients. The delivery of Plan Zero has grown throughout the year with a pipeline of over £60m as at 31 March 2021.

On the anniversary of Plan Zero in February 2021 at a Group-wide celebration event Plan Zero was extended to encompass a target of net zero for Mitie's relevant scope 3 emissions by 2035. This commitment is part of Business Ambition for 1.5°C aligned with the Science Based Targets initiative and Race to Zero.

Strong progress on Social Value targets

Building on the four social value targets set in Spring 2020 a total of 13 social value targets have now been agreed and published. Strong progress has been made across these targets in FY21 including 3.6% of employees either on or having completed an apprenticeship (compared to a 2.3% baseline), over 8,000 volunteering hours achieved (compared to 3,032 hours baseline) and emissions for Mitie (excluding Interserve Facilities Management) down 29% versus baseline, all of which is captured in the Mitie Social Value & Responsible Business Dashboard which was first published in December 2020. This dashboard shows Mitie's progress against these 13 targets and is published monthly on www.mitie.com/esg providing public transparency on targets and performance.

The Mitie Foundation relaunched its strategy & purpose and embraced a change from face-to-face delivery to virtual delivery programmes to maintain employability and development sessions during the COVID-19 pandemic. Supporting candidates through its referral partners and in partnership with Mitie clients, the Foundation has delivered nine Virtual Employability Workshops with over 100 candidates benefiting from the sessions. In addition, Mitie's Giving Back programme has surpassed its FY21 target of 8,000 hours volunteered to causes by Mitie colleagues. To support the wider Social Value and Diversity & Inclusion Agenda within Mitie, Foundation candidates have been encouraged to apply for Mitie opportunities, with over 145 gaining employment within Business Services.

In September 2020, the second Mitie Social Value Report was published, setting out the social value targets for FY21 and milestones by year until FY25 and reporting significant progress over the previous 12 months.

Baroness Croudie

Chair of the Social Value & Responsible Business Committee

DocuSigned by:

Philippa Croudie

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Disclosure Committee report

Report from the Disclosure Committee Chair

Strategic report

Key purpose of the Disclosure Committee

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

Key responsibilities of the Disclosure Committee

The key responsibilities of the Disclosure Committee include:

- Monitor whether there are changes in circumstances that may require an announcement
- Make recommendations to the Board concerning the identification of inside information
- Make recommendations to the Board regarding how and when the Company should disclose inside information
- Maintain a record of matters considered for disclosure but not disclosed
- Maintain a record of the Company's public disclosures

Key activities during the year

The Committee met twice during the year in connection with the acquisition of Interserve Facilities Management.

Disclosure Committee members

At the date of this report and throughout FY21, the Disclosure Committee comprised:

Chair	Phil Bentley
Committee members	Derek Mapp Simon Kirkpatrick (from 1 April 2021) Peter Dickinson Andrew Peeler (until 31 March 2021) Katherine Woods, Deputy General Counsel

Disclosure Committee meetings

The Disclosure Committee meets on an ad hoc basis. During FY21, the Disclosure Committee met twice.

Phil Bentley

Chair of the Disclosure Committee

DocuSigned by:

Phil Bentley
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Financial statements

Directors' report: other disclosures

Directors' report

The Directors present their Annual Report, together with the audited financial statements of the Company and the Group, for the year ended 31 March 2021.

The Directors' report required under the Companies Act 2006 comprises the corporate governance statement on pages 68 to 93. The corporate governance statement on pages 68 to 93 fulfils the requirement under Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (DTR) 7.2.1.

For the purposes of DTR 4.1.8R, the management report for the year ended 31 March 2021 comprises the Strategic report and this Directors' report.

Cross-references

Employee engagement	Details of how Mitie encourages employee involvement can be found in the Strategic report on pages 38 to 40.
Diversity and inclusion (including employment of disabled persons)	Details of Mitie's commitment to diversity and inclusion, including in relation to the employment of disabled persons, can be found on page 38.
Business relationships	Details of how the Directors have had regard to the need to foster Mitie's business relationships with suppliers, customers and others, and the effect of this on the principal decisions taken by the Company during the year can be found in the Strategic report on pages 42 to 45.

The information required to be disclosed by Listing Rule 9.8.4 can be found in the following locations:

Details of any long-term incentive schemes	Directors' remuneration report on pages 99 to 120 and Note 31 to the consolidated financial statements
Details of any arrangements under which a Director has waived or agreed to waive any emoluments or future emoluments	Directors' remuneration report on page 112
Shareholder waiver of dividends and future dividends	Directors' report on page 127

No shareholder is considered a controlling shareholder as defined in the Financial Conduct Authority Handbook.

The remaining disclosures required by LR 9.8.4 are not applicable to the Company.

Principal Group activities

The Company is the holding company of the Group and its principal activity is to provide management services to the Group. The Group's activities are focused on the provision of strategic outsourcing services, further details of which can be found on pages 4 to 5 of the Strategic report.

The Company does not have any branches registered overseas, but certain subsidiaries of the Company have registrations/branches across the United Kingdom, Republic of Ireland, Guernsey, Jersey, Isle of Man, Ascension Island, Austria, Belgium, Cyprus, Czech Republic, Denmark, Falkland Islands, Finland, France, Germany, Ghana, Gibraltar, Hungary, Kenya, Luxembourg, the Netherlands, Nigeria, Norway, Oman, Poland, Saudi Arabia, Singapore, Slovakia, Spain, Sweden, Switzerland and the United Arab Emirates. Details of the Company's subsidiaries are set out in Note 37 to the consolidated financial statements.

Given the nature of its activities, no material research and development work is carried out by the Group.

The Board's view on the likely future development of the Group is set out in the Strategic report on pages 12 to 13.

Articles of Association

The Company's Articles of Association (the Articles) were adopted at the 2017 AGM. Amendments to the Articles must be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. The Articles are available at www.mitie.com/investors/corporate-governance. A resolution to update the Articles will be put to shareholders at the 2021 AGM. Further details can be found in the notes to the relevant meeting notice which will be published on Mitie's website www.mitie.com.

Significant agreements – change of control

There are a number of agreements with provisions that take effect, alter or terminate upon a change of control of the Company (including following a takeover bid), such as bank facility agreements and other financial arrangements and employee share scheme rules. None of these are considered to be significant in terms of their likely impact on the normal course of business of the Group. The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs solely because of a change of control.

Greenhouse gas emissions, energy consumption and efficiency

Details of Mitie's absolute emissions and emissions ratio can be found in the ESG report within the Strategic report on pages 30 to 41. Further information on the calculations can be found in the Greenhouse gas (GHG) methodology statement available on Mitie's website at www.mitie.com/esg.

Environmental data

Details on the Group's environmental performance, including landlord sites, can be found in the table below:

	FY20	FY21	Change from previous year	% Change against FY20
Energy				
Electricity consumed across occupied buildings (kWh)	4,017,361	2,995,119	-1,022,242	-25%
Gas consumed across occupied buildings (kWh)	3,508,404	2,704,585	-803,819	-23%
Fuel used by fleet for business travel (kWh)	113,332,840	85,980,058	-27,352,782	-24%
Electricity used by EV fleet for business travel (kWh)	195,356	259,495	64,139	33%
Total organisational energy consumption (kWh)	121,053,961	91,939,257	-29,114,704	-24%
Water				
Water consumed across occupied buildings (m ³)	34,591	26,699	-7,892	-23%
Waste				
Total waste to landfill (tonnes)	376	12	-364	-97%
Energy from waste (tonnes)	–	85	85	
Total waste recycled (tonnes)	366	224	-142	-39%
Total waste generated across occupied buildings (tonnes)	742	321	-421	-57%
Recycling rate	49%	70%		

- Reported data covers company emissions and energy consumption that occurs within the UK for Mitie excluding Interserve, Interserve data will be included from FY22 onwards.
- Refrigerant data has been excluded due to challenges obtaining accurate data on landlord managed sites, this is considered immaterial.
- Total greenhouse gas (GHG) emissions are reported using the financial control approach.
- Mitie's methodology aligns with Defra's Environmental reporting guidelines and uses the government's greenhouse gas reporting conversion factors to quantify emissions.

Directors

The names of all persons who served as Directors of the Company at any time during FY21 are set out on page 82. Full biographical details of the current Directors, including Committee membership and external appointments, are set out on pages 69 to 71.

Director independence

The Board considered the independence of all Non-Executive Directors during FY21 and determined that, as at 31 March 2021, all Non-Executive Directors continued to be independent in mind and judgement, and free from any material relationship that could interfere with their ability to discharge their duties effectively.

Indemnification of Directors and insurance

The Directors and the Company Secretary benefit from an indemnity provision under the Articles. Additionally, all Directors and the Chief of Staff, General Counsel & Company Secretary have been granted a qualifying third-party indemnity provision (as defined by Section 234 of the Companies Act 2006) which has been in force throughout FY21 and remains in force as at the date of this report.

Certain subsidiary directors have also been granted a qualifying third-party indemnity provision which has been in force throughout FY21 and remains in force as at the date of this report.

The Group maintains directors' and officers' liability insurance which provides appropriate cover for any legal action brought against the Group's directors and/or officers. The Group also maintains Pension Trustees Liability insurance which provides cover in respect of legal action brought against the trustees of Mitie's pension schemes.

Share capital

The Group is financed through equity share capital and debt instruments. Details of the Company's share capital are given in Note 28 to the consolidated financial statements. Details of the Group's debt instruments are set out in Note 24 to the consolidated financial statements. Throughout the year, the Company's issued share capital was publicly listed on the London Stock Exchange and it remains so as at the date of this report.

The Company has a single class of shares divided into ordinary shares of 2.5 pence each (Ordinary Shares). The Ordinary Shares are entitled to one vote each per share at general meetings and have no right to any fixed income.

In accordance with the Company's Articles of Association, holders of Ordinary Shares are entitled to participate in any dividends pro-rata to their holding. The Board may propose and pay interim dividends and recommend a final dividend to shareholders for approval at an AGM. A final dividend may be declared by the shareholders at an AGM by ordinary resolution, but such dividend cannot exceed the amount recommended by the Board.

Directors' report: other disclosures continued

Powers of the Company to issue or buy back its own shares

During FY21 the Company allotted 1,053,465,954 new Ordinary Shares as detailed below.

- As approved by the Company's shareholders at a General Meeting held on 13 July 2020, 805,069,771 new Ordinary Shares were issued on 29 July 2020 in connection with the rights issue offered to existing shareholders on the basis of 11 new shares for every 5 fully-paid Ordinary Shares held.
- As approved by the Company's shareholders at a General Meeting held on 23 November 2020, 149,017,301 new Ordinary Shares were issued to How Group Limited and 99,378,882 new Ordinary shares were issued to Project County SPV I Designated Activity Company on 1 December 2020 in connection with, and as part consideration for, the acquisition of Interserve.

The Company did not undertake any market purchases of its own shares or distribute any shares from treasury during FY21. Exercisable awards under the Mitie Group plc 2011 SAYE scheme and Mitie Group plc 2001 and 2011 Executive Share Option schemes were underwater during FY21 and no awards were exercised.

The total number of Ordinary Shares held by the Company in treasury as at 31 March 2021 was 7,744,359, representing 0.5% of the issued share capital of the Company (2020: 7,744,359, representing 2.1% of the issued share capital of the Company).

At the AGM held on 28 July 2020, shareholders authorised:

- The Directors to allot Ordinary Shares up to an aggregate nominal amount of £914,852.01, equating to 10% of the issued share capital of the Company (excluding treasury shares) as at 22 June 2020
- The dis-application of pre-emption rights over allotted shares up to an aggregate nominal value of £457,426.01, equating to 5% of the issued share capital (excluding treasury shares) and 4.9% of the issued share capital (including treasury shares) of the Company, each as at 22 June 2020
- The dis-application of pre-emption rights over allotted shares up to an aggregate nominal value of £457,426.01, equating to 5% of the issued share capital (excluding treasury shares) and 4.9% of the issued share capital (including treasury shares) of the Company, each as at 22 June 2020, in connection with the financing (or refinancing, if the authority is to be used within six months after the original transaction) of an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six month period and is disclosed in the announcement of the allotment
- The Company to make market purchases of its own shares up to a total of 36,594,081 Ordinary Shares, equating to 10% of the issued share capital (excluding treasury shares) of the Company as at 22 June 2020

These authorities will expire on the earlier of 30 September 2021 or the conclusion of the 2021 AGM. A renewal of these authorities will be put to shareholders at the 2021 AGM. Further details can be found in the notes to the relevant meeting notice which can be found on Mitie's website.

Restrictions on the transfer of shares

The Ordinary Shares held by Project County SPV I Designated Activity Company are subject to the terms of the Share Box Agreement (as further described in the circular issued to shareholders on 4 November 2020 in connection with the acquisition of Interserve by the Company), pursuant to which the voting rights attaching to the Ordinary Shares held by Project County SPV I Designated Activity Company are to be exercised by How Group Limited and How Group Limited will be able to extract amounts in respect of dividends attaching to such Ordinary Shares (subject to certain restrictions under the Share Box Agreement) for such time as the Ordinary Shares are held by Project County SPV I Designated Activity Company.

The Company is not aware of any other agreements between holders of its securities which may result in restrictions on the transfer of securities or voting rights. No person has any special rights of control over the Company's share capital.

There are no specific restrictions on the size of any shareholding or on the transfer of shares, which are both governed by the provisions of the Articles.

Under Mitie's Rules on Share Dealing, persons with access to certain confidential company information or inside information are required to follow a clearance to deal procedure and may be restricted from dealing in the Company's shares. Persons subject to these requirements are notified individually and appropriately informed of the rules.

Significant interests in the Company's share capital

As at 31 March 2021 insofar as it is known to the Company by virtue of notifications made pursuant to the Companies Act 2006 and/or Chapter 5 of the Disclosure Guidance and Transparency Rules or otherwise, the following persons were directly or indirectly, interested (within the meaning of the Companies Act 2006) in 3 per cent. or more of the Company's issued share capital (being the threshold for notification that applies to shareholders pursuant to Chapter 5 of the Disclosure Guidance and Transparency Rules):

	Number of Ordinary Shares	% of voting rights
Silchester International Investors LLP	210,021,726	14.80%
FIL Limited	143,023,644	10.08%
Brandes Investment Partners LP	105,625,101	7.44%
How Group Limited	99,378,882	7.00%
Heronbridge Investment Management	82,698,499	5.83%
Schroders plc	73,762,890	5.20%
FMR LLC	57,841,059	4.07%
BlackRock Inc	48,794,883	3.44%
Harris Associates LP	43,421,477	3.06%

No changes have been notified to the Company pursuant to Chapter 5 of the Disclosure Guidance and Transparency Rules between the end of the period under review and 8 June 2021, the latest practicable date prior to the date of this report.

Directors' interests in the Company's share capital are set out in the Directors' remuneration report on page 113.

Financial results

A detailed commentary on the operational and financial results of the Group for the year is contained within the Strategic report, including the Finance review on pages 26 to 29.

The Group's loss before tax from continuing operations for the year ended 31 March 2021 was £9.1m (2020: £48.4m profit).

Dividends

No interim dividend was paid (2020: 1.33p, restated to 0.69p for the bonus element of the Rights Issue) and no final dividend is recommended (2020: nil).

Total dividends per Ordinary Share for the year ended 31 March 2021 are nil (2020: 1.33p, restated to 0.69p for the bonus element of the Rights Issue).

As at 31 March 2021, the Company had distributable reserves of £86.6m (2020: £86.4m).

Mitie operates a Dividend Re-Investment Plan (DRIP) which allows shareholders to use their cash dividend to purchase additional Ordinary Shares. Further details on the operation of the DRIP and how to apply are available from Mitie's Registrar, Link Group.

The trustees of the Company's Employee Benefit Trust have agreed to waive dividends payable on Ordinary Shares held by the trust in respect of the year ended 31 March 2021.

In accordance with Section 726 of the Companies Act 2006, no dividends are paid on Ordinary Shares held in treasury.

Financial Instruments

The Group's financial instruments include bank borrowing facilities, lease liabilities, overdrafts, US private placement loan notes and derivatives which are used to manage interest, currency and other risks when necessary or material.

The principal objective of these instruments is to raise funds for general corporate purposes and to manage financial risk. Further details of these instruments are given in Note 25 to the consolidated financial statements.

Disclosure of information to the auditor

Each Director in office as at the date of this Directors' report confirms that:

- So far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware
- He/she has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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

By order of the Board

Peter Dickinson

Chief of Staff, General Counsel & Company Secretary
10 June 2021

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Peter Dickinson

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Directors' report: other disclosures continued

Statement of Directors' responsibilities in respect of the Annual Report, Remuneration 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 the Directors are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law including FRS 101 Reduced Disclosure Framework.

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

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements and accounting estimates that are reasonable, relevant, reliable and prudent
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements
- For the Company financial statements, state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group or Company will continue in business
- Prepare a Directors' report, Strategic report and Directors' remuneration report which comply with the requirements of the Companies Act 2006

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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.

The Directors are responsible for ensuring that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Directors' responsibilities pursuant to DTR4.1.12

The Directors confirm that to the best of their knowledge:

- The Group financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

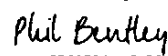
Website publication

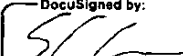
The Directors are responsible for ensuring that the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

Phil Bentley
Chief Executive Officer
10 June 2021

Simon Kirkpatrick
Chief Financial Officer
10 June 2021

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A technology leader

Technology is changing our industry. Mitie's vision is to harness its 'science of service' to generate social value through everyday operations.

—
34%

Customers using chatbots

—
94%

Customers using real time MI

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Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the Parent Company financial statements have been properly prepared in accordance with FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Mitie Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2021, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and notes to the consolidated financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Parent Company financial statements comprise the Company Balance Sheet, the Company Statement of Changes in Equity and notes to the company financial statements, including a summary of significant accounting policies. The financial reporting framework applied is applicable law and FRS 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. Our audit opinion is consistent with the additional report to the Audit Committee.

Independence

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 19 September 2017 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. In respect of the year ended 31 March 2021, we were reappointed by the members on 28 July 2020. The period of total uninterrupted engagement including reappointments is four years, covering the years ended 31 March 2018 to 31 March 2021.

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Following the acquisition of Interserve Facilities Management ("Interserve component") on 30 November 2020, we undertook procedures, in cooperation with the management of Mitie Group Plc, to identify and evaluate any current or recent interests or relationships, including any non-audit services provided to the Interserve component. As a result of this exercise, we identified certain relationships and services which, taking into account available safeguards, could compromise our integrity, objectivity or independence. As required by the FRC's Ethical Standard we proceeded to terminate these services within three months of the acquisition date.

Subsequent to this, three additional non-audit services were identified. These services are not included within the FRC Ethical Standard's permitted list of services to public interest entities and, although they were terminated at the earliest opportunity, this constituted a breach of the FRC's Ethical Standard as they were terminated outside of the three-month timeframe.

The services were provided by overseas member firms of the BDO network and constituted certain payroll, bookkeeping and tax services; in total, the fees during the period when the services were prohibited were insignificant in comparison to the audit fee and amounted to £9,000.

We have assessed the threats to independence as a result of the provision of these services and, in our opinion, we do not consider that our independence has been compromised as a result of the breach of the FRC's Ethical Standard.

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. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluated the further potential impact of COVID-19, including consideration of risks and uncertainties identified by the Directors that are associated with the Group's customers, suppliers and workforce. We assessed this against our own views on the risks based on our understanding of the business as well as the roll-out of the vaccination and the impact of Government restrictions, the wider sector and the business' performance in the 2021 financial year;

- We obtained the Directors' cash flow forecasts and challenged the key assumptions in respect of revenue growth, gross profit margins, cash generation and the potential impact of key provisions and contingent liabilities with reference to our knowledge of the business, its historical performance and results. We evaluated whether the Directors had considered appropriate risks and uncertainties in the preparation of the cash flow forecasts based on our assessment of the risks and issues relating to the business.
- We tested the integrity of the forecast model and assessed its consistency with approved budgets;
- We obtained and critically reviewed the Directors' reverse stress test analysis, performed to determine the point at which:
 - a further downturn in revenues
 - a deterioration of gross margin
 - a lack of planned overhead savings
 - net debt deterioration due to working capital outflows
 would result in a covenant breach or liquidity shortfall and without further mitigation would potentially impact the going concern of the business. Our consideration included an assessment of whether the reverse stress test analysis appropriately related to the key risks and issues to which the models were sensitive;
- We considered the potential impact of contingent liabilities and provisions falling due within the going concern period, and the impact on sensitivities and covenant headroom;
- We considered and challenged the nature and feasibility of the mitigating actions available to the business;
- We challenged the Directors conclusion that the downside sensitivities required for either a covenant breach or liquidity shortfall was remote by reference to our knowledge of the business, and the wider environment in which it operates. This included an assessment of reserve stress test sensitivities, COVID-19 factors, as well as current trading performance;
- We obtained the new financing agreements entered into by the Group during the year and confirmed that the facility was extended to December 2022 and covenant relaxed;
- We evaluated forecast covenant compliance and headroom calculations with reference to the covenants stated in the relevant lender agreements;
- We assessed covenants during the year and at year end, confirming that the Group were compliant under the terms of the lender agreements and waiver received; and
- We reviewed the adequacy of disclosures in the financial statements in respect of going concern.

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 Group and 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.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

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

Overview

Coverage¹	100% (2020: 97%) of Group revenue 99% (2020: 98%) of Group total assets
Key audit matters ("KAM")	<ol style="list-style-type: none"> 1) Revenue recognition and cut-off of accrued income – consistent with prior year 2) Presentation of Other Items – consistent with prior year 3) Accounting for the acquisition of the Interserve component – new KAM due to significance of acquisition in the year 4) Provisions and contingent liabilities – new KAM due to the key judgements made over specific claims, potential claims and onerous contracts arising within the acquired Interserve component <p>The prior year KAMs also included recoverability of trade receivables and accrued income. Whilst the Group continues to have provisions in place for these balances, based on collection of receivables during the current and prior year, this is no longer considered a KAM.</p>
Materiality	<p>Group financial statements as a whole</p> <p>£3.8m (2020: £3.5m) based on 5% of 3-year normalised average continuing profit before tax and other items (2020: 5% of continuing profit before tax and other items)</p>

¹ These are areas which have been subject to a full scope audit or specific audit procedures

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group operates through a number of legal entities, which form reporting components, consistent with the segmental analysis as disclosed in Note 3 to the financial statements. Technical Services, Business Services (incorporating Security and Cleaning), the Parent Company and the Interserve component were considered to be significant components subject to full scope audits.

Specialist Services (incorporating Landscapes, Waste and Care & Custody) and Corporate Centre were considered to be non-significant components, where we performed specific audit procedures on discrete financial statement areas that we considered presented risks of material misstatement to the Group financial statements. The remaining areas were subject to desktop review procedures.

BDO, through either Group or Component teams completed all audits and desktop review procedures, with the exception of the Interserve component, which was audited by a non-BDO firm.

Independent auditor's report continued

Our involvement with component auditors

For the work performed by the BDO and non-BDO component auditors, the Group team determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole.

Based on the identified risk of misstatement within the Interserve component it was determined that significant involvement was required by the Group audit team. The scope of work performed by the non-BDO component auditor was a full scope audit of the acquisition balance sheet at 30 November 2020 and the audit of the 4-month period ended 31 March 2021.

Our involvement with component auditors for both reporting periods included the following:

- Issue of detailed Group reporting instructions, which included the significant areas to be covered by their audit (including applicable key audit matters as detailed below), and set out the information required to be reported to the Group audit team;
- Regular communication with the component auditors throughout the planning, execution and completion phases of the audit;
- Members of the Group audit team virtually attended the key meetings and had detailed discussions with the component auditors and component management throughout the audit process in respect of significant risk areas; and
- Remote review of their working papers with additional challenge and specific work requests to ensure alignment with conclusions drawn.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition in respect of new and modified contracts and cut-off of accrued income The accounting policies and critical judgements applied are disclosed in Notes 1 and 2.	<p>The accounting for new and modified contracts needs to be assessed to ensure compliance with accounting standards.</p> <p>The Group holds material levels of accrued income, there is risk that cut-off has not been correctly applied and that revenue has not been appropriately recognised.</p> <p>The audit procedures completed included the following:</p> <ul style="list-style-type: none"> • Tested a sample of new and modified contracts in the year by evaluating Management's IFRS 15 contract assessments, testing details to contracts and invoices, and assessing that the related revenue recognition was in accordance with the requirements of applicable accounting standards. • For specific divisional revenue streams, tested the operating effectiveness of key controls including the testing of IT controls over key operating and financial reporting systems relevant to revenue, and manual controls relating to monthly reviews of contract revenues. • Tested a sample of accrued income balances at the year end to supporting documentation to confirm cut-off had been correctly applied, which included procedures such as: agreeing to proof of works, agreeing to contractual terms, confirming customer acceptance and subsequent invoicing, reviewing relevant customer correspondence regarding the specific accrued income balances. <p>Key observations:</p> <p>We found management's revenue recognition policy to be in line with the requirements of applicable accounting standards and the recognition and measurement of revenue in the year to be appropriate.</p>

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Presentation of Other items A breakdown of Other Items together with explanations is included in Note 4.</p> <p>The Group's accounting policy for Other items is described in Note 1 and the critical judgements applied is in Note 2.</p>	<p>We have benchmarked the items included within Other Items by reference to:</p> <ul style="list-style-type: none"> • The requirements of IAS 1 • Industry peer group • The guidance published by the Financial Reporting Council (FRC) • The guidance included in the "Guidelines on Alternative Performance Measures", issued by the European Securities and Markets Authority (ESMA) • Consistency with the treatment in prior periods <p>With regard to the benchmarking we have:</p> <ul style="list-style-type: none"> • Obtained an understanding of the composition of Other Items and the controls and processes in place. • Obtained an understanding of the specific Interserve acquisition and integration related costs incurred and the extension of certain internal transformation projects during the year. • Agreed a sample of items to supporting documentation. • Challenged management's rationale for the inclusion of certain items within Other Items particularly in areas of higher judgement such as restructuring and dual running costs. • Determined whether the costs recognised as Other Items meet the criteria of the Group's accounting policy and are consistent with the prior year. • Reviewed the consolidated income statement for any material credits that are considered to meet the Group's accounting policy for being classified as an Other Item. • Challenged the appropriateness of disclosure of these balances both in Note 4 and in the remainder of the annual report with reference to the Group's accounting policy and guidance published by the FRC and ESMA. <p>Key observations: We found that the presentation and disclosure of Other Items meets the criteria of the Group's accounting policy and is consistent with issued guidance and market practice.</p>

Independent auditor's report continued

Key audit matter

Accounting for the acquisition of the Interserve component

The accounting policies and critical judgements applied are disclosed in Notes 1 and 2.

The acquisition balances are disclosed in Note 30.

The Group completed the acquisition of the Interserve component on 30 November 2020 for cash consideration of £105m and issuance of 248.4m shares of the Parent Company valued at £94.6m, for total consideration of £199.6m.

The consideration is subject to working capital and net debt adjustments under the terms of the SPA and consequently the Group recorded a provisional receivable from the seller of £57.6m to reduce consideration with a corresponding reduction to goodwill. The adjustment to consideration is subject to agreement by the seller. The fair value of consideration was therefore £142.0m.

The accounting for the acquisition balance sheet at 30 November 2020 and the subsequent Purchase Price Allocation ("PPA") assessment, including the fair value of consideration, identification and valuation of intangible assets at acquisition date and subsequent residual goodwill, is complex and involves significant judgement. Management engaged an external expert to undertake the PPA assessment.

The acquired Interserve component also has certain specific loss-making contracts and legal and contractual issues (as described within a separate KAM).

How the scope of our audit addressed the key audit matter

We completed the following audit procedures:

- Obtained an understanding of the transaction and reviewed the Share Purchase Agreement ("SPA") and subsequent amendments to the agreement.
- Engaged with our own internal valuation specialists to challenge the PPA, including the identification of amounts related to customer relationships and other intangibles.
- Critically evaluated the capabilities, competence and objectivity of the external valuation experts engaged by Management for the PPA assessment.
- Evaluated and concluded on the appropriateness of external valuation expert's conclusions by comparing them to our knowledge of the industry.
- Tested the cash flow forecasts, including inputs and assumptions used to assess the fair value of the intangible assets acquired by comparing to actual and historical results and reasonableness of underlying information used.
- Tested the fair value of the consideration paid by vouching to supporting documentation and quoted market prices. We involved our forensic specialists in assessing the reasonableness of the adjustments made to the consideration with reference to refundable working capital adjustments and the terms of the SPA.
- We issued group audit instructions to the non-BDO component auditor in respect of their audit of the 30 November 2020 acquisition balance sheet, including specific procedures that were designed to ensure identified risks were appropriately tested.
- We reviewed the non-BDO component auditor's work on the 30 November 2020 balance sheet and work on all significant risks identified including specific focus on the balance sheet impact of revenue recognition and application of IFRS 15; this included inspecting the sample work performed by the non-BDO component auditor over the portfolio of customer contracts and assessed whether revenue and hence the balance sheet positions were appropriately recognised.
- We specifically considered whether the audit work identified any further areas relevant to Mitie's assessment of fair values in the acquired balance sheet.
- We challenged and tested Management's assessment of the fair value of the assets acquired, including accounting policy alignment and fair value adjustments.
- We reviewed the adequacy of the Group's disclosures in respect of the business combination by checking its appropriateness based on our workings and its compliance with the requirements of the accounting standards.

Key observations:

We found that Management's assessment of the fair value of the net assets and intangible assets acquired to be in line with its policy and applicable accounting standards.

We found the fair value adjustments made to purchase consideration by Management to be reasonable.

We found the disclosure in the Group financial statements, including the key judgements and estimates relating to these matters to be appropriate.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Provisions and contingent liabilities relating to the Interserve component</p> <p>The accounting policies and critical judgements applied are disclosed in Notes 1 and 2.</p> <p>Provisions are disclosed in Note 21 and contingent liabilities in Note 34</p>	<p>Material onerous contract provisions are recognised within the Interserve component. The calculation of these provisions involved Management estimate and judgement.</p> <p>There are also two potential claims against the Group, which involve significant Management judgement and the use of experts. One has been provided against and the other, relating to a cyber-security breach and ICO investigation is disclosed as a contingent liability.</p> <p>As described above, we were involved in the non-BDO component audit of the Interserve component, which included directing and reviewing procedures completed over their audit of provisions and contingent liabilities.</p> <p>The following audit procedures were performed in relation to onerous contract provision:</p> <ul style="list-style-type: none"> • Development of independent estimates of each provision and considered the individual and aggregate differences between those and Management's positions. • Assessment of completeness of onerous contract provisions through review of a sample of contracts, including attending Management's contract review meetings, to assess contract performance and identify any loss making or potentially loss making contracts for which a provision had not been considered. • Assessment of the appropriateness of source data use for each by reviewing the allocation to contracts for a sample of revenue and costs. • Obtaining an understanding of, and challenged, Management's assumptions used within the calculations. • Review of actual results for each contract for the period since acquisition against forecast for the same period. • Review of the adequacy of the Group's disclosures in respect of this area and its compliance with the requirements of the accounting standards. <p>The following audit procedures were performed in relation to the potential claim and the cyber security breach:</p> <ul style="list-style-type: none"> • Obtaining an understanding of each matter through discussion with senior management and the Group's internal legal counsel. • Review of relevant communications with third parties where available. • In respect of the potential claim, review of reports issued by experts engaged by Management and challenged assumptions used within them. • Consideration of the competence and independence of the experts engaged by Management. • Review of the adequacy of the Group's disclosures in respect of this area and its compliance with the requirements of the accounting standards. <p>Key observations:</p> <p>We found that the positions taken by management for provisions and contingent liabilities were reasonable and in line with the requirements of the applicable accounting standards.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Independent auditor's report continued

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group		Parent company	
	2021 £m	2020 £m	2021 £m	2020 £m
Materiality	3.8	3.5	2.7	2.4
Basis for determining materiality	5% of continuing 3-year normalised average profit before tax and other items		5% of continuing profit before tax and other items	
Rationale for the benchmark applied	We consider the use of a 3-year average to be the most appropriate benchmark given the impact of COVID-19 on profits and also the impact of the Interserve component acquisition. Using profit before other items and tax removes the impact of certain one-off or exceptional items and is also a key measure for stakeholders based on market practice and investor expectations.		We consider this to be the most appropriate threshold since this removes the impact of certain one-off or exceptional items on the underlying profit of the Group and is also a key measure for stakeholders based on market practice and investor expectations.	
			The Parent Company does not trade and materiality was capped at a percentage of Group materiality.	
Performance materiality	2.5	2.3	1.7	1.6
Basis for determining performance materiality	65% of materiality			
	The level of performance materiality was set after considering a number of factors including significant transactions in the year, the expected value of known and likely misstatements, and management's attitude towards proposed misstatements.			
	The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.			

Component materiality

We set materiality for each component of the Group based on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £1.0m to £2.5m (2020: £0.9m to £2.7m). In the audit of each component, we further applied performance materiality levels of 65% (2020: 65%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £133k (2020: £175k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts 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.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	<ul style="list-style-type: none"> The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 89; and The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate set out on page 89.
Other Code provisions	<ul style="list-style-type: none"> Directors' statement on fair, balanced and understandable set out on page 89; Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 88; The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 88; and The section describing the work of the audit committee set out on page 96.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> 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. <p>In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.</p>
Directors' remuneration	<p>In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or certain disclosures of Directors' remuneration specified by law are not made; or we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities within the Directors' report set out on page 128, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report continued

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 Group and the industry in which it operates, through discussion with management and the Audit Committee 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, the UK Listing Rules, IFRSs as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, Health and Safety, the Bribery Act 2010 and tax legislations.
- We considered compliance with these laws and regulations through discussions with management, in-house legal counsel, the company secretary, reviewing internal audit reports and the Audit Committee. Our procedures also included reviewing minutes from board meetings of those charges with governance to identify any instances of non-compliance with laws and regulations.
- We assessed the susceptibility of the Group'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 a detailed review of the Group'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 (refer to Appropriateness of revenue recognition KAM).
- We identified areas at risk of management bias, particularly in respect of the Interserve component and its acquisition, and reviewed key estimates and judgements applied by Management in the financial statements to assess their appropriateness (refer to Accounting for the acquisition of the Interserve component and Provisions and contingent liabilities relating to the Interserve component KAMs).
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and component auditors, and 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: 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 Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company for the report or for the opinions we have formed.

Scott McNaughton

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Scott McNaughton (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London, UK
10 June 2021

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

Consolidated income statement

For the year ended 31 March 2021

		2021			2020		
	Notes	Before other items £m	Other items ¹ £m	Total £m	Before other items £m	Other items ¹ £m	Total £m
Continuing operations							
Revenue including share of joint ventures and associates		2,589.3	–	2,589.3	2,173.7	–	2,173.7
Less: share of revenue of joint ventures and associates	15	(29.8)	–	(29.8)	–	–	–
Group revenue	3	2,559.5	–	2,559.5	2,173.7	–	2,173.7
Cost of sales		(2,274.9)	–	(2,274.9)	(1,886.2)	–	(1,886.2)
Gross profit		284.6	–	284.6	287.5	–	287.5
Administrative expenses		(223.1)	(53.9)	(277.0)	(201.4)	(21.5)	(222.9)
Share of profit/(loss) of joint ventures and associates	15	1.9	(1.2)	0.7	–	–	–
Operating profit/(loss)²	3, 6	63.4	(55.1)	8.3	86.1	(21.5)	64.6
Finance income		0.8	–	0.8	0.4	–	0.4
Finance costs	8	(18.2)	–	(18.2)	(16.6)	–	(16.6)
Net finance costs		(17.4)	–	(17.4)	(16.2)	–	(16.2)
Profit/(loss) before tax		46.0	(55.1)	(9.1)	69.9	(21.5)	48.4
Tax	9	(8.5)	7.5	(1.0)	(11.9)	4.0	(7.9)
Profit/(loss) from continuing operations after tax		37.5	(47.6)	(10.1)	58.0	(17.5)	40.5
Discontinued operations							
Profit from discontinued operations before tax	5	–	3.2	3.2	2.6	49.0	51.6
Tax	9	–	(0.4)	(0.4)	(0.3)	(1.3)	(1.6)
Profit from discontinued operations after tax	5	–	2.8	2.8	2.3	47.7	50.0
Profit/(loss) for the year attributable to owners of the parent		37.5	(44.8)	(7.3)	60.3	30.2	90.5
Earnings/(loss) per share (EPS) attributable to owners of the parent							
From continuing operations:							
Basic ³	11	3.5p		(0.9)p	8.3p		5.8p
Diluted ³	11	3.5p		(0.9)p	8.1p		5.6p
Total Group:							
Basic ³	11	3.5p		(0.6)p	8.6p		12.9p
Diluted ³	11	3.5p		(0.6)p	8.4p		12.6p

Notes:

1 Other items are as described in Note 4.

2 Including impairment losses on trade receivables and accrued income of £6.2m (2020: £4.4m gains).

3 Earnings per share for the year ended 31 March 2020 have been restated for the bonus element of the 2020 rights issue. See Note 33.

Strategic report

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Consolidated statement of comprehensive income

For the year ended 31 March 2021

	Notes	2021 £m	2020 £m
(Loss)/profit for the year		(7.3)	90.5
Items that will not be reclassified to profit or loss in subsequent years			
Remeasurement of net defined benefit pension liability	32	(5.4)	9.2
Share of other comprehensive income of joint ventures	15	0.4	–
Tax credit/(charge) relating to items that will not be reclassified to profit or loss in subsequent years	9	1.0	(1.3)
		(4.0)	7.9
Items that may be reclassified to profit or loss in subsequent years			
Exchange differences on translation of foreign operations		(0.9)	0.2
Net (losses)/gains on cash flow hedges taken to equity ¹		(1.1)	5.7
Tax credit/(charge) relating to items that may be reclassified to profit or loss in subsequent years	9	0.1	(0.7)
		(1.9)	5.2
Other comprehensive (expense)/income for the year		(5.9)	13.1
Total comprehensive (expense)/income for the year attributable to owners of the parent		(13.2)	103.6

Note:

¹ Net (losses)/gains on cash flow hedges taken to equity include a fair value loss of £13.7m (2020: £11.8m gain) on derivative financial instruments used for hedging private placement notes (See Note 25). This loss is netted against reclassifications related to foreign exchange gains on private placement notes of £12.6m (2020: £6.0m losses) and interest costs of £nil (2020: £0.1m).

Consolidated balance sheet

As at 31 March 2021

	Notes	2021 £m	Restated ¹ 2020 £m
Non-current assets			
Goodwill	12	282.2	278.9
Other intangible assets	13	266.2	50.6
Property, plant and equipment	14	117.9	110.8
Interest in joint ventures and associates	15	11.0	–
Derivative financial instruments	25	14.6	28.0
Other receivables	16	8.3	3.3
Contract assets	17	2.4	3.2
Retirement benefit assets	32	3.0	–
Deferred tax assets	22	32.0	32.6
Total non-current assets		737.6	507.4
Current assets			
Inventories	18	12.7	4.8
Trade and other receivables ¹	16	683.6	414.6
Contract assets	17	1.5	1.6
Derivative financial instruments	25	–	0.2
Current tax receivable		3.5	1.1
Cash and cash equivalents ¹	23	196.2	139.5
Total current assets		897.5	561.8
Total assets		1,635.1	1,069.2
Current liabilities			
Trade and other payables ¹	19	(701.5)	(513.4)
Deferred income	20	(84.5)	(35.9)
Current tax payable		(3.8)	–
Financing liabilities	24	(28.7)	(24.3)
Provisions	21	(48.3)	(41.4)
Total current liabilities		(866.8)	(615.0)
Net current assets/(liabilities)		30.7	(53.2)
Non-current liabilities			
Trade and other payables	19	(0.5)	(0.3)
Deferred income	20	(30.1)	(15.6)
Financing liabilities	24	(250.1)	(296.4)
Provisions	21	(68.1)	(11.8)
Retirement benefit liabilities	32	(45.5)	(46.7)
Deferred tax liabilities	22	(12.2)	(2.9)
Total non-current liabilities		(406.5)	(373.7)
Total liabilities		(1,273.3)	(988.7)
Net assets		361.8	80.5

Note:

¹ The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

Strategic report

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Financial statements

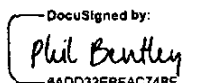
Consolidated balance sheet continued
As at 31 March 2021

	Notes	2021 £m	2020 £m
Equity			
Share capital	28	35.6	9.3
Share premium account	28	130.6	130.6
Merger reserve	29	358.6	99.9
Own shares reserve	29	(28.8)	(34.2)
Other reserves ¹	29	14.5	9.5
Hedging and translation reserve	29	(2.3)	(0.4)
Retained losses		(146.4)	(134.2)
Equity attributable to owners of the parent		361.8	80.5

Note:

¹ Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve. See Note 29.

The consolidated financial statements of Mitie Group plc, company registration number SC019230 were approved by the Board of Directors and authorised for issue on 10 June 2021. They were signed on its behalf by:

DocuSigned by:

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Phil Bentley
Chief Executive Officer

DocuSigned by:

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Simon Kirkpatrick
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 March 2021

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves ¹ £m	Hedging and translation reserve £m	Retained losses £m	Total equity £m
At 1 April 2019	9.3	130.6	104.2	(38.1)	10.3	(5.6)	(223.1)	(12.4)
Profit for the year	–	–	–	–	–	–	90.5	90.5
Other comprehensive income	–	–	–	–	–	5.2	7.9	13.1
Total comprehensive income	–	–	–	–	–	5.2	98.4	103.6
Transactions with owners								
Dividends paid	–	–	–	–	–	–	(14.4)	(14.4)
Share-based payments	–	–	–	3.9	(0.8)	–	0.6	3.7
Realised merger reserve	–	–	(4.3)	–	–	–	4.3	–
Total transactions with owners	–	–	(4.3)	3.9	(0.8)	–	(9.5)	(10.7)
At 31 March 2020	9.3	130.6	99.9	(34.2)	9.5	(0.4)	(134.2)	80.5
At 1 April 2020	9.3	130.6	99.9	(34.2)	9.5	(0.4)	(134.2)	80.5
Loss for the year ²	–	–	–	–	–	–	(7.3)	(7.3)
Other comprehensive expense	–	–	–	–	–	(1.9)	(4.0)	(5.9)
Total comprehensive expense	–	–	–	–	–	(1.9)	(11.3)	(13.2)
Transactions with owners								
Issue of shares ²	26.3	–	261.7	–	–	–	–	288.0
Rights issue expenses ³	–	–	(3.0)	–	–	–	–	(3.0)
Share-based payments	–	–	–	5.4	5.0	–	(0.9)	9.5
Total transactions with owners	26.3	–	258.7	5.4	5.0	–	(0.9)	294.5
At 31 March 2021	35.6	130.6	358.6	(28.8)	14.5	(2.3)	(146.4)	361.8

Notes

- Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve. See Note 29.
- As part of consideration for the acquisition of Interserve (Holdings) Limited (Interserve), 248.4 million shares were issued with premium of £88.4m arising (see Note 30). In addition, 805.1 million shares were issued with premium of £173.3m arising in connection with the rights issue which utilised a cash box structure (see Note 33). These share issues qualified for merger relief under Section 612 of the Companies Act 2006, so that total premium arising of £261.7m was not required to be credited to the share premium account.
- Under the cash box structure, the Group received £193.4m from the rights issue, after deduction of issue costs of £7.9m. The remaining £3.0m of rights issue expenses are payable by the Group and have been charged against the merger reserve (see Note 33).

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Consolidated statement of cash flows

For the year ended 31 March 2021

	Notes	2021 £m	Restated ¹ 2020 £m
Continuing operations – operating profit before other items	3	63.4	86.1
Continuing operations – other items	4	(55.1)	(21.5)
Discontinued operations – operating (loss)/profit after other items	5	3.2	51.8
Adjustments for:			
Share-based payments expense	31	9.5	3.7
Defined benefit pension costs	32	2.0	1.3
Defined benefit pension contributions	32	(12.2)	(10.7)
Depreciation of property, plant and equipment	14, 26	34.4	33.3
Amortisation of intangible assets	13	17.5	11.4
Amortisation of customer contracts and relationships for joint ventures arising on business combinations	15	1.2	–
Share of profit of joint ventures and associates	15	(1.9)	–
Amortisation of contract assets	17	1.7	1.5
Impairment of non-current assets	13, 14, 26	13.7	0.8
Loss on disposal of property, plant and equipment		–	0.3
Gain on disposal of businesses	5	(1.2)	(50.3)
Research and development tax credits		–	(0.8)
Other		–	(1.9)
Operating cash flows before movements in working capital		76.2	105.0
Increase in inventories		(1.7)	(1.2)
(Increase)/decrease in receivables ¹		(4.3)	24.9
Increase in contract assets		(0.8)	(0.5)
Increase/(decrease) in deferred income		6.7	(23.6)
Decrease in payables ¹		(34.9)	(8.5)
Decrease in provisions		(1.4)	(4.0)
Cash generated from operations		39.8	92.1
Income taxes paid		(1.0)	(6.4)
Interest paid		(15.9)	(15.4)
Net cash generated from operating activities		22.9	70.3
Investing activities			
Acquisition of businesses, net of cash acquired ²	30	(64.6)	(1.0)
Disposal of businesses, net of cash disposed ³	5	–	65.2
Interest received		0.8	0.4
Purchase of property, plant and equipment	14	(7.6)	(8.2)
Dividends received from joint ventures and associates	15	0.8	–
Purchase of other intangible assets	13	(15.0)	(11.2)
Disposal of property, plant and equipment		1.0	0.4
Net cash (used)/generated from investing activities		(84.6)	45.6

Notes

¹ The Group has changed its accounting policy in relation to the recognition of BACS payments (See Note 1). As a result the comparatives on the consolidated statement of cash flows for the year ended 31 March 2020 have been restated, with an overall increase in net cash inflow of £20.3m due to an increase in payables of £16.3m and a decrease in receivables of £4.0m.

² Acquisition of businesses is net of cash acquired of £40.4m (2020: £0.5m).

³ Disposal of businesses for the year ended 31 March 2020, is net of cash disposed of £4.5m and transaction costs paid for disposals of £3.0m.

Consolidated statement of cash flows continued

For the year ended 31 March 2021

	Notes	2021 £m	Restated ¹ 2020 £m
Financing activities			
Proceeds from issue of ordinary shares, net of issue costs	33	193.4	–
Rights issue expenses paid	33	(3.0)	–
Capital element of lease rentals	26	(28.1)	(21.2)
Repayment of bank loans		(40.5)	(3.9)
Private placement notes repaid		–	(40.0)
Payment of arrangement fees		(2.8)	–
Equity dividends paid	10	–	(14.4)
Net cash generated/(used) in financing activities		119.0	(79.5)
Net increase in cash and cash equivalents		57.3	36.4
Net cash and cash equivalents at beginning of the year ¹		139.5	103.0
Effect of foreign exchange rate changes		(0.6)	0.1
Net cash and cash equivalents at end of the year	23	196.2	139.5

Note:

1. The Group has changed its accounting policy in relation to the recognition of BACS payments (See Note 1). As a result the comparatives on the consolidated statement of cash flows for the year ended 31 March 2020 have been restated, with an overall increase in net cash inflow of £20.3m due to an increase in payables of £16.3m and a decrease in receivables of £4.0m.

The above statement of consolidated cash flows includes cash flows from both continuing and discontinued operations. Further details of the cash flows relating to discontinued operations are shown in Note 5.

	Notes	2021 £m	Restated ¹ 2020 £m
Reconciliation of net cash flow to movements in net debt			
Net increase in cash and cash equivalents		57.3	36.4
Less: increase in restricted cash		(18.7)	–
Net increase in unrestricted cash and cash equivalents		38.6	36.4
Cash drivers			
Repayment of bank loans		40.5	3.9
Private placement notes repaid		–	40.0
Payment of arrangement fees		2.8	–
Capital element of lease rentals		28.1	21.2
Non-cash drivers			
Non-cash movement in bank loans		(1.1)	(0.4)
Non-cash movement in private placement notes and associated hedges		(1.1)	5.7
Non-cash movement in lease liabilities ²		(41.1)	(26.1)
Effect of foreign exchange rate changes		(0.4)	(0.1)
Decrease in net debt during the year		66.3	80.6
Opening net debt		(153.0)	(233.6)
Closing net debt	27	(86.7)	(153.0)

Note:

1. The Group has changed its accounting policy in relation to the recognition of BACS payments (See Note 1). As a result, the comparative net debt as at 31 March 2020 and 31 March 2019 have been restated leading to a decrease in net debt of £14.9m and an increase in net debt of £5.4m respectively.

2. Included within the non-cash movement in lease liabilities is £14.2m (2020: £nil) of lease liabilities arising on acquisition of Interserve. See Notes 26 and 30.

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Notes to the consolidated financial statements

For the year ended 31 March 2021

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

Mitie Group plc (the Company) is a company incorporated in the United Kingdom and registered in Scotland. It was incorporated on 16 July 1936 under the Companies Act 1929. The Company's registered office is at 35 Duchess Road, Rutherglen, Glasgow, G73 1AU. The Group comprises the Company and all its subsidiaries. The Group's consolidated financial statements are presented in pounds Sterling, which is the Company's functional and presentational currency. All amounts have been rounded to the nearest one hundred thousand pounds, unless otherwise indicated.

The Group's principal activities are focused on the provision of strategic outsourcing, including the management and provision of business support services and ancillary activities.

The Group's consolidated financial statements for the year ended 31 March 2021 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Group's financial statements have been prepared on the historical cost basis, except for certain financial instruments which are required to be measured at fair value.

Going concern

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the Group's business activities as set out on pages 8 to 29 and the principal risks and uncertainties as set out on pages 54 to 65.

The Directors have carried out an assessment on the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the financial statements. This assessment has involved the review of medium-term cash forecasts using the Group's cash flow model, based on the Board approved budget. This includes the ongoing impact of COVID-19 on each of the Group's operations. 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 are a £250m revolving credit facility, which expires on 16 December 2022 and of which £241.4m was undrawn at 31 March 2021, and £151.5m of US private placement notes (being the repayment amount after taking account of the cross-currency swaps hedging the principal amount), of which £121.5m are repayable in December 2022 and the remaining £30.0m in December 2024. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis, as set out in the finance review on pages 26 to 29. Mitie currently operates within the terms of its agreements with its lenders, with net cash as at 31 March 2021 on a pre IFRS 16 basis of £19.7m and liquidity headroom in excess of £400m. 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 have also completed reverse stress tests 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 both the Group's principal risks and uncertainties and the Viability Statement.

The primary financial risks from adverse changes in the economic environment and / or a deterioration in commercial or operational conditions are listed below. These risks have been considered specifically in the context of the potential further impact of COVID-19, taking into account the recent success of the vaccine roll-out, easing of restrictions and improvements in the economy:

- 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;
- Lack of planned overhead savings: this reflects the risks of planned overhead cost savings, including the integration synergies identified as a result of the Interserve acquisition, not being delivered;
- Downturn in cash generation: this reflects the risks of customers delaying payments due to liquidity constraints, or the removal of ancillary debt facilities.

As a result of completing this assessment, the Directors considered the likelihood of the reverse stress scenarios arising to be remote. In reaching the conclusion of remote, the Directors considered the following:

- Reviewing how the Group has traded since the impact of COVID-19 started, up to the end of May 2021 and in light of the continued easing of UK lockdown measures and anticipated economic recovery.
- All reverse stress test scenarios would require a very severe deterioration compared to the base case. Revenue is considered to be the key risk, as this is less within the control of management. Revenue would need to decline by approximately 20% in the year ending 31 March 2022 compared to the base case, which is considered to be very severe given the high proportion of Mitie's revenue that is fixed in nature and the fact that in a COVID-hit year, Mitie's revenue excluding Interserve declined by only 1.6% in the year ending 31 March 2021.
- In the event that results started to trend significantly below those included in the Group cash flow model, additional mitigation actions have been identified that would be implemented, which are not factored into the reverse stress test scenarios. These include cancellation of discretionary bonuses and reduced discretionary spend, including capital investments.

Based on these assessments, the Directors 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, in respect of material uncertainty, the Directors consider that this is remote.

1. Basis of preparation and significant accounting policies continued

Accounting standards that are newly effective in the current year

None of the new standards and amendments that are effective for the first time in these consolidated financial statements for the year ended 31 March 2021 have had a material effect on the Group.

The accounting policies and methods of calculation adopted in the preparation of these Group consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 March 2020, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board and as adopted for use in the European Union.

Accounting standards that are not yet mandatory and have not been applied by the Group

None of the new standards and amendments that are not yet effective are expected to have a material effect on the Group.

(b) Accounting policy change

On 30 November 2020, the Group acquired Interserve and undertook a review to align accounting policies across the enlarged Group. It was identified that Mitie's accounting policy in relation to accounting for Banker's Automated Clearing System (BACS) payments was different to that historically applied by Interserve. Mitie's accounting policy was to recognise BACS payments and receipts at the initiation date, whereas Interserve's was to recognise BACS payments and receipts at the settlement date. Following a review, it was decided to change Mitie's accounting policy and recognise BACS payments and receipts at the settlement date, as this would have operational benefits including simplifying the cash management process and accelerating period end reporting.

The change in accounting policy has been accounted for retrospectively, and accordingly, the comparative information for 31 March 2020 has been restated which has resulted in a reclassification between trade receivables, trade payables and cash and cash equivalents. As a consequence, net debt has also been restated (as set out in the table below) and cash generated from operations has also been restated (as set out in the footnotes to the Statement of consolidated cash flows). There has been no impact on the income statement, earnings per share or net assets.

The impact of the restatement on the consolidated balance sheet at 31 March 2020 and 1 April 2019 is shown below.

	As reported £m	Reclassification £m	As restated £m
31 March 2020			
Cash and cash equivalents	124.6	14.9	139.5
Current trade and other receivables	403.1	11.5	414.6
Current trade and other payables	(487.0)	(26.4)	(513.4)
Net current liabilities	(53.2)	–	(53.2)
Net assets	80.5	–	80.5
Net debt	(167.9)	14.9	(153.0)
1 April 2019			
Cash and cash equivalents	108.4	(5.4)	103.0
Current trade and other receivables	435.2	15.5	450.7
Current trade and other payables	(533.9)	(10.1)	(544.0)
Net current liabilities	(129.6)	–	(129.6)
Net liabilities	(12.4)	–	(12.4)
Net debt	(228.2)	(5.4)	(233.6)

(c) Significant accounting policies

The significant accounting policies adopted in the preparation of the Group's IFRS financial information are set out below.

Basis of consolidation

The Group's consolidated financial statements comprise the financial statements of Mitie Group plc and all its subsidiaries. The Company's separate financial statements are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 issued by the Financial Reporting Council (FRC). Accordingly, for the year ended 31 March 2021, the Company reported under FRS 101 as issued by the FRC. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The results, assets and liabilities of joint ventures and associates are accounted for under the equity method of accounting. Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring the accounting policies used into line with those used by the Group.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1. Basis of preparation and significant accounting policies continued

Interests of non-controlling interest shareholders are measured at the non-controlling interest's proportion of the net fair value of the assets and liabilities recognised. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Joint ventures and associates

Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the entity, rather than rights to its individual assets and obligations for its individual liabilities.

Associates are those entities over whose financial and operating policies the Group has significant influence, but not control or joint control.

The results, assets and liabilities of joint ventures and associates are incorporated in the Group's financial statements using the equity method of accounting except when classified as held for sale.

Under the equity method, an investment in a joint venture or associate is initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture or associate. Any excess of the cost of acquisition over the Group's share of net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture or associate at the date of acquisition is recognised as goodwill. Where the Group entity transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control have the right to the assets, and obligations for the liabilities, relating to the arrangement or other facts and circumstances indicate that is the case. The Group's share of the results, assets and liabilities of contracts carried out in joint operations with another party are included under each relevant heading in the consolidated income statement and consolidated balance sheet.

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

In the financial statements, the Group has elected to provide some further disclosures and performance measures, reported as 'before other items', in order to present its financial results in a way that demonstrates the performance of continuing operations.

Other items are items of financial performance which management believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. The Group separately reports impairment of goodwill, impairment and amortisation of acquisition related intangible assets, acquisition and disposal costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items and their related tax effect as other items. Should these items be reversed, disclosure of this would also be as other items.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the period and the extent to which results are influenced by material unusual and/or non-recurring items. Further detail of other items is set out in Note 4.

In addition, following the guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authorities (ESMA), the Group has included an APM appendix to the financial statements on pages 211 to 213.

Revenue recognition policy

The Group operates contracts with a varying degree of complexity across its service lines, so a range of methods is used for the recognition of revenue based on the principles set out in IFRS 15. Revenue represents income recognised in respect of services provided during the period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts.

Step 1 – Identify the contract(s) with a customer

For all contracts with customers, the Group determines if the arrangement creates enforceable rights and obligations. This assessment results in certain Framework arrangements or Master Service Agreements (MSAs) not meeting the definition of contracts under IFRS 15 unless they specify the minimum quantities to be ordered. Usually the work order and any change orders together with the Framework or MSA will constitute the IFRS 15 contract.

Duration of contract

The Group frequently enters into contracts with customers which contain extension periods at the end of the initial term, automatic annual renewals, and/or termination for convenience and break clauses that could impact the duration of the contract. Judgement is applied to assess the impact that such clauses have in determining the relevant contract term. The term of the contract affects the period over which amortisation of contract assets and revenue from performance obligations is recognised. 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.

1. Basis of preparation and significant accounting policies continued

Contract modifications

Where the Group's contracts are amended for changes to customer requirements, such as change orders and variations, a contract modification takes place when the amendment creates new enforceable rights and obligations or changes the existing price or scope (or both) of the contract, and the modification has been approved. Contract modifications can be approved in writing, by oral agreement, or implied by customary business practices.

If the parties to the contract have not approved a contract modification, revenue is recognised in accordance with the existing contractual terms. If a change in scope has been approved but the corresponding change in price is still being negotiated, change to the total transaction price is estimated.

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. If the price of additional distinct goods or services is not commensurate with the standalone selling prices for those goods or services, then this is considered a termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification. Where new goods or services are not distinct from those in the original contract, then these are considered to form part of the original contract with any update to pricing recognised as a cumulative catch up to revenue. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Step 2 – Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Group to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers such as in the Group's integrated facilities management contracts, judgement is applied to consider whether those promised goods or services are:

- i. distinct and accounted for as separate performance obligations;
- ii. combined with other promised goods or services until a bundle is identified that is distinct; or
- iii. part of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Group treats the series as a single performance obligation.

Step 3 – Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which management expects the Group to be entitled and has rights under the contract. This includes the fixed price stated in the contract and an assessment of any variable consideration, up or down, resulting from e.g. discounts, rebates, service penalties. Variable consideration is typically estimated based on the expected value method and is only recognised to the extent it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal.

Step 4 – Allocate the transaction price to the performance obligations in the contract

The Group allocates the total transaction price to the identified performance obligations based on their relative stand-alone selling prices. This is predominantly based on an observable price or a cost plus margin arrangement. It is necessary to estimate the stand-alone selling price when the Group does not sell equivalent goods or services in similar circumstances on a stand-alone basis. When estimating the stand-alone selling price, the Group maximises the use of external inputs by observing the stand-alone selling prices for similar goods and services using an industry recognised price list or cost indices in applying a cost-plus reasonable margin approach.

Step 5 – Recognise revenue when or as the entity satisfies its performance obligations

For each performance obligation, management determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Group applies the relevant output or input revenue recognition method for measuring progress that depicts the Group's performance in transferring control of the goods or services to the customer.

Certain long-term contracts use output methods based upon surveys of performance completed, appraisals of results achieved, or milestones reached which allow the Group to recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services under the contract.

Under the input method, measured progress and revenue are recognised in direct proportion to costs incurred where the transfer of control is most closely aligned to the Group's efforts in delivering the service.

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

If performance obligations do not meet the criteria to recognise revenue over time, revenue is recognised at the point in time when control of the goods or services passes to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria. Sales of goods are recognised when goods are delivered and control has passed to the customer.

Long-term complex contracts

The Group has a number of long-term complex contracts which are predominantly integrated facilities management arrangements. Typically, these contracts involve the provision of multiple service lines, with a single management team providing an integrated service. Such contracts tend to be transformational in nature where the business works with the customer to identify and implement cost saving initiatives across the life of the contract.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1. Basis of preparation and significant accounting policies continued

Management considers the majority of services provided within integrated facilities management contracts meet the definition of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time. The series constitutes services provided in distinct time increments (e.g. monthly or quarterly) and therefore the Group treats the series of such services as one performance obligation.

The Group also delivers major project-based services under long-term complex contracts that include performance obligations under which revenue is recognised over time as value from the service is transferred to the customer. This may be where the Group has a legally enforceable right to remuneration for the work completed to date, and therefore revenue will be recognised in line with the associated transfer of control.

The Group has a number of long-term PFI lifecycle contracts to maintain properties over periods of up to 30 years. A fund is established at the start of the contract and amounts are drawn down by the Group as maintenance work is performed. For certain contracts the Group is also entitled to share in any surplus left in the fund. Revenue is recognised over time to reflect the rendering of the service including an assessment of the appropriate proportion of the likely surplus in the fund, subject to being highly probable not to reverse. The amount of surplus available is dependent on the rate of wear and tear of the assets, which is substantially outside the control of the entity and the customer. As such the Group does not deem there to be a significant financing component.

Repeat service-based contracts (single and bundled contracts)

The Group operates a number of single or joint-service line arrangements where repeat services meet the definition of a series of distinct services that are substantially the same (e.g. the provision of cleaning, security, catering, waste, and landscaping services). They have the same pattern of transfer of value to the customer as the series constitutes core services provided in distinct time increments (e.g. monthly or quarterly). The Group therefore treats the series of such services as one performance obligation.

Short-term service-based arrangements

The Group delivers a range of other short-term service-based performance obligations and professional services work across certain reporting segments for which revenue is recognised at the point in time when control of the service has transferred to the customer. This may be at the point when the customer obtains control of the service in a contract with customer-specified acceptance criteria e.g. the delivery of a strategic operating model or report.

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 Group for expenses incurred are recognised in the income statement as a deduction against the related expense for which the grant is intended to compensate, over the periods necessary to match the grant with the related costs. Any repayment of grants is charged to the income statement to reverse the deduction against the related expense, 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.

Contract costs

The Group incurs pre-contract expenses (e.g. legal costs) when it is expected to enter into a new contract. The incremental costs to obtain a contract with a customer are recognised within contract assets if it is expected that those costs will be recoverable. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense in the period.

Contract fulfilment costs

Costs incurred to ensure that the project or programme has appropriate organisational, operational and technical infrastructures, and mechanisms in place to enable the delivery of full services under the contract target operating model, are defined as contract fulfilment costs. Only costs which meet all three of the criteria below are included within contract assets on the balance sheet:

- i. the costs directly relate to the contract (e.g. direct labour, materials, subcontractors);
- ii. the Group is building an asset that will subsequently be used to deliver contract outcomes; and
- iii. the costs are expected to be recoverable i.e. the contract is expected to be profitable after amortising the capitalised costs.

Contract fulfilment costs covered within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment are not capitalised as contract fulfilment assets but are treated in accordance with the other standard.

Amortisation and impairment of contract assets

The Group amortises contract assets (pre-contract costs and contract fulfilment costs) on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. The expense is recognised in the income statement in the period.

A capitalised pre-contract cost or contract fulfilment cost is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use.

Management is required to determine the recoverability of contract related assets at each reporting date. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services under the relevant contract. In determining the estimated amount of consideration, management uses the same principles as it does to determine the contract transaction price. An impairment is recognised immediately where such losses are forecast.

1. Basis of preparation and significant accounting policies continued

Accrued income and deferred income

The Group's customer contracts include a diverse range of payment schedules which are often agreed at the inception of long-term contracts under which it receives payments throughout the term of the arrangement. Payments for goods and services transferred at a point in time may be at the delivery date, in arrears or part payment in advance.

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

Where price step-downs are required in a contract and output is not decreasing, revenue is deferred from initial periods to subsequent periods in order for revenue to be recognised on a consistent basis.

Providing the option for a customer to obtain extension periods or other services at a significant discount may lead to a separate performance obligation where a material right exists. Where this is the case, the Group allocates part of the transaction price from the original contract to deferred income which is then amortised over the discounted extension period or recognised immediately when the extension right expires.

Foreign currency

The financial statements of each of the Group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. 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.

On consolidation, the assets and liabilities of the Group's foreign operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing at the balance sheet date. Income and expenses are translated into sterling at average exchange rates for the period. Exchange differences arising are recognised directly in equity in the Group's hedging and translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs are recognised in the income statement in the period in which they are incurred, with the finance charges relating to the direct cost of debt issue spread over the period to redemption using the effective interest method. The Group has elected to classify cashflows from interest paid as operating activities and interest received as investing activities. Interest paid includes the interest portion of the lease liabilities.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities; or when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1. Basis of preparation and significant accounting policies continued

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed. The identifiable assets, liabilities and contingent liabilities of the acquiree that meet the conditions for recognition are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Negative goodwill representing a gain from a bargain purchase, is recognised directly in the income statement.

Where applicable, the consideration for an acquisition includes any assets or liabilities resulting from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information, obtained within one year from the acquisition date, about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in the income statement, in accordance with IFRS 9. Changes in the fair value of contingent consideration classified as equity are not recognised.

Any business combinations prior to 1 April 2010 were accounted for using the standards in place prior to the adoption of IFRS 3 (revised 2008) which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, of an investment in an associate or a joint venture.

The Group measures the lease liability for acquired leases at the present value of the remaining lease payment discounted using an appropriate discount rate. As permitted by IFRS 3 *Business Combinations*, the Group treats acquired leases as new leases, thereby recording the right-of-use asset as equal to the lease liability.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. It is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement for the period and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

When a business reorganisation results in changes to the composition of CGUs, goodwill is reallocated to updated CGUs. The goodwill allocated to a prior CGU is wholly reallocated to an updated CGU, where the goodwill wholly arose on the acquisition of businesses comprised within the updated CGU. Where this is not possible, a relative value approach is taken to allocate goodwill to updated CGUs.

1. Basis of preparation and significant accounting policies continued

Other intangible assets

Other intangible assets identified in a business acquisition are capitalised at fair value as at the date of acquisition.

Customer contracts and relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives.

Software and development expenditure is capitalised as an intangible asset if the asset created can be identified, if it is probable that the asset created will generate future economic benefits and if the development cost of the asset can be measured reliably. Software and development expenditure includes internally generated intangible assets and is amortised over its useful life once it has been brought into use.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are reviewed for impairment annually, or more frequently when there is an indication that they may be impaired. Amortisation expense is charged to administrative expenses in the income statement on a straight-line basis over its useful life as follows:

Customer contracts and relationships	5–15 years
Acquired software and technology	3–10 years

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost less expected residual value of the assets over their estimated useful lives and is calculated on a straight-line basis as follows:

Land and buildings	50 years or lease term if shorter
Plant and vehicles	3–10 years

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, management estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value and are mainly consumables in nature.

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

Financial assets comprise cash and cash equivalents, trade and other receivables from customers, derivative financial instruments, and contingent consideration receivable. 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. Cash that can only be used for a specific purpose or where access is constrained is classified as restricted cash. All of the Group's cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Group's revenue streams are therefore initially measured at their transaction price and are subsequently remeasured at amortised cost.

Financial liabilities comprise trade and other payables, financing liabilities, and contingent consideration payable. These are measured at initial recognition at fair value and subsequently at amortised cost with the exception of contingent consideration payable which is measured at fair value through profit or loss. Financing liabilities are stated at the amount of the net proceeds after deduction of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1. Basis of preparation and significant accounting policies continued

Invoice discounting

The Group uses a non-recourse customer invoice discounting facility (CID facility) under which certain trade receivable balances are sold to the Group's relationship banks. The arrangement with the banks is such that the customers remit cash directly to the Group and the Group transfers the collected amounts to the banks. The trade receivables are sold without recourse to the Group, and therefore the trade receivable balance is derecognised from the Group's balance sheet at the point of sale to the bank.

Financial instruments – impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECLs) on all receivable balances from customers measured at amortised cost, using the simplified approach. Under this approach, the Group 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 (e.g. government or non-government).

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, including cross-currency interest rate swaps and forward foreign exchange contracts, to manage the Group's exposure to financial risks associated with interest rates and foreign exchange. Derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value, determined by reference to market rates, at each balance sheet date and included as financial assets or liabilities as appropriate. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

The Group presents derivative financial instruments as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Derivatives, which are set to mature or are expected to be realised or settled within 12 months, are presented as current assets or current liabilities.

The Group may designate certain hedging instruments including derivatives as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. On adoption of IFRS 9, the Group elected to continue to apply the hedge accounting guidance in IAS 39 'Financial Instruments: recognition and measurement'.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

Hedges are classified as cash flow hedges when they hedge the exposure to changes in cash flows that are attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity within the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

Hedges of net investments in foreign operations

Hedges are classified as net investment hedges when they hedge the foreign currency exposure to changes in the Group's share in the net assets of a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in equity are reclassified to the income statement in the same way as exchange differences relating to the foreign operation.

1. Basis of preparation and significant accounting policies continued

Leases

The Group has various lease arrangements for properties (e.g. office buildings and storage facilities), vehicles, and other equipment including IT equipment and machinery. At inception of a lease contract, the Group 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 Group 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 rate 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 which are disclosed within the financing activities and the operating activities sections of the consolidated statement of cash flows respectively. 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 Group 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.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where 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 Group's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms.

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.

Contingent assets

No assets are recognised and only a disclosure in the financial statements is made for contingent assets where an inflow of economic benefits is probable but not virtually certain. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

1. Basis of preparation and significant accounting policies continued

Share-based payments

The Group operates a number of executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes model or the share price at grant date, and the corresponding expense is recognised on a straight-line basis over the vesting period based on management's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

The own shares reserve in equity includes the shares owned by the Employee Trust and treasury shares. When shares are transferred to employees upon exercise of options and awards, the own shares reserve is reduced by the relevant cost or value.

Costs incurred on issue of equity

The Group has incurred costs in the period in relation to the 2020 rights issue. The transaction costs of such an equity transaction are recorded as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Retirement benefit costs

The Group operates a number of defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as the related service is provided.

In addition, the Group operates and participates in a number of defined benefit schemes. In respect of the schemes in which the Group makes contributions under Admitted Body status to clients' defined benefit schemes in respect of certain employees who transferred to the Group under TUPE, the Group accounts for its legal and constructive obligations over the period of its participation which is for a fixed period only.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date 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, excluding interest) are recognised in the statement of comprehensive income in the period in which they occur.

Defined benefit pension costs (including curtailments) are recognised in the income statement, in either administrative expenses or other items, whilst the net interest cost is recognised in finance costs.

The Group's net liability 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 the 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 Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme, where the Group has the unconditional right to the surplus, or reductions in future contributions to the scheme.

The Group participates in four multi-employer defined benefit pension schemes. For three of these schemes the Group's share of the assets and liabilities is minimal. The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme), a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. Historically, the size and complexity of the Plumbing Scheme has meant the trustee has been unable to identify the assets and liabilities of the scheme which are attributable to the Group. The Plumbing Scheme trustee has issued Section 75 employer debt notices in respect of the participation of Robert Prettie & Co Limited and Mitie FM Limited (formerly Interserve (Facilities Management) Limited) in the Plumbing Scheme (refer to Notes 21 and 32). Another Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme and the Group accounts for its contributions as if they were paid to a defined contribution scheme. For schemes where sufficient information is not available to use defined benefit accounting, no liability is recognised on the balance sheet, however, the obligations are disclosed as contingent liabilities in Note 34.

Dividends

Interim dividends are recognised as a liability when they are paid and final dividends are recognised as a liability when authorised in a general meeting by shareholders. Dividend income, including from joint ventures and associates, is recognised on receipt.

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

Critical judgements in applying the Group's accounting policies

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

Revenue recognition

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

Due to the size and complexity of the Group'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 Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

For certain contracts, key judgements were made concerning contract extensions and amendments which, for example, directly impact the timing of revenue recognition in addition to the phasing of upfront payments to, or from customers which are deferred to the balance sheet and unwound over the expected contract term. Management considers this to be an area of judgement due to the determination of whether a modification represents a separate contract based on its assessment of the stand-alone selling price, rather than a termination of the existing contract and establishment of a new contract for which the revised contract price would be recognised from the date of modification.

Profit before other items

'Other items' are items of financial performance which management believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item should be classified within other items requires judgement as to whether an item is or is not part of the underlying performance of the Group.

Other items after tax of £44.8m were charged (2020: £30.2m credited) to the income statement for the year ended 31 March 2021. An analysis of the amounts included in other items is detailed in Note 4.

Recoverability of trade receivables and accrued income

The Group has material amounts of billed and unbilled work outstanding at 31 March 2021. 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 Group recognises a loss allowance for expected credit losses (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 Group 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. The judgement on specific allowance for impairments on receivables as at 31 March 2021 has included an assessment of COVID-19 impacts.

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

The Group 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 Group 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 Group to exercise either the renewal or termination option. After the commencement date, the Group 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.

Business combination – purchase price allocation

The Group completed the acquisition of Interserve on 30 November 2020. The provisional purchase consideration totalled £142.0m which resulted in a provisional goodwill balance of £3.3m recognised on acquisition, after considering the provisional fair values of the identifiable net assets acquired of £138.7m. See Note 30.

The total consideration reported of £142.0m includes a provisional value for the adjustment to consideration which relates to the completion accounts process for this transaction. This provisional value represents management's best estimate of the amount expected to be received through the completion accounts process. The adjustment has reduced the fair value of consideration and therefore goodwill by £57.6m, with a corresponding receivable being recorded. See Notes 16 and 30.

This has required management to make judgements around the outcome of the completion accounts process. The outcome of the completion accounts process is inherently uncertain, given that this is subject to a commercial negotiation and potentially expert determination, and the final amount agreed could therefore be materially different from the estimate.

The fair value of consideration and goodwill recognised are therefore provisional and subject to finalisation. As permitted under IFRS 3, any revisions to the purchase consideration or to the fair value of the assets and liabilities acquired, which arise in the 12 months following the date of acquisition and relate to conditions and information that existed at the date of acquisition, will result in an adjustment against the goodwill.

When the Group completes a business combination, the fair value of the identifiable assets and liabilities acquired are recognised through a purchase price allocation process, the determination of which requires management judgement. The most significant fair value adjustment relates to attributing value to the acquired intangible assets recognised (primarily customer contracts and relationships).

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

2. Critical accounting judgements and key sources of estimation uncertainty continued

In determining the fair value of Interserve's customer contracts and relationships, the Group used forecast customer cash flows from the contracts and expected renewal rates and applied an appropriate discount rate specific to the asset. In determining the cash flows, management used judgement to estimate revenue growth, profit margins, contract renewal probability and the average contract duration remaining as well as the discount rate. This analysis indicated a provisional fair value for customer contracts and relationships of £219.3m with a corresponding provisional deferred tax liability in relation to those intangible assets of £41.5m. This provisional deferred tax liability has been partially offset by deferred tax assets in relation to unutilised income tax losses, accelerated capital allowances, retirement benefit liabilities and other short-term timing differences. The fair value of other intangible assets acquired (computer software) was estimated using a cost to purchase or replace the assets. The Group used independent valuation specialists to assist with identifying and valuing the acquired intangible assets.

Certain other judgements have been made relating to the fair value of contingent liabilities and, favourable or unfavourable leases and also to the recognition of right-of-use assets and corresponding lease liabilities.

Landmarc joint venture

The Group holds 51% of the equity shares in Landmarc Support Services (Landmarc), a jointly-controlled entity, through its shareholding in Interserve. The remaining 49% of the equity shares in Landmarc are held by a single third party. Management considers Landmarc to be a joint venture despite the Group having majority voting rights. This is because, under the terms of the shareholder agreement, joint agreement is required with the other party to pass resolutions for all significant activities. Accordingly, the Group does not exert control on Landmarc to recognise it as a subsidiary.

The Group accounts for its investment in Landmarc using the equity method. See Note 15.

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 and various of its subsidiaries are, from time to time, party to legal proceedings and claims that are in the ordinary course of business. Judgements are required in order to assess whether these legal proceedings and claims are probable, and the liability can be reasonably estimated, resulting in a provision or, alternatively, whether the items meet the definition of contingent liabilities.

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities, judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 March 2021 of £116.4m (2020: £53.2m). Further details are included in Note 21.

The Group has disclosed a contingent liability in relation to a cyber incident. On 13 May 2020, Interserve Group Limited (IGL) announced it was subject to a cyber-attack which affected elements of IGL's IT systems (including enterprise resource planning and human resource systems), including elements related to Interserve. The Information Commissioner's Office (the ICO) has advised IGL that it considers it likely that IGL or members of IGL (which could include Interserve) are in breach or likely to be in breach of certain articles of the UK GDPR and likely to be subject to regulatory action in respect of the matter which could result in a remedial order or fine. Management cannot predict the results of the ICO investigation and therefore the Group is unable to reliably estimate any meaningful settlement amount at the reporting date. It has therefore been disclosed as a contingent liability due to uncertainty regarding the amount of the liability. Further details are included in Note 34.

Onerous contract provisions

Onerous contract provisions totalling £12.2m have been recognised at 31 March 2021 (2020: £nil). These primarily arose on the acquisition of Interserve.

The Group assesses whether a contract is onerous on an individual basis 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 Group'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 Group to maintain or improve operational performance to ensure cost assumptions are in line with expected levels, including contract specific KPIs;
- Identifying cost saving initiatives that are considered to be reasonably certain 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 future range of possible outcomes in respect to judgements and assumptions made to determine the carrying value of the Group's onerous contract provisions could result in a material increase or decrease in the value of the provisions, and hence on the Group'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 judgement identified above in measuring the provision are, in aggregate, those factors affecting the potential contract outcomes, the assessed range of possible outcomes on these contracts in the next financial year could potentially lead to a gain of up to £11.5m or a further loss of up to £12.8m being recognised.

2. Critical accounting judgements and key sources of estimation uncertainty continued

Other contract specific provisions recognised on the acquisition of Interserve

In addition to the onerous contract provisions, the Group has recognised £41.9m of contract specific provisions at 31 March 2021 (2020: £10.7m). These have been recognised primarily to cover costs required to meet specific contractual obligations.

£14.6m of this balance relates to a significant liability risk on a certain contract, which is subject to a dispute. Management sought external assistance to value the potential risk exposure to the Group. The actual exposure to the Group may differ to what has been provided at 31 March 2021 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 Group is found to have a liability, a reasonably possible set of alternative outcomes could increase the liability to £22.0m, 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.

Measurement of defined benefit pension obligations

The net pension liability at 31 March 2021 was £42.5m (2020: £46.7m), which includes a retirement benefit asset of £3.0m (2020: £nil).

The measurement of defined benefit obligations requires judgement. It is dependent on material key assumptions including discount rates, life expectancy rates, and future contribution rates. See Note 32 for further details and a sensitivity analysis for the key assumptions.

The Group also participates in four multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme). The Group has recognised provisions of £21.7m at 31 March 2021 for Section 75 employer debts in respect of the participation of Robert Prettie & Co. Limited and Mitie FM Limited (formerly Interserve (Facilities Management) Limited) in the Plumbing Scheme.

Deferred tax assets

The Group has recognised deferred tax assets of £32.0m (2020: £32.6m), refer to Note 22. Management has assessed recovery of these assets with reference to the Group's medium-term forecasts. Recovery of these assets is subject to the Group generating taxable profits in future years.

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3. Business segment information

The Group manages its business on a service division basis. At 31 March 2021, the Group had six reportable segments; Business Services, Technical Services, Care & Custody, Landscapes, Waste and Interserve. Care and Custody, Landscapes and Waste are aggregated and categorised as Specialist Services, however each of these businesses individually meets the IFRS 8 'Operating Segments' criteria for being a separate reportable segment.

The information, as reported, is consistent with information presented to the Board of Directors, which is the Group's chief operating decision maker. Revenue, operating profit before other items and operating profit margin before other items are the primary measures of performance that are reported to and reviewed by the Board.

Segment assets have not been disclosed as they are not reviewed by the Board.

Income statement information

	2021			2020		
	Revenue ¹ £m	Operating profit/(loss) before other items ² £m	Operating margin before other items ² %	Revenue £m	Operating profit/(loss) before other items ² £m	Operating margin before other items ² %
Business Services	1,085.0	49.4	4.6	986.9	42.2	4.3
Technical Services	820.7	26.4	3.2	947.2	55.9	5.9
Specialist Services	233.6	22.5	9.6	239.6	25.3	10.6
Care & Custody	108.8	7.4	6.8	110.2	7.7	7.0
Landscapes	50.2	8.4	16.7	47.8	8.6	18.0
Waste	74.6	6.7	9.0	81.6	9.0	11.0
Interserve	450.0	13.3	3.0	–	–	–
Corporate centre	–	(48.2)	–	–	(37.3)	–
Total from continuing operations	2,589.3	63.4	2.4	2,173.7	86.1	4.0
Catering	–	–	–	60.5	2.8	4.6
Total from discontinued operations	–	–	–	60.5	2.8	4.6
Total	2,589.3	63.4	2.4	2,234.2	88.9	4.0

Notes:

1. Revenue includes share of joint ventures and associates.

2. Other items are as described in Note 4.

3. No single customer accounted for more than 10% of external revenue in the year ended 31 March 2021 or in the comparative period. The UK Government is not considered a single customer.

A reconciliation of segment operating profit before other items to total (loss)/profit before tax is provided below:

	2021 £m	2020 £m
Operating profit before other items	63.4	86.1
Other items ¹	(55.1)	(21.5)
Net finance costs	(17.4)	(16.2)
Total from continuing operations	(9.1)	48.4
Operating profit before other items	–	2.8
Other items ¹	3.2	49.0
Net finance costs	–	(0.2)
Total from discontinued operations	3.2	51.6
(Loss)/profit before tax	(5.9)	100.0

Note:

1. Other items are as described in Note 4.

3. Business segment information continued

Geographical segments

Revenue, operating profit and operating margin from external customers, by geographical segment is shown below:

	2021			2020		
	Revenue ¹ £m	Operating profit before other items ² £m	Operating margin before other items ² %	Revenue £m	Operating profit before other items ² £m	Operating margin before other items ² %
United Kingdom	2,494.4	60.5	2.4	2,108.6	85.2	4.0
Other countries	94.9	2.9	3.1	65.1	0.9	1.4
Continuing operations	2,589.3	63.4	2.4	2,173.7	86.1	4.0
United Kingdom	–	–	–	50.8	2.1	4.1
Other countries	–	–	–	9.7	0.7	7.2
Discontinued operations	–	–	–	60.5	2.8	4.6
Total	2,589.3	63.4	2.4	2,234.2	88.9	4.0

Notes:

- 1 Revenue includes share of joint ventures and associates.
- 2 Other items are as described in Note 4.

The carrying amount of non-current assets, excluding interest in joint ventures and associates, derivative financial instruments and deferred tax assets, by geographical segment is shown below:

	2021 £m	2020 £m
United Kingdom	668.1	435.5
Other countries	11.9	11.3
Total	680.0	446.8

Supplementary information

	2021				2020			
	Depreciation of property, plant and equipment £m	Amortisation of intangible assets £m	Amortisation of contract assets £m	Other items ¹ £m	Depreciation of property, plant and equipment £m	Amortisation of intangible assets £m	Amortisation of contract assets £m	Other items ¹ £m
Business Services	3.2	1.1	–	18.6	4.9	1.2	–	(0.2)
Technical Services	0.6	0.5	1.0	22.7	3.1	0.6	0.9	8.0
Specialist Services	1.7	–	0.7	4.0	2.3	–	0.6	0.2
Care & Custody	0.3	–	0.7	1.9	0.3	–	0.6	0.1
Landscapes	0.8	–	–	0.8	1.1	–	–	–
Waste	0.6	–	–	1.3	0.9	–	–	0.1
Interserve	0.8	0.6	–	7.0	–	–	–	–
Corporate centre	28.1	15.3	–	2.8	22.6	9.6	–	13.5
Continuing operations	34.4	17.5	1.7	55.1	32.9	11.4	1.5	21.5
Catering	–	–	–	1.6	0.4	–	–	(50.7)
Healthcare	–	–	–	(2.1)	–	–	–	(0.5)
Pest Control	–	–	–	(0.7)	–	–	–	0.7
Social Housing	–	–	–	(2.0)	–	–	–	1.5
Discontinued operations	–	–	–	(3.2)	0.4	–	–	(49.0)
Total	34.4	17.5	1.7	51.9	33.3	11.4	1.5	(27.5)

Note:

- 1 Other items are as described in Note 4.

Notes to the consolidated financial statements continued

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3. Business segment information continued

Disaggregated revenue

The Group disaggregates revenue from contracts with customers by sector (government and non-government) and by contract duration (contracts with a duration from inception of less than two years, and contracts with a duration from inception of more than two years). Management believes this best depicts how the nature, timing and amount of revenue and cash flows are affected by economic factors. The following table includes a reconciliation of disaggregated revenue with the Group's reportable segments.

	2021					
	Sector ^{1,2}		Contract duration for timing of revenue recognition ²			Total £m
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	
Business Services	323.2	761.8	1,085.0	230.1	854.9	1,085.0
Technical Services	272.9	547.8	820.7	94.5	726.2	820.7
Specialist Services	147.3	86.3	233.6	28.3	205.3	233.6
Care & Custody	108.8	–	108.8	–	108.8	108.8
Landscapes	13.1	37.1	50.2	15.4	34.8	50.2
Waste	25.4	49.2	74.6	12.9	61.7	74.6
Interserve	373.3	76.7	450.0	12.4	437.6	450.0
Continuing operations and Total	1,116.7	1,472.6	2,589.3	365.3	2,224.0	2,589.3

Notes:

- Sector is defined by the end customer on any contract e.g. if the Group is a subcontractor to a company repairing a government building, then the contract would be classified as government.
- Revenue includes share of joint ventures and associates.

	2020					
	Sector ¹		Contract duration for timing of revenue recognition ²			Total £m
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	
Business Services	194.0	792.9	986.9	311.8	675.1	986.9
Technical Services	303.7	643.5	947.2	100.0	847.2	947.2
Specialist Services	151.4	88.2	239.6	22.1	217.5	239.6
Care & Custody	110.2	–	110.2	–	110.2	110.2
Landscapes	12.0	35.8	47.8	12.9	34.9	47.8
Waste	29.2	52.4	81.6	9.2	72.4	81.6
Continuing operations	649.1	1,524.6	2,173.7	433.9	1,739.8	2,173.7
Catering	3.4	57.1	60.5	8.2	52.3	60.5
Discontinued operations	3.4	57.1	60.5	8.2	52.3	60.5
Total	652.5	1,581.7	2,234.2	442.1	1,792.1	2,234.2

Note:

- Sector is defined by the end customer on any contract e.g. if the Group is a subcontractor to a company repairing a government building, then the contract would be classified as government.

3. Business segment information continued

Transaction price allocated to the remaining performance obligations

The table below shows the forward order book for each segment at the reporting date with the time bands of when the Group expects to recognise secured revenue on its contracts with customers. Secured revenue corresponds to all fixed work contracted with customers and excludes the impact of any anticipated contract extensions, and new contracts with customers.

	2021			2020		
	Less than 1 year £m	More than 1 year £m	Total secured revenue £m	Less than 1 year £m	More than 1 year £m	Total secured revenue £m
Business Services	772.1	861.0	1,633.1	782.9	1,051.8	1,834.7
Technical Services	448.9	1,435.0	1,883.9	380.3	1,533.9	1,914.2
Specialist Services	107.7	420.4	528.1	119.9	425.6	545.5
Core & Custody	99.7	345.2	444.9	89.9	391.2	481.1
Landscapes	0.2	61.9	62.1	22.3	18.1	40.4
Waste	7.8	13.3	21.1	7.7	16.3	24.0
Interserve	760.9	2,396.1	3,157.0	–	–	–
Continuing operations and Total	2,089.6	5,112.5	7,202.1	1,283.1	3,011.3	4,294.4

Note:

1 Forward order book includes share of joint ventures and associates.

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4. 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 Group.

The Group separately reports impairment of goodwill, impairment and amortisation of acquisition related intangible assets, acquisition and disposal related costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items as other items, together with their related tax effect:

	2021				
	Restructure costs £m	Acquisition & disposal related costs £m	Gain on disposal £m	Other exceptional items £m	Total £m
<i>Continuing operations</i>					
Other items within administrative expenses before tax	(25.2)	(33.1)	–	3.2	(55.1)
Tax	4.8	3.3	–	(0.6)	7.5
Other items after tax	(20.4)	(29.8)	–	2.6	(47.6)
<i>Discontinued operations</i>					
Other items before tax	–	2.0	1.2	–	3.2
Tax	–	(0.4)	–	–	(0.4)
Other items after tax	–	1.6	1.2	–	2.8
<i>Total Group</i>					
Other items before tax	(25.2)	(31.1)	1.2	3.2	(51.9)
Tax	4.8	2.9	–	(0.6)	7.1
Other items after tax	(20.4)	(28.2)	1.2	2.6	(44.8)

	2020				
	Restructure costs £m	Acquisition & disposal related costs £m	Gain on disposal £m	Other exceptional items £m	Total £m
<i>Continuing operations</i>					
Other items within administrative expenses before tax	(15.7)	(3.5)	–	(2.3)	(21.5)
Tax	2.7	1.0	–	0.3	4.0
Other items after tax	(13.0)	(2.5)	–	(2.0)	(17.5)
<i>Discontinued operations</i>					
Other items before tax	–	(1.3)	50.3	–	49.0
Tax	–	0.3	(1.6)	–	(1.3)
Other items after tax	–	(1.0)	48.7	–	47.7
<i>Total Group</i>					
Other items before tax	(15.7)	(4.8)	50.3	(2.3)	27.5
Tax	2.7	1.3	(1.6)	0.3	2.7
Other items after tax	(13.0)	(3.5)	48.7	(2.0)	30.2

4. Other items continued

Restructure costs

The Group is undertaking a major transformation programme involving the restructuring of operations to reposition the business for its next phase of growth, which includes Project Helix, Project Forte and Property. The costs are analysed below:

	2021			2020		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Group transformation programme:						
Project Helix ¹	–	–	–	(3.6)	–	(3.6)
Project Forte ²	(10.6)	–	(10.6)	(10.6)	–	(10.6)
Property ³	(11.3)	–	(11.3)	(1.5)	–	(1.5)
Other transformation projects ⁴	(3.3)	–	(3.3)	–	–	–
Restructure costs	(25.2)	–	(25.2)	(15.7)	–	(15.7)
Tax	4.8	–	4.8	2.7	–	2.7
Restructure costs net of taxation	(20.4)	–	(20.4)	(13.0)	–	(13.0)

Notes

- Project Helix was a three-year programme launched in 2017, focused on establishing a shared service centre model for key back office functions, including offshoring the majority of Finance and IT, and centralising HR following the standardisation of systems. The project was completed by March 2020.
- Project Forte was launched in 2019, primarily focused on re-engineering the Technical Services business to modernise the technology infrastructure. It will improve both the customer experience and the efficiency of the internal operations. Project Forte will also drive further Group-wide organisational consolidation, automation of processes and further offshoring of back office activities. The project is expected to complete by March 2022.
- Programme to restructure the property portfolio to align with the new operating model, which involves the vacation of office space. This has been separated from other transformation projects for the year ended 31 March 2021.
- Other transformation projects focus on aligning the remaining areas of the business to the new operating model, including redundancy costs related to major restructuring as a result of COVID-19, and simplifying the management structure.

The costs associated with the Group transformation programme include redundancy costs of £3.2m (2020: £4.4m), right-of-use asset impairments of £6.3m (2020: £0.8m), other onerous lease costs of £2.6m (2020: £0.7m), intangible impairments of £3.4m (2020: £nil), property, plant and equipment impairments of £1.9m (2020: £nil), consultancy costs of £3.6m (2020: £1.8m) and fixed-term staff costs of £4.2m (2020: £8.0m) to manage and implement the changes.

Acquisition and disposal related costs

	2021			2020		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Interserve acquisition related costs ¹	(14.8)	–	(14.8)	–	–	–
Interserve integration costs ²	(8.8)	–	(8.8)	–	–	–
Interserve amortisation of acquisition related assets ³	(6.7)	–	(6.7)	–	–	–
Total Interserve acquisition costs	(30.3)	–	(30.3)	–	–	–
Other amortisation of acquisition related intangible assets	(2.2)	–	(2.2)	(2.3)	–	(2.3)
Other transaction related projects	(0.6)	–	(0.6)	(1.6)	–	(1.6)
Other acquisition transaction costs	–	–	–	(0.1)	–	(0.1)
Other integration costs	–	–	–	(0.6)	–	(0.6)
Restricted shares issued	–	–	–	(0.8)	–	(0.8)
VSG liability release	–	–	–	1.9	–	1.9
Other disposal income/(costs) ⁴	–	2.0	2.0	–	(1.3)	(1.3)
Acquisition and disposal costs	(33.1)	2.0	(31.1)	(3.5)	(1.3)	(4.8)
Tax	3.3	(0.4)	2.9	1.0	0.3	1.3
Acquisition and disposal costs net of taxation	(29.8)	1.6	(28.2)	(2.5)	(1.0)	(3.5)

Notes:

- Comprises of professional fees of £13.6m, fixed term staff costs of £0.2m and retention costs of £1.0m.
- Comprises of staff related integration costs of £5.3m, redundancy costs of £1.7m, right-of-use asset impairments of £1.1m and other integration costs of £0.7m.
- Includes £5.5m amortisation on customer contracts and relationships acquired with Interserve and £1.2m related to the Group's share of the amortisation of customer contracts and relationship assets arising on the acquisition of Landmark Support Services Limited which has been equity accounted. See Notes 13 and 15.
- Other disposal income in the year ended 31 March 2021 was related to the release of provisions for rectification works on property maintenance contracts associated with the disposal of the Social Housing business. See Note 5.

Gain on disposal

A net gain on disposal of businesses of £1.2m (2020: £50.3m) has been recognised in Other items. See Note 5 for further details.

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4. Other items continued

Other exceptional items

Other exceptional items included in operating profit are analysed below:

	2021			2020		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Regulatory investigation ¹	(0.1)	–	(0.1)	(0.7)	–	(0.7)
IFRS 16/15/9 adoption and implementation projects	–	–	–	(0.7)	–	(0.7)
Net settlement of legal dispute ²	3.7	–	3.7	(0.9)	–	(0.9)
Cost of equalising Guaranteed Minimum Pensions	(0.2)	–	(0.2)	–	–	–
Other exceptional items	(0.2)	–	(0.2)	–	–	–
Other exceptional items	3.2	–	3.2	(2.3)	–	(2.3)
Tax	(0.6)	–	(0.6)	0.3	–	0.3
Other exceptional items net of taxation	2.6	–	2.6	(2.0)	–	(2.0)

Notes:

1 Incurred £0.1m (2020: £0.7m) legal and professional costs in respect of the FRC and FCA investigations, and the Company's own investigations into the same matters. These investigations have now been closed.

2 Legal costs of £0.3m (2020: £0.9m) have been incurred and a settlement of £4.0m (2020: £nil) has been received, in relation to a legal dispute.

5. Discontinued operations and disposal of subsidiaries

There have been no disposals of businesses or discontinued operations meeting the criteria of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in the year ended 31 March 2021.

The results relating to operations which were discontinued in prior periods are detailed below.

Income statement of discontinued operations

	2021				2020
	Catering £m	Pest Control £m	Social housing	Healthcare £m	Total £m
Total consideration ¹	(3.3)	0.7	–	–	(2.6)
Net assets disposed	–	–	–	–	–
Release of customer liability	1.7	–	–	–	1.7
Release of indemnity provision	–	–	–	2.1	2.1
Transaction costs	–	–	–	–	–
Total (loss)/gain on disposal before tax	(1.6)	0.7	–	2.1	1.2
Tax	–	–	–	–	–
Net (loss)/gain on disposal of discontinued operations as reported in other items (see Note 4)	(1.6)	0.7	–	2.1	1.2
Profit and total comprehensive income for the year before tax	–	–	2.0	–	2.0
Tax	–	–	(0.4)	–	(0.4)
Profit and total comprehensive income for the year after tax	–	–	1.6	–	1.6
Total (loss)/profit for the year	(1.6)	0.7	1.6	2.1	2.8

Note:

1 In the year ended 31 March 2021, contingent consideration of £3.3m in relation to the disposal of the Catering business has been remeasured to £nil and upon agreement of completion accounts with the purchaser of Pest Control the settlement liability of £0.7m has been de-recognised.

5. Discontinued operations and disposal of subsidiaries continued

The profit and total comprehensive income for the year ended 31 March 2021 comprises other items of £2.0m before tax and a £0.4m tax charge in relation to release of provision for rectification works associated with certain property maintenance contracts of the Social Housing business.

The income statement of discontinued operations for the year ended 31 March 2020 is presented below.

	2020												
	Catering			Pest Control			Social Housing		Healthcare	Total discontinued operations			
	Before other items £m	Other items ¹ £m	Total £m	Before other items £m	Other items ¹ £m	Total £m	Before other items £m	Other items ¹ £m	Total £m	Other items ¹ £m	Before other items £m	Other items ¹ £m	Total £m
Revenue	60.5	–	60.5	–	–	–	–	–	–	–	60.5	–	60.5
Cost of sales	(54.7)	–	(54.7)	–	–	–	–	–	–	–	(54.7)	–	(54.7)
Gross profit	5.8	–	5.8	–	–	–	–	–	–	–	5.8	–	5.8
Administrative expenses	(3.0)	(0.3)	(3.3)	–	(0.3)	(0.3)	–	(0.7)	(0.7)	–	(3.0)	(1.3)	(4.3)
Operating profit/(loss)	2.8	(0.3)	2.5	–	(0.3)	(0.3)	–	(0.7)	(0.7)	–	2.8	(1.3)	1.5
Net finance costs	(0.2)	–	(0.2)	–	–	–	–	–	–	–	(0.2)	–	(0.2)
Profit/(loss) before tax	2.6	(0.3)	2.3	–	(0.3)	(0.3)	–	(0.7)	(0.7)	–	2.6	(1.3)	1.3
Tax	(0.3)	–	(0.3)	–	–	–	–	0.3	0.3	–	(0.3)	0.3	–
Profit and total comprehensive income for the year	2.3	(0.3)	2.0	–	(0.3)	(0.3)	–	(0.4)	(0.4)	–	2.3	(1.0)	1.3

Note:

1 Other items are as described in Note 4.

Cash flows from discontinued operations

	2021 £m	2020 £m
Net cash used in operating activities	–	(3.3)
Net cash generated from investing activities	–	65.0
Increase in cash and cash equivalents	–	61.7

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

6. Operating profit

Operating profit has been arrived at after charging/(crediting) the following expenses/(income):

	2021 £m	2020 £m
Continuing and discontinued operations		
Depreciation of property, plant and equipment (Note 14 and Note 26)	34.4	33.3
Amortisation of other intangible assets (Note 13)	17.5	11.4
Amortisation of contract assets (Note 17)	1.7	1.5
Impairment of property, plant and equipment (Note 14)	1.9	–
Impairment of right-of-use assets (Note 26)	7.4	0.8
Impairment of other intangible assets (Note 13)	4.4	–
Loss on disposal of property, plant and equipment	–	0.3
Loss/(gain) on disposal of subsidiaries (Note 5)	1.2	(50.3)
Impairment loss/(gain) recognised on trade receivables (Note 25)	1.8	(4.0)
Impairment loss/(gain) recognised on accrued income (Note 25)	4.4	(0.4)

A detailed analysis of auditor's remuneration is provided below:

	2021 £'000	2020 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	240	240
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation – current year	1,918	1,320
Fees payable to Grant Thornton and its associates for the audit of the Company's subsidiaries pursuant to legislation	866	–
Total audit fees – current year	3,024	1,560
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation – prior year	443	160
Total audit fees	3,467	1,720
Audit-related assurance services to the Group	115	71
Tax advisory services	1	–
Other assurance services	1,883	5
Non-audit services provided by Grant Thornton	62	–
Total non-audit fees	2,061	76
Total	5,528	1,796

7. Employees

The average number of people employed, on a full time equivalent (FTE) basis, during the financial year was:

Number of people	2021	2020
Technical Services	8,548	9,266
Business Services	34,668	35,211
Specialist Services	3,041	2,995
Care & Custody	1,999	1,968
Landscapes	795	772
Waste	247	255
Interserve ¹	6,589	–
Corporate centre	97	95
Continuing operations	52,943	47,567
Catering	–	1,086
Discontinued operations	–	1,086
Total Group	52,943	48,653

Note:

¹ Full year average number of FTE people employed from the date of acquisition.

The total employment costs, including Directors, were:

Aggregate remuneration comprised	2021 £m	2020 £m
Wages and salaries ¹	1,323.7	1,147.6
Social security costs	108.1	92.4
Other pension costs	31.5	25.0
Share-based payments (Note 31)	9.5	2.9
Share-based payments acquisition related costs	–	0.8
Total	1,472.8	1,268.7

Note:

¹ For the year ended 31 March 2021, wages and salaries have been reduced by a net amount of £49.7m (2020: £nil), which represents UK Government grants received under the Coronavirus Job Retention Scheme of £53.8m (2020: £nil), less repayments back to the UK Government of £4.1m (2020: £nil) relating to furloughed colleagues employed directly at Mitie's own operations.

Executive and Non-Executive Directors' aggregate emoluments are shown below:

	2021 £m	2020 £m
Short term benefits	1.7	1.8
Pension and other employment benefits	0.2	0.3
Share-based payments	2.3	1.1
Total	4.2	3.2

8. Finance costs

Continuing operations	2021 £m	2020 £m
Interest on bank facilities	4.7	3.8
Interest on private placement loan notes	6.1	7.4
Bank fees	3.1	0.9
Interest on lease liabilities (Note 26)	3.3	3.1
Unwinding of discounts on provisions (Note 21)	0.1	–
Net interest on defined benefit pension scheme assets and liabilities (Note 32)	0.9	1.4
Total	18.2	16.6

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

9. Tax

	2021 £m	2020 £m
Continuing and discontinued operations		
Current tax	1.2	5.8
Deferred tax (Note 22)	0.2	3.7
Tax charge for the year	1.4	9.5
Continuing operations	1.0	7.9
Discontinued operations	0.4	1.6
Tax charge for the year	1.4	9.5

Corporation tax is calculated at 19% (2020: 19%) of the estimated taxable profit for the year. A reconciliation of the tax charge to the elements of profit before tax per the consolidated income statement elements is as follows:

	2021			2020		
	Before other items £m	Other items ¹ £m	Total £m	Before other items £m	Other items ¹ £m	Total £m
Continuing and discontinued operations						
Profit/(loss) before tax	46.0	(51.9)	(5.9)	72.5	27.5	100.0
Tax at UK rate of 19% (2020: 19%)	8.7	(9.9)	(1.2)	13.8	5.2	19.0
Reconciling tax charges for:						
Non-tax deductible charges	0.9	2.6	3.5	0.5	0.3	0.8
Share-based payments	(0.2)	0.2	–	0.7	0.3	1.0
Gain on disposal of businesses	–	(0.2)	(0.2)	–	(8.6)	(8.6)
Impact of equity accounted investments	(0.5)	0.2	(0.3)	–	–	–
Losses not recognised	0.2	–	0.2	(0.1)	–	(0.1)
Overseas tax rates	(0.2)	–	(0.2)	–	0.6	0.6
Impact of change in statutory tax rates	–	–	–	(2.3)	–	(2.3)
Prior year adjustments	(0.4)	–	(0.4)	(0.4)	(0.5)	(0.9)
Tax charge/(credit) for the year	8.5	(7.1)	1.4	12.2	(2.7)	9.5
Effective tax rate for the year	18.5%	13.7%	(23.7%)	16.8%	(9.8%)	9.5%

Note:

1 Other items are as described in Note 4.

In addition to the amounts charged to the consolidated income statement, tax relating to retirement benefit liability remeasurements amounting to a £1.0m credit (2020: £1.3m charge) has been taken directly to the statement of comprehensive income together with a £0.1m credit relating to hedged items (2020: £0.7m charge).

It has been proposed that the UK corporation tax rate will increase from 19% to 25% from 1 April 2023. As this change was not substantively enacted at the balance sheet date, it has not been incorporated into the amounts contained in this report. If the change had been substantively enacted at the balance sheet date, deferred tax assets and liabilities would have increased by £5.2m and £6.7m respectively. The change will increase the effective tax rate of the Group in future.

10. Dividends

	2021 Pence per share	2021 £m	2020 Pence per share	2020 £m
Amounts recognised as distributions in the year:				
Final dividend for the prior year	–	–	2.67	9.6
Interim dividend for the current year	–	–	1.33	4.8
	–	–	4.00	14.4
Proposed final dividend for the year ended 31 March	–	–	–	–

Dividends per share recognised as distributions in the year ended 31 March 2020 stated above are as declared and paid to shareholders on the shares in issue when the dividends were paid. Restating these amounts to take account of the bonus element of the 2020 rights issue using the adjustment factor described in Note 33, would result in a final dividend for the year ended 31 March 2019 of 1.38p per share and an interim dividend for the year ended 31 March 2020 of 0.69p per share.

11. Earnings per share

The calculation of the basic and diluted EPS is based on the following data:

	2021 £m	2020 £m
From continuing operations		
Net profit before other items attributable to equity holders of the parent	37.5	58.0
Other items net of tax	(47.6)	(17.5)
Net (loss)/profit attributable to equity holders of the parent	(10.1)	40.5
From discontinued operations		
Net profit before other items attributable to equity holders of the parent	–	2.3
Other items net of tax	2.8	47.7
Net profit attributable to equity holders of the parent	2.8	50.0
Total Group		
Net profit before other items attributable to equity holders of the parent	37.5	60.3
Other items net of tax	(44.8)	30.2
Net (loss)/profit attributable to equity holders of the parent	(7.3)	90.5
Number of shares	2021 million	2020¹ million
Weighted average number of ordinary shares for the purpose of basic EPS	1,082.5	699.6
Effect of dilutive potential ordinary shares ²	–	17.2
Weighted average number of ordinary shares for the purpose of diluted EPS ³	1,082.5	716.8
Notes:		
1 Restated for the bonus element of the 2020 rights issue. See Note 33.		
2 The dilutive potential ordinary shares relate to instruments that could potentially dilute basic earnings per share in the future, such as share share-based payments. At 31 March 2021, 70.2 million (2020: nil) shares have been excluded from the diluted weighted average number of ordinary shares. The diluted loss or earnings per share uses the weighted average number of shares adjusted for potentially dilutive ordinary shares, unless it has the effect of decreasing the loss, or increasing the earnings, per share from continuing operations. The Group made a loss in the current year from continuing operations, hence the diluted (loss)/profit per share needs to be the same amount as the basic (loss)/profit per share.		
3 The weighted average number of ordinary shares in issue during the year excludes those accounted for in the own shares reserve (see Note 29).		
	2021 pence per share	2020 ¹ pence per share
From continuing operations:		
Basic earnings before other items ²	3.5	8.3
Basic (loss)/earnings	(0.9)	5.8
Diluted earnings before other items ²	3.5	8.1
Diluted (loss)/earnings	(0.9)	5.6
From discontinued operations:		
Basic earnings before other items ²	–	0.3
Basic earnings	0.3	7.1
Diluted earnings before other items ²	–	0.3
Diluted earnings	0.3	7.0
Total Group:		
Basic earnings before other items ²	3.5	8.6
Basic (loss)/earnings	(0.6)	12.9
Diluted earnings before other items ²	3.5	8.4
Diluted (loss)/earnings	(0.6)	12.6

Notes:

- 1 Restated for the bonus element of the 2020 rights issue. See Note 33.
- 2 Other items are as described in Note 4.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

12. Goodwill

	£m
Cost	
At 1 April 2019	326.3
Arising on business combinations	0.8
Disposal of businesses	(15.7)
At 31 March 2020	311.4
Arising on business combinations	3.3
At 31 March 2021	314.7
Accumulated impairment losses	
At 1 April 2019	32.5
At 31 March 2020	32.5
At 31 March 2021	32.5
Net book value	
At 31 March 2021	282.2
At 31 March 2020	278.9

Acquisition of Interserve

The goodwill arising on the Interserve acquisition was £3.3m. See Note 30. The additional CGUs which are now part of the Group comprise; Central Government & Defence (CG&D), Communities and Business and Industry (B&I).

Goodwill impairment testing

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. The Group tests goodwill at least annually for impairment or more frequently if there are indicators that goodwill may be impaired.

A summary of the goodwill balances and the discount rates used to assess the forecast cash flows from each CGU are as follows:

	Pre-tax discount rate %	Goodwill 2021 £m	Goodwill 2020 £m
Technical Services	12.0%	146.6	146.6
Business Services	12.0%	126.5	126.5
Landscapes	12.0%	5.8	5.8
CG&D	15.8%	1.1	–
Communities	15.4%	1.4	–
B&I	15.4%	0.8	–
Total		282.2	278.9

Key assumptions

The recoverable amounts for each CGU are based on value-in-use which is derived from discounted cash flow calculations. The key assumptions applied in value-in-use calculations are those regarding forecast operating profits, growth rates and discount rates.

Forecast operating profits

For all CGUs, the Group prepared cash flow projections derived from the most recent forecasts for the year ending 31 March 2022 and the Group's medium-term strategic plan to 31 March 2026, adjusted for COVID-19 impacts. Forecast revenue and direct costs are based on past performance and expectations of future changes in the market, operating model and cost base.

Growth rates and terminal values

Revenue growth rates applied to the value-in-use calculations of each CGU reflect management's strategy and a terminal value using a long-term growth assumption of 2.0% (2020: 1.7%) based on forecast inflation.

12. Goodwill continued

Discount rates

The pre-tax discount rates used to assess the forecast cash flows from CGUs are derived from the Company's post-tax weighted average cost of capital, which was 9.1% at 31 March 2021 (2020: 9.2%). These rates are reviewed annually with external advisers and adjusted for the risks specific to the business being assessed and the market in which the CGU operates. All CGUs have the same access to the Group's treasury functions and borrowing lines to fund their operations.

Sensitivity analysis

A sensitivity analysis has been performed and management has concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of any of the Group's CGUs. Given the uncertainties related to COVID-19 in terms of the duration and depth of impact, sensitivity analysis has also been performed and management has concluded that even in the downside scenario, no impairments would be required.

13. Other intangible assets

	Acquisition related		Total acquisition related £m	Software and development expenditure £m	Total £m
	Customer contracts and relationships £m	Other £m			
Cost					
At 1 April 2019	103.3	10.9	114.2	80.2	194.4
Additions	–	–	–	11.2	11.2
Arising on business combinations	0.5	–	0.5	–	0.5
Disposals	–	–	–	(21.1)	(21.1)
Disposal of businesses	(1.9)	–	(1.9)	–	(1.9)
At 31 March 2020	101.9	10.9	112.8	70.3	183.1
Additions	–	–	–	15.0	15.0
Arising on business combinations	219.3	3.4	222.7	–	222.7
Disposals	–	–	–	(14.5)	(14.5)
Effect of movements in exchange rates	(0.1)	–	(0.1)	(0.1)	(0.2)
At 31 March 2021	321.1	14.3	335.4	70.7	406.1
Amortisation					
At 1 April 2019	86.8	10.3	97.1	46.6	143.7
Charge for the year	2.1	0.2	2.3	9.1	11.4
Disposals	–	–	–	(20.7)	(20.7)
Disposal of businesses	(1.9)	–	(1.9)	–	(1.9)
At 31 March 2020	87.0	10.5	97.5	35.0	132.5
Charge for the year	7.6	0.1	7.7	9.8	17.5
Impairments	–	–	–	4.4	4.4
Disposals	–	–	–	(14.4)	(14.4)
Effect of movements in exchange rates	(0.1)	–	(0.1)	–	(0.1)
At 31 March 2021	94.5	10.6	105.1	34.8	139.9
Net book value					
At 31 March 2021	226.6	3.7	230.3	35.9	266.2
At 31 March 2020	14.9	0.4	15.3	35.3	50.6

Customer contracts and relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. These currently range over an average of thirteen years. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives which currently range from three to ten years. Software and development expenditure is amortised over its useful life of between four and ten years, once brought into use.

Following a review of the carrying amount of intangible assets, an impairment of £4.4m has been recorded (2020: £nil), of which £3.4m (2020: £nil) is included within Other items. See Note 4.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

14. Property, plant and equipment

Property, plant and equipment comprise owned and leased assets.

	2021 £m	2020 £m
Owned property, plant and equipment	24.3	22.7
Right-of-use assets (Note 26)	93.6	88.1
Total	117.9	110.8

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

	Land and buildings £m	Plant and vehicles £m	Total £m
Cost			
At 1 April 2019	16.3	64.3	80.6
Additions	0.4	7.8	8.2
Disposals	(0.6)	(14.7)	(15.3)
Disposal of businesses	–	(8.3)	(8.3)
At 31 March 2020	16.1	49.1	65.2
Additions	–	7.6	7.6
Disposals	(5.1)	(3.3)	(8.4)
Arising on business combinations	0.8	4.3	5.1
Effect of movements in exchange rates	(0.1)	(0.2)	(0.3)
At 31 March 2021	11.7	57.5	69.2
Accumulated depreciation and impairment			
At 1 April 2019	9.2	44.3	53.5
Charge for the year	1.5	7.7	9.2
Disposals	(0.3)	(14.4)	(14.7)
Disposal of businesses	–	(5.5)	(5.5)
At 31 March 2020	10.4	32.1	42.5
Charge for the year	1.2	7.0	8.2
Impairments	1.4	0.5	1.9
Disposals	(4.9)	(2.5)	(7.4)
Effect of movements in exchange rates	(0.1)	(0.2)	(0.3)
At 31 March 2021	8.0	36.9	44.9
Net book value			
At 31 March 2021	3.7	20.6	24.3
At 31 March 2020	5.7	17.0	22.7

Following a review of the carrying amount of property, plant and equipment, an impairment of £1.9m has been recorded (2020: £nil), which is included within Other items.

15. Interest in joint ventures and associates

As disclosed in Note 30, on 30 November 2020 the Group acquired Interserve, which included interests in joint ventures and associates. From completion of the acquisition, Landmarc Support Services Limited (Landmarc UK) and Sussex Estates and Facilities LLP (Sussex) were equity accounted entities that were material to the Group. All equity accounted entities provide facilities management services. Details of all joint ventures and associates are provided in Note 37.

Interest in joint ventures and associates

	Ownership %	Nature of relationship	2021 £m
Landmarc UK	51	Joint venture	9.9
Sussex	35	Associate	0.5
Other		Joint ventures	0.6
At 31 March			11.0

	Landmarc UK ¹ £m	Sussex ¹ £m	Other ¹ £m	Group share of joint ventures and associates £m
Arising on business combinations	9.9	0.3	0.5	10.7
Share of profit before Other items	1.6	0.2	0.1	1.9
Share of profit – Other items ²	(1.2)	–	–	(1.2)
Share of other comprehensive income	0.4	–	–	0.4
Dividends	(0.8)	–	–	(0.8)
At 31 March 2021	9.9	0.5	0.6	11.0

Note:

1 Net assets/results of the entity multiplied by the respective proportion of the Group's ownership.

2 Share of profit – Other items relates to the amortisation of customer contracts and relationships arising on business combinations.

Summarised income statement (100%)

2021	Landmarc UK £m	Sussex £m	Other £m	Total £m
Revenue	50.6	7.3	2.8	60.7
Share of revenue of joint ventures and associates	25.8	2.6	1.4	29.8
Depreciation and amortisation ¹	(0.3)	–	–	(0.3)
Operating profit	3.8	0.7	0.1	4.6
Tax	(0.7)	–	–	(0.7)
Profit for the period	3.1	0.7	0.1	3.9
Other comprehensive income	0.9	–	–	0.9
Total comprehensive income (100%)	4.0	0.7	0.1	4.8

Note:

1 Excluding the amortisation of customer contracts and relationships arising on business combinations. The Group's share is £1.2m (2020: £nil) included within Other items. See Note 4.

Summarised balance sheet (100%)

2021	Landmarc UK £m	Sussex £m	Other £m	Total £m
Non-current assets ¹	12.5	–	–	12.5
Current assets	29.0	6.3	7.5	42.8
Current liabilities	(22.1)	(4.8)	(6.3)	(33.2)
Net assets (100%)	19.4	1.5	1.2	22.1
The above includes the following:				
Cash and cash equivalents (100%)	24.1	4.6	0.3	29.0

Note:

1 Non-current assets include customer contracts and relationships recognised as a result of the acquisition of Interserve. The Group's 51% share of these customer relationships was £3.7m on 30 November 2020, which reduced to £2.5m at 31 March 2021 following an amortisation charge of £1.2m recorded in Other items (see Note 4).

The Group is not aware of any material commitments in respect of its interests in joint ventures and associates. Landmarc Gulf Consultancy Management LLC, an immaterial joint venture, has provided a guarantee and indemnity in the ordinary course of business in respect of performance, issued by a financial institution on its behalf, amounting to £1.5m (AED 7.4m) as at 31 March 2021. This is not expected to result in any material financial loss. There are no significant restrictions on the ability to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

16. Trade and other receivables

	2021 £m	Restated ¹ 2020 £m
Trade receivables	362.4	219.2
Accrued income	208.7	132.2
Prepayments	27.0	30.0
Other receivables ²	93.8	36.5
Total	691.9	417.9
Included in current assets	683.6	414.6
Included in non-current assets ²	8.3	3.3
Total	691.9	417.9

Notes:

1 The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

2 At 31 March 2021 other receivables included the £57.6m (2020: £nil) provisional value for the adjustment to consideration which represents management's best estimate of the amount expected to be recovered by the Group through the completion accounts mechanism on the Interserve acquisition. The outcome of the completion accounts process is inherently uncertain, given that this is subject to a commercial negotiation, and potentially expert determination, and the final amount agreed could therefore be materially different from the estimate. See Note 30.

Trade receivables at 31 March 2021 represent 30 days credit on sales (2020 restated: 30 days).

The Group makes use of a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Group's relationship banks. As these trade receivables are sold without recourse, the Group has derecognised them, and so they are not included within trade receivables. The Group has reduced the amount of invoice discounting from £70.7m as at 31 March 2020 to £51.7m as at 31 March 2021.

Management considers that the carrying amount of trade and other receivables approximates their fair value.

Information about the Group's exposure to credit risk and its loss allowance against the balance of trade receivables and accrued income, is provided in Note 25.

17. Contract assets

	Pre-contract costs £m	Contract fulfilment costs £m	Total £m
At 1 April 2019	2.2	3.9	6.1
Additions	0.2	0.3	0.5
Disposal of businesses	(0.1)	(0.2)	(0.3)
Amortisation	(0.8)	(0.7)	(1.5)
At 31 March 2020	1.5	3.3	4.8
Additions	0.7	0.1	0.8
Amortisation	(0.8)	(0.9)	(1.7)
As 31 March 2021	1.4	2.5	3.9
Included in current assets	0.8	0.7	1.5
Included in non-current assets	0.6	1.8	2.4
Total	1.4	2.5	3.9

Contract assets are amortised on a straight-line basis over the contract life which is consistent with the transfer of services to the customer to which the asset relates. Management has determined that no impairment of contract assets is required as at 31 March 2021 (2020: £nil).

18. Inventories

	2021 £m	2020 £m
Consumables	12.7	4.8
Total	12.7	4.8

19. Trade and other payables

	2021 £m	Restated ¹ 2020 £m
Trade payables	130.2	180.6
Other taxes and social security	122.6	113.0
Other payables	32.7	17.0
Accruals	416.5	203.1
Total	702.0	513.7
Included in current liabilities	701.5	513.4
Included in non-current liabilities	0.5	0.3
Total	702.0	513.7

Note:

¹ The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

Trade creditors at 31 March 2021 represent 26 days credit on trade purchases (2020 restated: 59 days).

In the year ended 31 March 2021, the Group discontinued its supply chain finance arrangements. At 31 March 2020 included within the trade creditors balance was £16.0m relating to payments due to UK suppliers which made use of bank provided supply chain finance arrangements.

Management considers that the carrying amount of trade and other payables approximates their fair value.

20. Deferred income from contracts with customers

The significant changes in deferred income are as follows:

	2021 £m	2020 £m
At 1 April	51.5	73.3
Revenue recognised that was included in the deferred income balance at the beginning of the year	(45.2)	(55.7)
Increase due to cash received, excluding amounts recognised as revenue during the year	48.9	33.9
Arising on business combinations	59.4	–
At 31 March	114.6	51.5
	2021 £m	2020 £m
Included within current liabilities	84.5	35.9
Included within non-current liabilities	30.1	15.6
Total	114.6	51.5

For any amounts which do not relate to specific contractual performance obligations, the income is deferred to the balance sheet and amortised over the period in which the contracted services are delivered to the customer.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

21. Provisions

	Legal costs £m	Acquisition and disposal of businesses £m	Restructuring £m	Insurance reserve £m	Contract specific costs £m	Pension £m	Dilapidations £m	Total £m
At 1 April 2019	0.3	5.3	–	15.0	12.7	20.0	5.2	58.5
Amounts recognised in the income statement	–	(0.5)	–	1.5	(0.4)	–	(0.2)	0.4
Unwinding of discounts	–	–	–	–	–	–	0.1	0.1
Utilised in the year	(0.3)	(0.8)	–	(2.7)	(1.6)	–	(0.4)	(5.8)
At 31 March 2020	–	4.0	–	13.8	10.7	20.0	4.7	53.2
Arising on business combinations	2.5	–	–	8.5	50.2	3.8	1.7	66.7
Charged to the income statement	–	–	2.6	10.0	–	–	–	12.6
Released to the income statement	–	(2.1)	–	–	(1.7)	–	–	(3.8)
Unwinding of discounts	–	–	–	–	–	–	0.1	0.1
Utilised in the year	–	(1.9)	(0.4)	(4.4)	(5.1)	–	(0.6)	(12.4)
At 31 March 2021	2.5	–	2.2	27.9	54.1	23.8	5.9	116.4
Included in current liabilities	2.5	–	0.6	7.1	13.6	23.8	0.7	48.3
Included in non-current liabilities	–	–	1.6	20.8	40.5	–	5.2	68.1
Total	2.5	–	2.2	27.9	54.1	23.8	5.9	116.4

The provisions balance includes the following items:

The legal costs provisions relate to external legal costs in relation to parental company guarantees required. The amount is expected to be fully utilised in the year ending 31 March 2022.

The acquisition and disposal of businesses provisions were in respect of indemnities provided following the disposal of the Healthcare and Social Housing businesses. In the year ended 31 March 2021 the Group utilised £1.9m in respect of the Social Housing indemnity provision and released £2.1m to the income statement with respect to the Healthcare indemnity provision.

The restructuring provision related to costs of organisational change associated with the Group's property transformation programme and is expected to be fully utilised over the next four years.

The insurance reserve provides for fleet and liability claims and a claim typically settles over three to five years. This includes a provision for claims that are expected but have not yet been reported.

Included within contract specific costs provision of £54.1m at 31 March 2021 are onerous contract provisions of £12.2m (2020: £nil) and contract specific provisions of £41.9m (2020: £10.7m).

Onerous contract provisions are made where the forecast costs of completing a contract exceed the forecast income generation over the life of the project. As part of the identification and measurement of assets and liabilities for the acquisition of Interserve, the Group recognised onerous contract provisions of £13.0m. 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 Group's results. See Note 2 for discussion on key assumptions made to measure the provision. The Group utilised £0.8m in the year with respect to onerous contract provisions.

Contract specific provisions have been made primarily to cover remedial and rectification costs required to meet clients' contractual terms. The Group recognised £37.2m of contract specific provisions as a result of the Interserve acquisition. £14.6m of this balance related to a significant liability risk on a certain contract, which is subject to a dispute, £6.6m related to a commercial dispute settlement for a contract, and the remaining £16.0m relates to other potential commercial claims and rectification work for other contracts. The Group utilised £1.1m of these provisions and charged £0.3m to the income statement during the year with the remaining provision expected to be utilised between one to seven years.

The contract specific provisions also include £5.4m at 31 March 2021 for the estimated costs of rectification works associated with certain property maintenance contracts of the discontinued Social Housing business, after the release of £2.0m to the income statement recorded in Other items as part of the acquisition and disposal related costs (see Note 4) and utilisation of £3.2m during the year. This provision has been recorded as a current provision, however, timing of outflows is dependent on when claims are received by the Group and may occur over a longer period than one year.

The pension provision balance at 31 March 2021 primarily relates to the Section 75 employer debt liabilities of Robert Prettie & Co Limited and Mitie FM Limited (formerly Interserve (Facilities Management) Limited as a result of their participation in the Plumbing Scheme of £21.7m. The provision has been recorded as a current provision, however 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 32.

The provision for dilapidations relates to the legal obligation for leased properties to be returned to the landlord in the contracted condition at the end of the lease period. This cost would include repairs of any damage and wear and tear and is expected to be utilised in the next five years.

22. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon:

	Losses £m	Accelerated capital allowances £m	Retirement benefit liabilities £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	Total £m
At 1 April 2019	17.3	5.0	14.2	(2.9)	0.8	1.4	35.8
Arising on business combinations	–	(0.1)	–	–	–	–	(0.1)
Disposal of businesses	–	(0.3)	–	–	–	–	(0.3)
(Charge)/credit to income	(5.6)	1.1	(0.2)	–	0.3	0.7	(3.7)
Charge to equity and other comprehensive income	–	–	(1.3)	–	(0.7)	–	(2.0)
At 31 March 2020	11.7	5.7	12.7	(2.9)	0.4	2.1	29.7
Arising on business combinations	18.3	10.9	0.6	(41.5)	–	0.9	(10.8)
(Charge)/credit to income	(0.2)	(0.9)	(2.1)	1.5	1.7	(0.2)	(0.2)
Credit to equity and other comprehensive income	–	–	1.0	–	–	0.1	1.1
At 31 March 2021	29.8	15.7	12.2	(42.9)	2.1	2.9	19.8

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2021 £m	2020 £m
Deferred tax assets ¹	32.0	32.6
Deferred tax liabilities ¹	(12.2)	(2.9)
Net deferred tax asset	19.8	29.7

Note:

1. Deferred tax liabilities related to the value attributed to the acquired intangible assets of £41.5m (2020: £nil) have been partially offset by deferred tax assets in relation to unutilised income tax losses, accelerated capital allowances, retirement benefit liabilities and other short-term timing differences.

The Group has unutilised income tax losses of £243.8m (2020: £68.4m) that are available for offset against future profits. A deferred tax asset has been recognised in respect of £156.3m (2020: £61.5m) of these losses to the extent that it is probable that taxable profits will be generated in the future and be available for utilisation. Deferred tax has been calculated using tax rates that were substantively enacted at the balance sheet date. As mentioned in Note 9 the proposed increase in the UK corporation tax rate from 19% to 25% with effect from 1 April 2023 had not been substantively enacted at the balance sheet date and therefore has not been incorporated into the amounts contained in this report. If the change had been substantively enacted at the balance sheet date, deferred tax assets and liabilities would have increased by £5.2m and £6.7m respectively.

23. Cash and cash equivalents

	2021 £m	Restated ¹ 2020 £m
Cash and cash equivalents	196.2	139.5

Note:

1. The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The Group operates cash-pooling arrangements with certain banks for cash management purposes.

As at 31 March 2021, included within cash and cash equivalents is £18.7m (2020: £nil) which is subject to various constraints on the Group's ability to utilise these balances. These constraints primarily relate to amounts held in project bank accounts and cash held through a joint operation.

The carrying amount of the assets approximates their fair value.

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24. Financing liabilities

	2021 £m	2020 £m
Bank loans – under committed facilities	6.6	49.0
Private placement notes ¹	165.4	177.9
Lease liabilities (Note 26)	106.8	93.8
Total	278.8	320.7
Included in current liabilities	28.7	24.3
Included in non-current liabilities ¹	250.1	296.4
Total	278.8	320.7

Note:

¹ Including £0.1m (2020: £nil) of foreign exchange forward contracts included in non-current financing liabilities.

During the year ended 31 March 2021, the Group resized the bank facility from £275.0m to £250.0m and extended its maturity date from July 2021 to December 2022. The bank facility and the private placement notes are unsecured, but have financial and non-financial covenants and obligations commonly associated with these arrangements. The Group was in compliance with these covenants as at 31 March 2021 and hence all amounts are classified in line with repayment dates.

The Group adopted IFRS 16 'Leases' with effect from 1 April 2019. The Group's debt covenants are calculated on a Frozen GAAP basis and therefore exclude the impact of IFRS 16. If IFRS 16 had not been adopted, operating profit, depreciation, impairment, finance costs and lease liabilities would have been lower by £2.3m (2020: £1.2m), £25.9m (2020: £23.6m), £7.4m (2020: £0.8m), £3.3m (2020: £3.1m) and £106.4m (2020: £93.0m) respectively.

At 31 March 2021, the Group had available £241.4m (2020: £225.5m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Details of the Group's contingent liabilities are provided in Note 34.

The weighted average interest rates paid during the year were as follows:

	2021 %	2020 %
Bank loans	1.3	1.4
Private placement notes	4.0	4.1

Private placement notes

The Group issued US\$153.0m and £55.0m of PP notes on 13 December 2012. The PP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the Group. In order to manage the risk of foreign currency fluctuations and to manage the Group's finance costs through a mix of fixed and variable rate debt, the Group has entered into cross-currency interest rate swaps. The swap contracts have the same duration and other critical terms as the borrowings and are considered to be highly effective. The amount, maturity and interest terms of these PP notes as at 31 March 2021 are shown below.

Tranche	Maturity date	Amount	Interest terms	Swap interest
10 year	16 December 2022	US\$76.0m	US\$ fixed at 3.85%	£ fixed at 4.05%
10 year	16 December 2022	US\$77.0m	US\$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	£25.0m	£ fixed at 3.87%	n/a
12 year	16 December 2024	£30.0m	£ fixed at 4.00%	n/a

25. Financial Instruments

Classification

The Group's principal financial assets are cash and cash equivalents, trade receivables from customers, accrued income, contingent consideration receivable and derivative financial instruments. The derivative financial instruments are designated as cash flow hedges and are measured at fair value. Contingent consideration receivable is designated as 'fair value through profit and loss' (FVTPL). All other financial assets are held and measured at amortised cost.

The Group's principal financial liabilities are trade payables, contingent consideration payable and financing liabilities. Except for contingent consideration payable, which is designated as FVTPL, all other financial liabilities are held and measured at amortised cost.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense) for each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from other observable inputs for the asset or liability;
- Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

The following table comprises the Group's financial assets and financial liabilities:

	2021 £m	Restated ¹ 2020 £m
Held at amortised cost		
Cash and cash equivalents	196.2	139.5
Trade receivables	362.4	219.2
Accrued income	208.7	132.2
Financing liabilities	(278.8)	(320.7)
Trade payables	(130.2)	(180.6)
Held at fair value through profit and loss		
Other receivables ²	57.6	3.3
Other payables	–	(0.5)
Hedging instruments at fair value through other comprehensive income		
Derivative financial instruments hedging private placement notes	14.5	28.2

Notes

- 1 The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.
- 2 Other receivables as at 31 March 2021 relates to the provisional value for the adjustment to consideration on the Interserve acquisition. This represents management's best estimate of the amount expected to be recovered by the Group through the completion accounts mechanism. The outcome of the completion accounts process is inherently uncertain, given that this is subject to a commercial negotiation, and potentially expert determination, and the final amount agreed could therefore be materially different from the estimate. See Note 30. Management considers this receivable to fall into Level 3.

The fair values of derivative financial instruments are calculated based on a discounted cash flow analysis using appropriate market information for the duration of the instruments. All contracts are gross settled. Management considers that the Group's derivative financial instruments fall into Level 2. There were no transfers between levels during the year.

Risk management objectives

The Group's treasury department monitors and manages the financial risks relating to the operations of the Group. These risks include those arising from interest rates, foreign currencies, liquidity, credit and capital management. The Group seeks to minimise the effects of these risks by using effective control measures and, where appropriate, derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by Group policies and reviewed regularly. Group policy is to not trade in financial instruments. The risk management policies remain unchanged from the previous year.

Interest rate risk

The Group's activities expose it to the financial risks of interest rates. The Group's treasury function reviews its risk management strategy on a regular basis and will, as appropriate, enter into derivative financial instruments in order to manage interest rate risk.

Interest rate sensitivity

The interest rate sensitivity has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. All financial liabilities, other than financing liabilities, are interest free.

If underlying interest rates had been 0.5% higher and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2021 and reserves would increase by £0.2m (2020: £0.8m).

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25. Financial instruments continued

Foreign currency risk

The Group has limited exposure to transactional foreign currency risk from trading transactions in currencies other than the functional currency of individual group entities and some exposure to translational foreign currency risk from the translation of its foreign operations. The Group considers the need to hedge its exposures as appropriate and will enter into forward foreign exchange contracts to mitigate any significant risks.

In addition, the Group has fully hedged the US dollar exposure on the principal and interest payments on private placement notes into sterling using cross-currency interest rate swaps (see Hedging activities below).

At 31 March 2021 £24.5m (2020: £5.5m) of cash and cash equivalents were held in foreign currencies. Included in bank loans were £8.6m (2020: £9.5m) of loans denominated in foreign currency.

Liquidity risk

The Group monitors its liquidity risk using a cash flow projection model which considers the maturity of the Group's assets and liabilities and the projected cash flows from operations. Bank loans under committed facilities, which allow for appropriate headroom in the Group's daily cash movements, are then arranged. Details of the Group's bank facility can be found in Note 24.

The tables below summarise the maturity profile (including both undiscounted interest and principal cash flows) of the Group's financial liabilities:

Financial liabilities at 31 March 2021	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade payables	130.2	–	–	130.2
Financing liabilities	49.4	238.2	22.6	310.2
Financial liabilities	179.6	238.2	22.6	440.4

Financial liabilities at 31 March 2020 – Restated ¹	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade payables	180.6	–	–	180.6
Other payables	0.2	0.3	–	0.5
Financing liabilities	83.0	244.6	23.9	351.5
Financial liabilities ²	263.8	244.9	23.9	532.6

Notes:

- The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.
- Financial liabilities maturity profile is exclusive of the £14.5m (2020: £28.2m) derivative net assets which would naturally offset the settlement value of the maturing private placement notes in financing liabilities.

Credit risk

The Group's credit risk is monitored on an ongoing basis and formally reported quarterly. The value of business placed with financial institutions is reviewed on a daily basis.

The Group's credit risk on liquid funds and derivative financial instruments is limited because the external counterparties are banks with high credit ratings assigned by international credit rating agencies and are managed through regular review.

The maximum exposure to credit risk in relation to derivatives at the balance sheet date is £14.5m (2020: £28.2m), being predominantly the fair value of interest rate swaps. The maximum exposure to credit risk on cash and cash equivalents at the balance sheet date is £196.2m (2020 restated: £139.5m).

The Group's credit risk is primarily attributable to its receivable balances from customers. Before accepting a new customer, the Group uses external credit scoring systems to assess the potential customer's credit quality and define an appropriate credit limit which is reviewed regularly.

The maximum exposure to credit risk in relation to trade receivables and accrued income at the balance sheet date is the fair value of trade receivables and accrued income. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty or group of counterparties.

The amounts presented in the balance sheet in relation to the Group's trade receivables and accrued income balances are presented net of loss allowances. The Group performs an impairment analysis at each reporting period and measures loss allowances at an amount equal to lifetime expected credit losses (ECLs) using both quantitative and qualitative information and analysis based on the Group's historical experience, and forward-looking information.

25. Financial Instruments continued

The following tables provide information about the Group's exposure to credit risk and ECLs against customer balances:

Trade receivables at 31 March 2021	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Current (not overdue)	328.2	(0.8)	327.4
1-30 days overdue	10.8	(0.1)	10.7
31-60 days overdue	17.9	(0.1)	17.8
61-90 days overdue	4.6	(0.1)	4.5
More than 90 days overdue	6.6	(4.6)	2.0
Total	368.1	(5.7)	362.4

Trade receivables at 31 March 2020 – Restated ¹	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Current (not overdue)	183.3	(1.8)	181.5
1-30 days overdue	29.0	(0.5)	28.5
31-60 days overdue	4.9	(0.2)	4.7
61-90 days overdue	1.3	–	1.3
More than 90 days overdue	4.6	(1.4)	3.2
Total	223.1	(3.9)	219.2

Note:

¹ The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

Accrued income at 31 March 2021	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
1-30 days aged	180.0	(2.4)	177.6
31-60 days aged	13.5	(0.3)	13.2
61-90 days aged	5.8	(0.4)	5.4
More than 90 days aged	19.0	(6.5)	12.5
Total	218.3	(9.6)	208.7

Accrued income at 31 March 2020	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
1-30 days aged	98.0	(3.0)	95.0
31-60 days aged	11.5	(0.1)	11.4
61-90 days aged	8.2	(0.1)	8.1
More than 90 days aged	19.7	(2.0)	17.7
Total	137.4	(5.2)	132.2

The following table provides the movement in the allowance for impairment in respect of trade receivables and accrued income:

	2021 £m		2020 £m	
	Trade receivables	Accrued income	Trade receivables	Accrued income
At 1 April	3.9	5.2	8.0	5.6
Impairment losses/(gains) recognised	1.8	4.4	(4.0)	(0.4)
Disposal of businesses	–	–	(0.1)	–
At 31 March	5.7	9.6	3.9	5.2

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25. Financial instruments continued

Capital management risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the Group consists of net debt per Note 27 and equity per the consolidated statement of changes in equity. The Group is not subject to externally imposed regulatory capital requirements.

Hedging activities

Derivative financial instruments – cash flow hedges

The Group holds a number of cross-currency interest rate swaps designated as cash flow hedges on US\$153.0m of private placement notes. Biannual fixed interest cash flows denominated in US dollars arising over the periods to December 2022 from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling.

During the year, the Group entered into a series of forward foreign exchange contracts to hedge future US dollar cash flows arising from amendment fees on US\$153.0m of private placement notes. The fixed biannual US dollar cash flows, scheduled to the period June 2022, are matched with the forward foreign exchange contract cash flows, designated as cash flow hedges.

A fair value loss of £13.7m (2020: £11.8m gain) was recognised in other comprehensive income during the year. All cash flow hedges were assessed as being highly effective as at 31 March 2021 and no amounts (2020: £nil) relating to hedge ineffectiveness were recognised in profit or loss during the year. In addition, £nil (2020: £0.1m) was reclassified from the hedging reserve to the income statement during the year.

The carrying value of derivative financial instruments at the balance sheet date was as follows:

	Hedging instrument		Hedged item	
	Cross-currency interest rate swaps £m	Forward foreign exchange contracts £m	US\$ private placement notes £m	Total £m
At 1 April 2020	28.2	–	(122.9)	(122.9)
Movements in cash flow hedges	(13.6)	(0.1)	12.6	12.6
At 31 March 2021	14.6	(0.1)	(110.3)	(110.3)

	Hedging instrument		Hedged item	
	Cross-currency interest rate swaps £m	Forward foreign exchange contracts £m	US\$ private placement notes £m	Total £m
At 1 April 2019	16.4	–	(116.9)	(116.9)
Movements in cash flow hedges	11.8	–	(6.0)	(6.0)
At 31 March 2020	28.2	–	(122.9)	(122.9)

Note:

1 Forward foreign exchange contracts are included in non-current financing liabilities on the balance sheet.

Hedge of net investment in foreign operations

Included in bank loans at 31 March 2021 was a borrowing of €9.5m (2020: €9.5m) which has been designated as a hedge of the net investment in the Republic of Ireland business of Mitie Technical Facilities Management Limited, and is being used to hedge the Group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of the borrowing are transferred to other comprehensive income to offset gains or losses on the translation of the net investment.

26. Leases

	Properties £m	Plant and vehicles £m	Total £m
Right-of-use assets			
At 1 April 2019	48.0	39.5	87.5
Additions	3.3	23.6	26.9
Impairment	(0.8)	–	(0.8)
Modifications to lease terms	(0.6)	(0.8)	(1.4)
Depreciation	(6.6)	(17.5)	(24.1)
At 31 March 2020	43.3	44.8	88.1
Additions	0.4	23.7	24.1
Arising on business combinations	6.6	6.9	13.5
Impairment	(7.4)	–	(7.4)
Modifications to lease terms	–	1.5	1.5
Depreciation	(5.7)	(20.5)	(26.2)
At 31 March 2021	37.2	56.4	93.6
Lease liabilities		2021 £m	2020 £m
At 1 April		93.8	88.9
Additions		25.4	27.5
Arising on business combinations		14.2	–
Modifications to lease terms		1.5	(1.4)
Interest expense related to lease liabilities		3.3	3.1
Repayment of lease liabilities (including interest)		(31.4)	(24.3)
At 31 March		106.8	93.8
Maturity analysis – contractual undiscounted cash flows		2021 £m	2020 £m
Less than one year		31.9	26.6
One to five years		63.3	53.1
More than five years		22.6	23.9
Total undiscounted lease liabilities		117.8	103.6
Lease liabilities in the consolidated balance sheet		106.8	93.8
Current		28.7	24.3
Non-current		78.1	69.5
Amounts recognised in the consolidated income statement		2021 £m	2020 £m
Depreciation of right-of-use assets		(26.2)	(24.1)
Short-term lease expense		(1.9)	(2.9)
Low-value lease expense		(0.1)	(0.1)
Operating profit impact		(28.2)	(27.1)
Interest on lease liabilities		(3.3)	(3.1)
Profit before taxation impact		(31.5)	(30.2)
Amounts recognised in the consolidated statement of cash flows		2021 £m	2020 £m
Total cash outflow for capitalised leases ¹		31.4	24.3

Note:

1. Includes capital element of lease rental payments of £28.1m (2020: £21.2m) and interest payments of £3.3m (2020: £3.1m).

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27. Analysis of net debt

	2021 £m	Restated ¹ 2020 £m
Cash and cash equivalents (Note 23)	196.2	139.5
Adjusted for: restricted cash	(18.7)	–
Bank loans (Note 24)	(6.6)	(49.0)
Private placement notes ² (Note 24)	(165.4)	(177.9)
Derivative financial instruments hedging private placement notes (Note 25)	14.6	28.2
Net cash/(debt) before lease obligations	20.1	(59.2)
Lease liabilities (Note 26)	(106.8)	(93.8)
Net debt	(86.7)	(153.0)

Notes:

- The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.
- Including £0.1m (2020: £nil) of forward foreign exchange contracts.

Net debt excludes amounts in respect of customer invoice discounting referred to in Note 16 and amounts in respect of supply chain financing referred to in Note 19. In the year ended 31 March 2021, the Group discontinued its supply chain finance arrangements.

28. Share capital and share premium

	Ordinary shares		Share capital		Share premium	
	2021 Number million	2020 Number million	2021 £m	2020 £m	2021 £m	2020 £m
At 1 April	373.7	373.7	9.3	9.3	130.6	130.6
Rights issue (see Note 33)	805.1	–	20.1	–	–	–
Interserve acquisition (see Note 30)	248.4	–	6.2	–	–	–
At 31 March	1,427.2	373.7	35.6	9.3	130.6	130.6

Each allotted and fully paid ordinary share of 2.5 pence is a voting share in the capital of the Company, is entitled to participate in the profits of the Company and on a winding-up is entitled to participate in the assets of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

The share premium account represents the premium arising on the issue of equity shares.

29. Reserves

Merger reserve

The merger reserve represents amounts relating to premiums arising on shares issued subject to the provisions of Section 612 of the Companies Act 2006. In the year ended 31 March 2021 merger reserve increased by £261.7m, of which £173.3m related to the rights issue (See Note 33) and £88.4m related to the issue of shares to acquire Interserve (See Note 30).

Own shares reserve

The Group uses shares held in the Employee Benefit Trust to satisfy conditional awards under the Group's LTIP, CSP and DBP share schemes and shares held in the SIP Trust to provide matching shares under the SIP scheme. During the year the trusts distributed 3.6m (2020: 0.6m) shares at a cost of £5.4m (2020: £1.6m) to satisfy awards under those schemes. The Employee Benefit Trust acquired 2.7 million shares through the Rights Issue by selling nil-paid rights.

The Company uses Treasury shares to satisfy share options under the Group's ESOS and SAYE share schemes. No Treasury shares have been issued to satisfy options under the Group's share schemes in the year (2020: 3,749).

The own shares reserve at 31 March 2021 represents the cost of 11.3m (2020: 12.2m) ordinary shares in Mitie Group plc held for the purposes of the share schemes, with a weighted average of 11.3m (2020: 12.2m) shares during the year. In the year ended 31 March 2021, the £5.4m (2020: £3.9m) movement includes: i) £1.4m (2020: £0.9m) release to the share-based payment reserve in relation to share award exercises; ii) a £4.0m (2020: £0.7m) transfer to retained losses which represents a loss on share award exercises; and iii) £nil (2020: £2.3m) cost released in relation to maturities reflected in the share-based payments reserve following the expiration of the required continuing employment period in relation to restricted shares.

Other reserves

Other reserves comprise the share-based payments reserve of £13.6m (2020: £8.6m), the revaluation reserve of £(0.2)m (2020: £(0.2)m), the capital redemption reserve of £0.9m (2020: £0.9m) and other reserves of £0.2m (2020: £0.2m).

The share-based payments reserve represents credits in respect of the vesting period of equity-settled share-based payment transactions (see Note 31) and credits in respect of the vesting period of restricted shares issued as part of the acquisition of non-controlling interests.

29. Reserves continued

Hedging and translation reserve

The hedging and translation reserve of £(2.3)m (2020: £(0.4)m) includes balances in respect of the Group's cash flow hedges (see Note 25). A net cash flow hedge loss during the year of £1.1m (2020: £5.7m gain) is included within other comprehensive income. The hedging and translation reserve also includes balances arising on translation of the Group's foreign operations and in respect of net investment hedges of which the combined movement was a loss of £0.9m during the year (2020: £0.2m gain). A tax credit of £0.1m (2020: £0.7m charge) has been recognised on these movements through other comprehensive income.

30. Acquisitions

Current period acquisition

On 30 November 2020, the Group announced that it had completed the acquisition of the entire issued share capital of Interservefm (Holdings) Limited (Interserve). The consideration for the acquisition comprised the issuance of 248.4 million ordinary shares, representing c. 17.5% of the share capital of Mitie Group plc, and cash consideration of £120.0m determined on the basis that Interserve would be delivered cash-free/debt-free and with an agreed normalised level of working capital. The actual cash payment made at completion was £105.0m, being the £120.0m cash consideration adjusted for the estimated debt, debt like items and working capital as at the completion date (which will be validated by a completion accounts process).

The total consideration reported of £142.0m includes a provisional value for the adjustment to consideration which relates to the completion accounts process for this transaction. This provisional value represents management's best estimate of the amount expected to be received through the completion accounts process. The adjustment has reduced the fair value of consideration and therefore goodwill by £57.6m with a corresponding receivable being recorded.

This has required management to make judgements around the outcome of the completion accounts process. The outcome of the completion accounts process is inherently uncertain, given that this is subject to a commercial negotiation, and potentially expert determination, and the final amount agreed could therefore be materially different from the estimate.

Interserve is a leading UK-focused facilities management business, providing services across multiple end-markets. The acquisition will allow Mitie to develop in strategic growth areas, enhance Mitie's position as a leading UK facilities management company, and accelerate the delivery of Mitie's long-term technology-led vision.

Interserve contributed £450.0m of revenue (including share of joint ventures and associates) and £13.3m of operating profit before other items (£6.3m of operating profit after other items) to the Group's results during the year ended 31 March 2021. Based on estimates made of the full year impact of the acquisition of Interserve, had the acquisition taken place on 1 April 2020, Group revenue would have increased by approximately £803.6m (including share of joint ventures and associates) and operating profit before other items would have decreased by approximately £9.0m (operating profit after other items would have decreased by £38.4m), resulting in total Group revenue (including share of joint ventures and associates) of £3,392.9m, total Group operating profit before other items of £54.4m, and total Group operating loss after other items of £30.1m.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

30. Acquisitions continued

The Group's provisional assessment of the fair values of the assets and liabilities recognised as a result of the acquisition has been based on the total fair value of the consideration. The purchase price allocation is as follows:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Customer contracts and relationships ¹	–	219.3	219.3
Other intangible assets ²	3.6	(0.2)	3.4
Property, plant and equipment ³	4.6	0.5	5.1
Right-of-use assets ⁴	16.9	(3.4)	13.5
Interest in joint ventures and associates ¹	7.0	3.7	10.7
Deferred tax assets ⁷	19.6	(19.6)	–
Inventories	6.3	–	6.3
Trade and other receivables ⁵	214.9	–	214.9
Cash and cash equivalents	40.4	–	40.4
Trade and other payables ⁶	(223.6)	1.1	(222.5)
Deferred income	(59.4)	–	(59.4)
Financing liabilities ⁴	(18.1)	3.9	(14.2)
Current tax liabilities	(1.6)	–	(1.6)
Provisions	(66.7)	–	(66.7)
Pension assets	0.3	–	0.3
Deferred tax liabilities ⁷	–	(10.8)	(10.8)
Net identifiable (liabilities)/assets acquired	(55.8)	194.5	138.7
Goodwill			3.3
Total consideration			142.0
Cash consideration			105.0
Shares consideration ⁸			94.6
Adjustment to consideration ⁹			(57.6)
Total consideration			142.0

Notes:

- 1 A customer contracts and relationships asset of £219.3m was recognised on acquisition of the Interserve business (see Note 13). An additional customer contracts and relationships balance of £3.7m was recognised on acquisition of the Landmark business which is reflected in the Group's interest in joint ventures and associates balance (see Note 15 for further details).
- 2 Software assets with a book value amounting to £3.6m were fair valued using a replacement cost methodology, resulting in a £0.2m fair value reduction from the book value.
- 3 The value of freehold property was assessed against market sources at the acquisition date, which resulted in a fair value uplift of £0.5m.
- 4 An adjustment of £3.4m has been recognised to bring the balance of right-of-use assets into alignment with the Group's accounting policies and treating acquired leases as new leases at the acquisition date, in accordance with IFRS 16. The net difference of £0.5m measured against the £3.9m adjustment to the lease obligation included within financing liabilities, reflects offsetting adjustments recorded to recognise lease incentives and restoration assets.
- 5 The trade receivables comprise gross contractual amounts due of £230.0m, of which £15.1m was expected to be uncollectable at the date of acquisition.
- 6 An adjustment of £1.1m to trade and other payables was recorded being a reclassification balance to move certain lease accruals into the correct classification.
- 7 A provisional deferred tax liability of £10.8m has been recognised, comprising of £41.5m deferred tax liability in relation to the customer contracts and relationships recognised as intangible assets, partially offset by deferred tax assets in relation to unutilised income tax losses, accelerated capital allowances, retirement benefit liabilities and other short-term timing differences. See Note 22.
- 8 Shares consideration comprise 248.4m ordinary shares issued, valued using the closing share price at 30 November 2020.
- 9 Adjustment to consideration represents management's best estimate of the amount expected to be recovered by the Group through the completion accounts mechanism. The outcome of the completion accounts process is inherently uncertain, given that this is subject to a commercial negotiation, and potentially expert determination, and the final amount agreed could therefore be materially different from the estimate.

No amount of goodwill is deductible for tax purposes. Goodwill does not qualify for separate recognition and largely represents the value attributed to the assembled workforce acquired.

Outflow of cash to acquire subsidiaries, net of cash acquired is as follows:

	31 March 2021 £m
Cash consideration	105.0
Less: cash acquired ¹	(40.4)
Net outflow of cash – investing activities	64.6

Note:

- 1 £19.4m of the cash acquired is subject to restrictions.

Costs associated with the acquisition of Interserve, which were not directly related to the issue of shares, amounted to £13.8m and are recognised as other items in the consolidated income statement. See Note 4.

31. Share-based payments

The Group has five equity-settled share schemes. The Group has also awarded performance-related bonuses for Executive Directors which are deferred in conditional shares under the Mitie Group plc 2010 Deferred Bonus Plan (DBP) and are accounted for as a share-based payment charge.

Following the rights issue, announced on 25 June 2020, adjustments were made to the number of existing shares under option and the exercise price, in accordance with the scheme (and where required HMRC) rules, in order to ensure that the awards granted to employees were maintained at the same value post the rights issue.

Discretionary share plans:

The Mitie Group plc Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2007 and renewed in 2015. The conditional awards of shares or rights to acquire shares (the awards) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is three years, although for awards granted in 2015 and subsequently some are subject to a holding period of up to a further two years. If the awards remain unexercised after a period of twelve months from the date of vesting, the awards expire. The awards may be forfeited if the employee leaves the Group. Before the awards can be exercised, performance conditions must be satisfied which are based on movements in a range of market and non-market measures over a three-year period.

The Conditional Share Plan (CSP)

The CSP was introduced in 2014. The conditional awards of shares or the rights to acquire shares (the awards) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is determined at the discretion of the Remuneration Committee and is generally two or three years. If the awards remain unexercised after a period of ten years from the date of grant the awards expire. The awards may be forfeited if the employee leaves the Group.

The Mitie Group plc Executive Share Option Scheme (ESOS)

The ESOS exercise price is equal to the average market value of the shares on the business day preceding grant or, in case the Remuneration Committee decides, the average market value of shares over a number of preceding business days (not to exceed 20). The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group. Before options can be exercised, a performance condition must be satisfied; the performance condition is linked to the percentage growth in earnings per share over a three-year period. No awards have been made under the ESOS since 29 June 2015.

Non-discretionary share plans:

The Mitie Group plc 2011 SAYE scheme

The SAYE scheme is open to eligible UK-resident employees. The exercise price is not less than 80% of the market value of the shares determined using either: the share price preceding the date on which invitations to participate in the scheme are issued or an average share price over five days preceding the invitation date. The vesting period is three years. If the options remain unexercised after a period of six months from the date of vesting, the options expire. Options may be forfeited if the employee leaves the Group. An equivalent scheme is open to eligible Ireland-resident employees.

The Share Incentive Plan (SIP)

The SIP was introduced in 2011 and is open to eligible UK-resident employees. Under the scheme, eligible employees are invited to invest in partnership shares which are purchased in the market on their behalf and held in a separate UK trust. One conditional matching share is awarded for every ten partnership shares purchased and has a holding period of three years. Matching shares are funded by way of market purchases.

Details of the awards and share options outstanding are as follows:

	2021	2020	2021	2020
	Number of conditional share awards (million)	Number of conditional share awards (million)	Number of share options (million)	Weighted average exercise price (p)
Outstanding at 1 April	29.2	24.8	20.1	82
Granted during the year	45.4	14.3	47.2	27
Lapsed during the year	(5.6)	(8.7)	(10.6)	78
Exercised during the year	(3.7)	(1.2)	–	–
Outstanding at 31 March	65.3	29.2	56.7	47
Exercisable at the end of the year			4.6	141
			2.1	109

Note:

1. Number of shares and exercise prices have been restated for the bonus element of the 2020 rights issue.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

31. Share-based payments continued

The Group recognised the following expenses related to share-based payments:

	2021 £m	2020 £m
Discretionary share plans	8.7	3.2
Non-discretionary share plans	0.8	(0.3)
Share-based payments acquisition related costs	–	0.8
	9.5	3.7

The share-based payment related expense charged to the income statement for the year is £9.5m (2020: £3.7m). This includes £9.5m (2020: £2.9m) of equity-settled share-based payment transactions relating to discretionary and non-discretionary share plans. There was no charge (2020: £0.8m) in respect of the vesting period of restricted shares issued as part of the acquisition of minority interests. The share-based payments charge for the year is net of income statement credits of £0.1m (2020: £2.3m) relating to changes in assumptions relating to the likelihood of options vesting.

In addition, there has been: i) a release of £1.5m (2020: £3.2m) in relation to maturities reflected in the own shares reserve, which relates to share award exercises; and ii) a transfer of £3.4m (2020: £1.3m) to retained losses regarding share options that have lapsed, forfeited or cancelled in the year ended 31 March 2021.

The weighted average share price at the date of exercise for awards and share options exercised during the year was 45p (2020 restated: 75p). The conditional share awards and share options outstanding at 31 March 2021 had exercise prices (other than nil in the case of the LTIP, CSP, DBP and the matching shares under the SIP) ranging from 26p – 131p (2020 restated: 64p – 131p) and a weighted average remaining contractual life of 3.4 years (2020: 3.1 years). In the year ended 31 March 2021, options were granted in respect of the SAYE, LTIP, CSP and matching shares under the SIP. The aggregate of the estimated fair values of those options granted was £28.3m (2020: £13.9m).

The fair value of options is measured by use of the Black-Scholes model.

The inputs into the Black-Scholes model are as follows:

	2021	2020
Share price (p)	34 – 151	76 – 151
Exercise price (p)	0 – 134	0 – 134
Expected volatility (%)	25 – 30	25 – 27
Expected life (years)	3 – 4	3 – 4
Risk-free rate (%)	(0.7) – 0.6	(0.5) – 0.6
Expected dividends (%)	0.0 – 2.7	0.5 – 2.7

Note:

1. Prices have been restated for the bonus element as a result of the 2020 rights issue.

32. Retirement benefit schemes

The Group has a number of pension arrangements for employees:

- Defined contribution schemes for the majority of its employees; and
- Defined benefit schemes which include a group scheme and other smaller schemes.

The Group operates a number of defined contribution pension schemes for qualifying employees. The Group has a defined benefit pension scheme called the Mitie Group plc Pension Scheme (Group scheme) where Mitie Treasury Management Limited is the principal employer. The Group participates in a number of other defined benefit schemes (Other schemes) in respect of certain employees who joined the Group under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) or through the acquisition of subsidiary companies.

As a result of the acquisition of Interserve, the number of defined contribution and defined benefit pension schemes operated by the Group has increased. Defined contribution schemes represent the primary pension provision for Interserve employees. The defined benefit schemes acquired comprise the Interserve Scheme Part C (Interserve scheme) and two smaller schemes; MacLellan Group 2000 Retirement Benefit Scheme and THK Insulation Limited Retirement Benefits Scheme. Due to the size of the smaller schemes, the Directors present the results and position of these schemes within this note combined with Other schemes. In addition, a fourth pension arrangement, Interserve Scheme Part B (Landmarc), is held within interest in joint ventures and associates.

The Group, through the acquired Interserve subsidiaries, has also increased the number of defined benefit schemes under Admitted Body status and number of participations in Multi-employer schemes. The Admitted Body schemes are largely sections of the Local Government Pension Scheme.

Defined contribution schemes

A defined contribution scheme is a pension scheme under which the Group pays contributions to an independently administered fund; such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once these contributions have been paid. Members' benefits are determined by the amount of contributions paid, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to take at retirement. As a result, actuarial risk (that pension will be lower than expected) and investment risk (that the assets invested in do not perform in line with expectations) are borne by the employee.

The Group's contributions are recognised as an employee benefit expense when they are due.

The Group operates four separate schemes: a stakeholder defined contribution plan, which is closed to new members; a self-invested personal pension plan, which is closed to new members; and two group personal pension (GPP) plans. Employer contributions are payable to each on a matched basis requiring employee contributions to be paid. Employees have the option to pay their share via a salary sacrifice arrangement. The scheme used to satisfy auto-enrolment compliance is a master trust, The People's Pension.

During the year, the Group made a total contribution to the defined contribution schemes of £11.9m (2020: £8.4m) and contributions to the auto-enrolment scheme of £17.8m (2020: £15.3m), which are included in the income statement charge. The Group expects to make contributions of a similar amount in the year ending 31 March 2022.

Defined benefit schemes

Group scheme

The Group scheme provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their final pensionable pay.

The Group scheme closed to new members in 2006, with new employees able to join one of the defined contribution schemes. The main Group scheme was closed with effect from October 2017.

Pensions in payment are generally increased in line with RPI inflation, subject to certain caps and floors. Benefits are payable on death and other events such as withdrawal from active service.

The Group scheme is operated under the UK regulatory framework. Benefits are paid to members from the trust-administered fund, where the Trustee is responsible for ensuring that the scheme is sufficiently funded to meet current and future benefit payments. Plan assets are held in trust and are governed by pension legislation. If investment experience is worse than expected or the actuarial assessment of the scheme's liabilities increases, the Group's financial obligations to the scheme rise.

The nature of the relationship between the Group and the Trustee is also governed by regulations and practice. The Trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (which are determined by the Trustee with advice from the scheme actuary). The most recent triennial valuation was carried out as at 31 March 2020, for which the results are at an advanced stage of being finalised.

The Trustee's other duties include managing the investment of the scheme's assets, administration of plan benefits and exercising of discretionary powers. The Group works closely with the Trustee to manage the scheme.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

32. Retirement benefit schemes continued

Interserve Scheme Part C (Interserve scheme)

The Interserve scheme was formed to take Support Services members transferred out of the Interserve Group Pension Scheme as part of the acquisition arrangements. The transfer was completed on 28 February 2020 via a Flexible Apportionment Arrangement, which was approved by The Pensions Regulator.

There are 182 active members within the Interserve scheme, with 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 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. The estimated total of employer contributions to be paid during the year ended 31 March 2022 is £0.4m.

The Company has an unconditional right to refund of 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.

Other defined benefit schemes

Grouped together under Other schemes are a number of schemes to which the Group makes contributions under Admitted Body status to clients' (generally local government or government entities) defined benefit schemes in respect of certain employees who transferred to the Group under TUPE. The valuations of the Other schemes are updated by an actuary at each balance sheet date.

For the Admitted Body schemes, which are largely sections of the Local Government Pension Scheme, the Group will only participate for a finite period up to the end of the relevant contract. The Group is required to pay regular contributions, as decided by the relevant scheme actuaries and detailed in each scheme's Contributions Certificate, which are calculated every three years as part of a triennial valuation. In a number of cases contributions payable by the employer are capped and any excess is recovered from the entity that the employees transferred from. In addition, in certain cases, at the end of the contract the Group will be required to pay any deficit (as determined by the scheme actuary) that is assessed for its notional section of the scheme.

Multi-employer schemes

As a result of acquisition activity and staff transfers following contract wins, the Group participates in four multi-employer pension schemes. The total contributions to these schemes for the financial year ending 31 March 2022 are anticipated to be £0.1m. For three of these schemes, the Group's share of the assets and liabilities is minimal.

The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme), a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers. The Group has received a Section 75 employer debt notice for £20.0m in respect of the participation of Robert Prettie & Co Limited in the Plumbing Scheme.

As a result of the Interserve acquisition, the Group increased its participation in the Plumbing Scheme and the Group has received a Section 75 employer debt notice for £1.7m in respect of the participation of Mitie FM Limited (formerly Interserve (Facilities Management) Limited).

Provisions of £21.7m were held at 31 March 2021 for Section 75 employer debts in respect of the participation of Robert Prettie & Co. and Mitie FM Limited in the Plumbing Scheme. See Note 21.

One Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme. The trustee has provided an estimate of £2.4m for the potential Section 75 debt in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, however no event has occurred to trigger this debt. As set out in Note 34, this potential exposure has been disclosed as a contingent liability.

32. Retirement benefit schemes continued

Further information in respect of the Group scheme and Other schemes

The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2020.

Following the £23.0m payments made during the period from November 2017 to 31 March 2020, the Group paid additional contributions of £10.6m to the Group scheme during the year ended 31 March 2021.

The Group has negotiated, subject to final approval, a deficit recovery plan. A further £82.2m is payable in instalments by 31 March 2027, which, if the assumptions above are borne out in practice, should eliminate the deficit by 31 March 2027.

The Group made contributions to the Other schemes of £0.3m in the year (2020: £0.3m). The Group expects to make contributions of around £0.4m to the Other schemes in the year ending 31 March 2022.

Details of latest funding valuation

	Group scheme
Date of latest funding valuation	31 March 2020
Assets at valuation date	£190.0m
Funding liabilities at valuation date	£282.1m
Deficit at valuation date	£92.1m

The total contribution rate was set at between 40.1% and 45.0% of annual pay for the remaining active members. The employer contribution rate is the balance of the total cost after deducting the employee rate, which ranges depending on status and earnings. The total contribution excludes any allowances for expenses met by the scheme.

The following table sets out details of the membership of the Group scheme at 31 March 2020:

	Group scheme
Active members – by number	29
Active members – by proportion of funding liability	1.4%
Total pensionable salary roll p.a.	£0.8m
Deferred members – by number	823
Deferred members – by proportion of funding liability	65.2%
Total deferred pensions p.a. (at date of leaving scheme)	£5.3m
Pensioner members – by number	757
Pensioner members – by proportion of funding liability	33.4%
Total pensions in payment p.a.	£3.6m

Accounting assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension schemes, as detailed below, are set after consultation with independent, professionally qualified actuaries.

The discount rate used to determine the present value of the obligations is set by reference to market yields on high-quality corporate bonds. The assumptions for price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds. The assumption for increases in pensionable pay takes into account expected salary inflation, the cap at CPI, and how often the cap is likely to be exceeded.

A UK High Court judgment was issued on 26 October 2018 relating to Guaranteed Minimum Pensions (GMP). Although the ruling related to Lloyds Banking Group pension schemes, it is expected to create a precedent for other UK defined benefit pension schemes. The ruling requires the equalisation of member benefits earned between 1990 and 1997 to address gender inequality in instances where GMP benefits are currently unequal. Whilst there remains some uncertainty, the Group made a provision for the estimated financial impact of this ruling on the Group scheme, based on a comparison of the cumulative value of members' benefits with the benefits of a notional member of the opposite gender (method C2 under the terminology of the High Court judgment).

On 20 November 2020, a further UK High Court judgement ruled that pension schemes will need to revisit individual transfer payments made since 17 May 1990 to check if an additional top-up is needed. A past service cost of £0.2m for additional obligations was recognised within Other items in the year ended 31 March 2021.

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations, with a lower 'best-estimate' allowance for future improvements to mortality. The Group is monitoring the impact of COVID-19 on the Group's defined benefit pension schemes and no impact of COVID-19 has been factored into the life expectancy assumptions as at 31 March 2021.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

32. Retirement benefit schemes continued**Principal accounting assumptions at balance sheet date**

	Group scheme		Interserve scheme	Other schemes	
	2021 %	2020 %	2021 %	2021 %	2020 %
Key assumptions used for IAS 19 valuation:					
Discount rate	2.10	2.35	2.10	2.10	2.35
Expected rate of pensionable pay increases	2.50	2.50	2.50	2.50	2.50
Retail price inflation	3.25	2.50	3.25	3.25	2.50
Consumer price inflation	2.50	1.70	2.50	2.50	1.70
Future pension increases	3.25	3.20	3.30	3.25	3.20

	Group scheme		Interserve scheme
	2021 Years	2020 Years	2021 Years
Post retirement life expectancy:			
Current pensioners at 65 – male	87.6	88.0	86.3
Current pensioners at 65 – female	88.9	89.0	88.3
Future pensioners at 65 – male	88.6	89.0	87.3
Future pensioners at 65 – female	90.1	90.0	89.6

Life expectancy for the other schemes is that used by the relevant scheme actuary.

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	Impact on defined benefit obligations	
		Increase/(decrease) in obligations %	Increase/(decrease) in obligations £m
Increase in discount rate	0.1%	(2.1%)	(6.7)
Increase in retail price inflation*	0.1%	1.6%	5.0
Increase in consumer price inflation (excluding pay)	0.1%	1.0%	3.0
Increase in life expectancy	1 year	4.5%	14.4

* Including other inflation-linked assumptions (consumer price inflation, pension increases and salary growth)

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the Group scheme holds a proportion of its assets in UK corporate bonds. A fall in the discount rate as a result of lower UK corporate bond yields would lead to an increase in the value of these assets, thus mitigating the increase in the defined benefit obligation to some extent. The duration, or average term to payment for the benefits due, weighted by liability, is around 20 years for the Group scheme and around 18 years for the Interserve scheme.

32. Retirement benefit schemes continued**Amounts recognised in financial statements**

Amounts recognised in the income statement are as follows:

	2021				2020		
	Group scheme £m	Interserve scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Current service cost	(0.2)	(0.3)	(0.5)	(1.0)	(0.3)	(0.3)	(0.6)
Total administration expense	(0.8)	–	–	(0.8)	(0.7)	–	(0.7)
Amounts recognised in operating profit	(1.0)	(0.3)	(0.5)	(1.8)	(1.0)	(0.3)	(1.3)
Past service cost (including curtailments)	(0.2)	–	–	(0.2)	–	–	–
Net interest cost	(1.0)	0.1	–	(0.9)	(1.4)	–	(1.4)
Amounts recognised in profit/(loss) before tax	(2.2)	(0.2)	(0.5)	(2.9)	(2.4)	(0.3)	(2.7)

The past service cost (including curtailments) of £0.2m (2020: £nil) was a cost in respect of equalising Guaranteed Minimum Pensions and is recognised within Other items. See Note 4.

Amounts recognised in the consolidated statement of comprehensive income are as follows:

	2021				2020		
	Group scheme £m	Interserve scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Actuarial (losses)/gains arising due to changes in financial assumptions	(34.9)	0.6	(1.7)	(36.0)	17.4	1.1	18.5
Actuarial gains/(losses) arising from liability experience	9.4	(0.1)	0.3	9.6	(1.6)	1.5	(0.1)
Actuarial gains due to changes in demographic assumptions	4.0	–	0.4	4.4	–	0.2	0.2
Movement in asset ceiling	–	–	(1.0)	(1.0)	–	0.1	0.1
Return on scheme assets, excluding interest income	16.1	(1.7)	3.2	17.6	(7.7)	(1.8)	(9.5)
Amounts recognised in consolidated statement of comprehensive income	(5.4)	(1.2)	1.2	(5.4)	8.1	1.1	9.2

The amounts included in the consolidated balance sheet are as follows:

	2021				2020		
	Group scheme £m	Interserve scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	215.3	30.7	35.3	281.3	191.1	11.8	202.9
Present value of defined benefit obligations	(256.7)	(27.7)	(39.4)	(323.8)	(236.4)	(13.2)	(249.6)
Net pension (liability)/asset	(41.4)	3.0	(4.1)	(42.5)	(45.3)	(1.4)	(46.7)

All figures above are shown before deferred tax.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

32. Retirement benefit schemes continued

Movements in the present value of defined benefit obligations in the year were as follows:

	2021				2020		
	Group scheme £m	Inter-serve scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	236.4	–	13.2	249.6	251.9	15.5	267.4
Arising on business combinations	–	27.9	23.9	51.8	–	–	–
Current service cost	0.2	0.3	0.5	1.0	0.3	0.3	0.6
Interest cost	5.5	0.1	0.4	6.0	6.0	0.3	6.3
Contributions from scheme members	–	–	0.1	0.1	–	0.2	0.2
Actuarial losses/(gains) arising due to changes in financial assumptions	34.9	(0.6)	1.7	36.0	(17.4)	(1.1)	(18.5)
Actuarial (gains)/losses arising from experience	(9.4)	0.1	(0.3)	(9.6)	1.6	(1.5)	0.1
Actuarial gains due to changes in demographic assumptions	(4.0)	–	(0.4)	(4.4)	–	(0.2)	(0.2)
Movement in asset ceiling	–	–	1.0	1.0	–	(0.1)	(0.1)
Benefits paid	(7.1)	(0.1)	(0.7)	(7.9)	(6.0)	(0.2)	(6.2)
Past service cost (including curtailments)	0.2	–	–	0.2	–	–	–
At 31 March	256.7	27.7	39.4	323.8	236.4	13.2	249.6

The defined benefit obligations of the Group scheme are analysed by participant status as at the 31 March 2020 funding valuation date below:

	2021 £m	2020 £m
Active	3.6	48.2
Deferred	167.4	122.9
Pensioners	85.7	65.3
At 31 March	256.7	236.4

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

	2021				2020		
	Group scheme £m	Inter-serve scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	191.1	–	11.8	202.9	190.5	13.1	203.6
Arising on business combinations	–	31.9	20.2	52.1	–	–	–
Interest income	4.5	0.2	0.4	5.1	4.6	0.3	4.9
Actuarial gains/(losses) on assets	16.1	(1.7)	3.2	17.6	(7.7)	(1.8)	(9.5)
Contributions from the sponsoring companies	11.5	0.4	0.3	12.2	10.4	0.3	10.7
Contributions from scheme members	–	–	0.1	0.1	–	0.1	0.1
Expenses paid	(0.8)	–	–	(0.8)	(0.7)	–	(0.7)
Benefits paid	(7.1)	(0.1)	(0.7)	(7.9)	(6.0)	(0.2)	(6.2)
At 31 March	215.3	30.7	35.3	281.3	191.1	11.8	202.9

32. Retirement benefit schemes continued

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

	2021				2020		
	Group scheme £m	Insurance scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Equities	68.1	–	21.2	89.3	54.4	6.0	60.4
Government bonds	54.2	14.5	2.0	70.7	53.7	0.5	54.2
Corporate bonds	28.7	3.3	7.4	39.4	28.8	3.5	32.3
Property	16.7	2.1	2.2	21.0	16.6	1.4	18.0
Diversified growth fund	43.9	9.9	1.8	55.6	32.9	–	32.9
Cash	3.7	0.9	0.7	5.3	4.7	0.4	5.1
Total fair value of assets	215.3	30.7	35.3	281.3	191.1	11.8	202.9

The investment portfolios are diversified, investing in a wide range of assets, in order to provide reasonable assurance that no single asset or type of asset could have a materially adverse impact on the total portfolio. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of government and corporate bonds, designed to mirror movements in corresponding liabilities.

Around 59% (2020: 55%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long term.

The property assets represent quoted property investments.

Risks and risk management

The Group scheme, in common with the majority of UK plans, has a number of risks. These areas of risk and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements:

Risk	Description
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation for accounting is calculated using a discount rate set with reference to corporate bond yields. The Group scheme holds a large proportion of its assets (60%) in equities and other return-seeking assets (principally diversified growth funds (DGFs) and property). The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level has the potential to be volatile in the short term, potentially resulting in short-term cash requirements, or alternative security offers, which are acceptable to the Trustee, and an increase in the net defined benefit liability recorded on the Group's balance sheet. Equities and DGFs are considered to offer the best returns over the long term with an acceptable level of risk and hence the scheme holds a significant proportion of these types of asset. However, the scheme's assets are well-diversified by investing in a range of asset classes, including property, government bonds and corporate bonds. The Group scheme holds 20% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting obligations. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting obligations. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the Group scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the Group scheme's obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the obligations.

Areas of risk management

Although investment decisions in the Group scheme are the responsibility of the Trustee, the Group takes an active interest to ensure that pension plan risks are managed efficiently. The Group and Trustee have agreed a long-term strategy for reducing investment risk where appropriate.

Certain benefits payable on death before retirement are insured.

Notes to the consolidated financial statements continued

For the year ended 31 March 2021

33. Rights issue

On 25 June 2020, the Company announced a fully underwritten 11 for 5 rights issue at a subscription price of 25p per new ordinary share. The rights issue was approved by the holders of the Company's ordinary shares at a general meeting on 13 July 2020 and the rights issue closed on 28 July 2020. 805,069,771 new ordinary shares were issued, raising £190.4m after issue costs and expenses of £10.9m.

The rights issue utilised a cash box structure that qualified for merger relief under Section 612 of the Companies Act 2006 so that the premium arising was not required to be credited to the Company's share premium account. The cash box entity, Project Orion Ltd, issued redeemable preference shares in consideration for the receipt of £193.4m, representing the subscription amount of £201.3m net of £7.9m of issue costs arising from the rights issue. The Company's new ordinary shares were issued as consideration for the transfer to it of the shares in Project Orion Ltd which it did not already own. As a result, the issue qualified for merger relief under Section 612 of the Companies Act 2006 so that the £173.3m excess of the value of the acquired shares in Project Orion Ltd over the £20.1m nominal value of the ordinary shares issued by the Company was credited to the Company's merger reserve. The remaining £3.0m of rights issue expenses have been charged against the merger reserve.

As a result of the rights issue, earnings per share and dividends per share for earlier periods have been restated for the bonus element of the rights issue. The adjustment factor has been calculated by dividing the share price immediately before the shares were quoted ex-rights (84.05p) with the theoretical ex-rights price (43.45p), giving an adjustment factor of 1.93426825.

34. Contingent liabilities and assets

Contingent liabilities

Cyber incident

On 13 May 2020, Interserve Group Limited (IGL) announced that it was subject to a cyber-attack. The attack affected elements of Interserve's IT systems (including enterprise resource planning and human resource systems), including elements related to Interserve. Once the cyber-attack was discovered, IGL commenced work with the National Cyber Security Centre and strategic response team to investigate, contain and remedy the situation.

The attack was reported to the ICO on 5 May 2020. The ICO has advised IGL that it considers it likely that IGL or members of the Interserve Group (which could include Interserve) are in breach or likely to be in breach of certain articles of the UK GDPR and that IGL or members of the Interserve Group (which could include Interserve) are likely to be subject to regulatory action in respect of the matter which could result in a remedial order or fine.

The share purchase agreement (SPA) entered into for the acquisition of Interserve gives Mitie the benefit of indemnity protection provided by How Group Limited, a subsidiary of IGL, for a two-year period from the Interserve acquisition date. This is expected to be sufficient to cover any penalty imposed by the ICO in relation to Interserve entities, however, the results of the ICO investigation cannot be predicted and the Group may be liable to pay a penalty that exceeds the level of indemnity cover of £40 million.

Management understands that the ICO investigation is ongoing. However, whilst any fine is likely to be issued within the two-year period covered by the SPA indemnity, the Group is unable to reliably estimate the amount of any potential fine at the reporting date.

Contractual disputes, guarantees and indemnities

The Group 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 Group'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 Group is currently aware of potential liabilities relating to certain of the PFI contracts in the Interserve 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.

Management will continue to monitor events as matters progress.

In addition, the Company and its subsidiaries have provided performance and financial guarantees, issued by financial institutions on its behalf, amounting to £27.2m (2020: £20.6m) in the ordinary course of business. These are not expected to result in any material financial loss.

Multi-employer pension schemes

When the Group (or a subsidiary of the Group) exits multi-employer pension schemes (typically by ceasing to have any active employees in the scheme), pension legislation may require the Group to fund the Group's share of the total amount of net liabilities with a one-off cash payment (a Section 75 debt under the Pensions Act 1995).

The Group continues to have an exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, which have been estimated at £2.4m by the trustee, however no event has occurred to trigger this debt as Mitie Property Services (UK) Limited still employs active members of the Plumbing Scheme.

Employment claims

The Group 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 Group's financial position.

Contingent assets

Management is working to ensure that, through a combination of insurance claims and recourse to suppliers, a proportion of the £14.1m costs incurred in respect of rectification works for the Social Housing property maintenance contracts, including the £5.4m recorded in provisions at 31 March 2021 in Note 21, are recovered. At 31 March 2021, £1.8m recovery from insurers had been agreed and has been recognised as a receivable. The amount and timing of further recoveries is yet to be determined.

35. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company. During the year, the Group made donations and gifts in kind of £0.2m (2020: £0.3m) to the Foundation.

During the financial year there were £0.6m transactions with joint ventures or associates. The amounts due from or to joint ventures and associates at the year end is £0.3m.

The Group's key management personnel include the Executive Directors, Non-Executive Directors and members of the Mitie Group Executive (MGX). Details of the Directors' remuneration are included in Note 7. The remuneration for members of the MGX, including the share-based payments charge, is £6.3m (2020: £2.8m). No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest.

	2021 £m	2020 £m
Short-term employment benefits	3.4	1.9
Post-employment benefits	0.2	0.3
Share-based payments	2.7	0.6
At 31 March	6.3	2.8

During the year ended 31 March 2021, the Group generated revenue of £0.1m (2020: £0.2m) relating to Informa plc, a company whose chairman is also Mitie Group plc's non-executive chairman. There were no outstanding balances at the year end (2020: £nil).

During the year ended 31 March 2021, the Group generated revenue of £0.6m (2020: £nil) relating to SIG plc, £0.2m (2020: £nil) relating to St James' Place plc and £0.1m (2020: £nil) relating to Essentra plc, companies whose non-executive directors are also Mitie Group plc non-executive directors. The outstanding balances at the year ended 31 March 2021 are £0.5m (2020: £nil), £0.1m (2020: £nil) and £nil (2020: £nil) respectively.

All transactions with these related parties were made on terms equivalent to those that prevail in arm's length transactions. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

36. Events after the reporting period

There are no material post balance sheet events that require adjustment or disclosure in the annual report.

37. Related undertakings

Subsidiaries

The companies set out below are those subsidiaries which were part of the Group at 31 March 2021.

Company	Country of incorporation	2021 % voting rights and ownership interest	2021 % nominal value owned
Bateman's Cleaning Services Limited	United Kingdom	100%	100%
Broadreach Group Limited	United Kingdom	100%	100%
Building & Property Trustees Limited*	United Kingdom	100%	100%
Care & Custody (Health) Limited	United Kingdom	100%	100%
Central Window Cleaning Company Limited*	United Kingdom	100%	100%
Cole Motors Limited*	United Kingdom	100%	100%
Direct Enquiries Holdings Limited*	United Kingdom	100%	100%
First Security Group Limited	United Kingdom	100%	100%
Global Aware International Group Limited*	United Kingdom	100%	100%
Global Aware International Ltd*	United Kingdom	100%	100%
Hi-tech Cleaning Solutions Limited* (in liquidation)	United Kingdom	100%	100%
Industrial Services International Limited	United Kingdom	100%	100%
Insitu Cleaning Company Limited	United Kingdom	100%	100%
Interserve Saudi Arabia LLC (in liquidation)	Kingdom of Saudi Arabia	100%	100%
Jabez Holdings Limited*	United Kingdom	100%	100%
Knightsbridge Guarding Holdings Limited	United Kingdom	100%	100%
Knightsbridge Guarding Limited	United Kingdom	100%	100%
Lancaster Office Cleaning Company Limited*	United Kingdom	100%	100%
MacLellan Group Limited	United Kingdom	100%	100%
MacLellan Integrated Services Limited	United Kingdom	100%	100%
MacLellan International Airport Services Limited	United Kingdom	100%	100%
MacLellan International Limited	United Kingdom	100%	100%

Notes to the consolidated financial statements continued

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37. Related undertakings continued

Company	Country of incorporation	2021 % voting rights and ownership interest	2021 % nominal value owned
MacLellan Limited ^f	United Kingdom	100%	100%
MacLellan Management Services Limited	United Kingdom	100%	100%
Mitie (Defence) Limited	United Kingdom	100%	100%
Mitie (Facilities Services) Limited	United Kingdom	100%	100%
Mitie (Facilities Services-Slough) Limited	United Kingdom	100%	100%
Mitie Aviation Security Limited ^x	United Kingdom	100%	100%
Mitie Belgium BVBA	Belgium	100%	100%
Mitie Belgium Security BVBA	Belgium	100%	100%
Mitie Building Services (UK) Limited ^f	United Kingdom	100%	100%
Mitie Built Environment Limited ^f	United Kingdom	100%	100%
Mitie Business Services Limited	United Kingdom	100%	100%
Mitie Business Services UK Limited ^f	United Kingdom	100%	100%
Mitie Care and Custody Limited ^f	United Kingdom	100%	100%
Mitie Catering Services Limited	United Kingdom	100%	100%
Mitie Centro Especial de Empleo, S.L.	Spain	100%	100%
Mitie Cleaning & Environmental Services Limited	United Kingdom	100%	100%
Mitie Cleaning Services Limited ^f	United Kingdom	100%	100%
Mitie Client Services Limited	United Kingdom	100%	100%
Mitie Company Secretarial Services Limited ^f	United Kingdom	100%	100%
Mitie Compliance Ltd ^f	United Kingdom	100%	100%
Mitie Deutschland GmbH	Germany	100%	100%
Mitie Document Solutions Limited ^f	United Kingdom	100%	100%
Mitie Dormant (No. 1) Limited ^f	United Kingdom	100%	100%
Mitie Engineering Limited ^x	United Kingdom	100%	100%
Mitie Engineering Services (Bristol) Limited ^f	United Kingdom	100%	100%
Mitie Engineering Services (Guernsey) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Jersey) Limited	Jersey	100%	100%
Mitie Engineering Services (Northern Region) Limited ^f	United Kingdom	100%	100%
Mitie Engineering Services (Wales) Limited ^f	United Kingdom	100%	100%
Mitie Engineering Services Limited ^f	United Kingdom	100%	100%
Mitie Environmental Limited ^f	United Kingdom	100%	100%
Mitie Environmental Services Limited	United Kingdom	100%	100%
Mitie España, S.L.	Spain	100%	100%
Mitie Events & Leisure Services Limited ^f	United Kingdom	100%	100%
Mitie Facilities Management Limited ^f	Ireland	100%	100%
Mitie Facilities Services, S.A.	Spain	100%	100%
Mitie Fire Services Limited ^f	United Kingdom	100%	100%
Mitie FM Limited	United Kingdom	100%	100%
Mitie France SAS	France	100%	100%
Mitie FS (UK) Limited	United Kingdom	100%	100%
Mitie Group Pension Scheme Trustee Company Limited ^f	United Kingdom	100%	100%
Mitie Holdings Limited	United Kingdom	100%	100%
Mitie Hospital Services Limited ^f	United Kingdom	100%	100%
Mitie Infrastructure Limited ^f	United Kingdom	100%	100%

37. Related undertakings continued

Company	Country of incorporation	2021 % voting rights and ownership interest	2021 % nominal value owned
Mitie Integra S.L.	Spain	100%	100%
Mitie Integrated Facilities Management Limited*	United Kingdom	100%	100%
Mitie Integrated Services Limited	United Kingdom	100%	100%
Mitie International Limited†	United Kingdom	100%	100%
Mitie Investments Limited†	United Kingdom	100%	100%
Mitie Justice Limited*	United Kingdom	100%	100%
Mitie Landscapes Limited	United Kingdom	100%	100%
Mitie Limited	United Kingdom	100%	100%
Mitie Local Services Limited*	United Kingdom	100%	100%
Mitie Managed Services Limited*	United Kingdom	100%	100%
Mitie Nederland B.V.	Netherlands	100%	100%
Mitie NI Limited	United Kingdom	100%	100%
Mitie Norge Aksjeselskap	Norway	100%	100%
Mitie PFI Limited	United Kingdom	100%	100%
Mitie Polska Sp. z o.o.	Poland	100%	100%
Mitie Project Services Limited	United Kingdom	100%	100%
Mitie Property Services (UK) Limited*	United Kingdom	100%	100%
Mitie Resources Limited*	United Kingdom	100%	100%
Mitie Schweiz GmbH	Switzerland	100%	100%
Mitie Scotgate Limited*	United Kingdom	100%	100%
Mitie Security (Fire & Electronics) Limited	United Kingdom	100%	100%
Mitie Security (First) Limited	United Kingdom	100%	100%
Mitie Security (Knightsbridge) Limited	United Kingdom	100%	100%
Mitie Security (London) Limited*	United Kingdom	100%	100%
Mitie Security Holdings Limited†	United Kingdom	100%	100%
Mitie Security Limited	United Kingdom	100%	100%
Mitie Security Services Limited	United Kingdom	100%	100%
Mitie Services (Retail) Limited*	United Kingdom	100%	100%
Mitie Shared Services Limited	United Kingdom	100%	100%
Mitie Specialist Services (Holdings) Limited	United Kingdom	100%	100%
Mitie Suomi Oy	Finland	100%	100%
Mitie Sverige AB	Sweden	100%	100%
Mitie T S 2 Limited**	United Kingdom	100%	100%
Mitie Technical Facilities Management Holdings Limited†	United Kingdom	100%	100%
Mitie Technical Facilities Management Limited	United Kingdom	100%	100%
Mitie Technical Services Limited	United Kingdom	100%	100%
Mitie Tilley Roofing Limited*	United Kingdom	100%	100%
Mitie Transport Services Limited*	United Kingdom	100%	100%
Mitie Treasury Management Limited*	United Kingdom	100%	100%
Mitie Trustee Limited*	United Kingdom	100%	100%
Mitie Waste & Environmental Services Limited*	United Kingdom	100%	100%
Mitie Work Wise Limited*	United Kingdom	100%	100%
Mitiefm (Holdings) Limited	United Kingdom	100%	100%
Mitiefm Services Limited	United Kingdom	100%	100%
Parkersell Limited*	United Kingdom	100%	100%

Notes to the consolidated financial statements continued

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37. Related undertakings continued

Company	Country of incorporation	2021 % voting rights and ownership interest	2021 % nominal value owned
Phoenix Fire Services Limited	United Kingdom	100%	100%
Phonotas Services Limited [†]	United Kingdom	100%	100%
Procius Limited [†]	United Kingdom	100%	100%
Project Orion Ltd [†]	Jersey	100%	100%
R & D Holdings Limited	United Kingdom	100%	100%
Ramoneur Cleaning and Support Services Limited	United Kingdom	100%	100%
Retail Cleaning Services Limited [†]	United Kingdom	100%	100%
Robert Prettie & Co Limited	United Kingdom	100%	100%
Service Management International Asia Pacific PTE. Ltd.	Singapore	100%	100%
Source Eight Limited ^{†*}	United Kingdom	100%	100%
Source8 Africa Limited [†]	United Kingdom	100%	100%
Source8 Delivery (Nigeria) Limited	Nigeria	100%	100%
Source8 Services FZLLC	United Arab Emirates	100%	100%
SSD UK Limited	United Kingdom	100%	100%
Tass (Europe) Limited	United Kingdom	100%	100%
Translimp Contract Services SA	Spain	100%	100%
UK CRBS Limited [†]	United Kingdom	100%	100%
Unique Cleaning Services Limited	United Kingdom	100%	100%
Utiyix Asset Management Limited [†]	United Kingdom	100%	100%
Utiyix Asset Management Projects Limited [†]	United Kingdom	100%	100%
Utiyix Broking Limited [†]	United Kingdom	100%	100%
Utiyix Healthcare Energy Services Limited	United Kingdom	100%	100%
Utiyix Holdings Limited [†]	United Kingdom	100%	100%
Utiyix Limited	United Kingdom	100%	100%
Utiyix Risk Management Limited [†]	United Kingdom	100%	100%
Vision Security Group Limited	United Kingdom	100%	100%
Vision Security Group Systems Limited [†]	United Kingdom	100%	100%
VSG Payroll Services Limited [†]	United Kingdom	100%	100%
VSG Staff Hire Limited [†]	United Kingdom	100%	100%
VSG Systems Direct Limited [†]	United Kingdom	100%	100%
Wealthy Thoughts Limited [†]	United Kingdom	100%	100%

* These entities were dormant during the year ended 31 March 2021 and will take the exemption from preparing and filing financial statements for the year ended 31 March 2021 (by virtue of Section 480 of the Companies Act 2006).

† These subsidiaries have taken advantage of the audit exemption under Section 479A of the Companies Act 2006 for the year or period ended 31 March 2021. As such, Mitie Group plc has provided a guarantee against all debts and liabilities in these subsidiaries as at 31 March 2021.

+ Held directly by the Company.

x The Company holds direct minority interest in these companies.

^ The Company has voting control of these companies through direct interests in a class of shares representing fewer than 50% of the total issued share capital of the companies.

37. Related undertakings continued

The registered office of all subsidiaries is The Shard, Level 12, 32 London Bridge Street, London, SE1 9SG with the exception of the following:

Company	Registered office address
Hi-tech Cleaning Solutions Limited (in liquidation)	15 Canada Square, Canary Wharf, London, E14 5GL
Interserve Saudi Arabia LLC (in liquidation)	PO Box 26982, Riyadh, 11595, Kingdom of Saudi Arabia
Mitie Belgium BVBA	Regus Brussels South Station, Marcel Broodthaersplein 8 (box 5), 1060 Brussels (Sint-Gillis), Belgium
Mitie Belgium Security BVBA	Regus Brussels South Station, Marcel Broodthaersplein 8 (box 5), 1060 Brussels (Sint-Gillis), Belgium
Mitie Centro Especial De Empleo SL	Calle San Miguel 25, Bajo 1, Azuqueca de Henares, Guadalajara, 19200, Spain
Mitie Deutschland GmbH	MeiBtetter StraÙe 8, 70567, Stuttgart, Germany
Mitie Engineering Services (Guernsey) Limited	Martello Court, Admiral Park, St Peter Port, GY1 3HB, Guernsey
Mitie Engineering Services (Jersey) Limited	13 Castle Street, St Helier, JE4 5UT, Jersey
Mitie España, S.L.	Osborne Clarke, Avenida Diagonal, 477, Planta 20, 08036, Barcelona, Spain
Mitie Facilities Management Limited	108 Q House, Furze Road, Sandyford, Dublin 18, Ireland
Mitie Facilities Services SA	Calle Juan Ignacio Luca de Tena, 8, Madrid, 28027, Spain
Mitie France SAS	259 rue St Honore, 75001, Paris, France
Mitie Integra SL	Carretera Santa Creu do Calafell 81, Gava, Barcelona, 08850, Spain
Mitie NI Limited	Clara House, Office B5, Dunmurry Office Park, 37A Upper Dunmurry Lane, Belfast, Northern Ireland, BT17 0AA, United Kingdom
Mitie Nederland B.V.	Hooftdweg 52A, 3067 GH Rotterdam, P.O. Box 8540, 3009 AM Rotterdam, 3009 AM Rotterdam, Netherlands
Mitie Norge Aksjeselskap	Kongensgate 9, 0153, Oslo, Norway, Norway
Mitie Polska Sp. z o.o.	Solec 22, 00-410, Warsaw, Poland
Mitie Schweiz GmbH	Brandschenkestrasse 90, CH-8027, Zurich, Switzerland
Mitie Suomi Oy	c/o Ov Visma Services Infocon Ab, Pormestarinrinne 8, 00160 Helsinki, Finland
Mitie Sverige AB	Kungsgatan 55, 111 22 Stockholm, Sweden, Sweden
Project Orion Ltd	3rd floor, Esplanade Street, St Helier, Jersey, JEP 9VVG
Service Management International Asia Pacific PTE. Ltd.	65 Chulia Street, #38-02/03, OCBC Centre, Singapore, 049513
Source8 Delivery (Nigeria) Limited	235 Ikorodu Road, Ilupeju, Lagos, Nigeria
Source8 Services FZLLC	17 The Iridium Building, Um Suqeim Road, Al Barsha, Dubai, PO BOX 391186, United Arab Emirates
Translimp Contract Services SA	Calle Juan Ignacio Luca de Tena, 8, Madrid, 28027, Spain

No subsidiaries have non-controlling interests that are material to the Group.

Joint ventures and associates

The Group has the following joint ventures and associates:

Company	Registered office address	2021 % voting rights and ownership interest	2021 % nominal value owned
Landmarc Gulf Consultancy Management LLC	No.104, Arjan Emirates Real Estate – Branch 1, PO Box 129354, Al Hilal Building, Al Falah Road, Abu Dhabi, United Arab Emirates	25%	25%
Landmarc Support Services Limited	The Shard, Level 12, 32 London Bridge Street, London, SE1 9SG	51%	50%
Mitie Rezayat Company LLC	Unit 6 and 7, Al Amani Center, Anas Bin Malik Road, Building Number 2727, Riyadh, Saudi Arabia	50%	50%
PriDE (SERP) Limited	The Shard, Level 12, 32 London Bridge Street, London, SE1 9SG	50%	50%
Sussex Estates and Facilities LLP	The Shard, Level 12, 32 London Bridge Street, London, SE1 9SG	35%	35%

Joint operations

The Group has the following joint operations:

Company	Country of incorporation	Principal activity	2021 Percentage Interest
OneAim	United Kingdom	Site works	50%

Company balance sheet

as at 31 March 2021


	Notes	2021 £m	2020 £m
Non-current assets			
Investments in subsidiaries	3	579.5	525.6
Trade and other receivables	4	0.5	3.3
Deferred tax asset	5	1.4	0.3
Total non-current assets		581.4	529.2
Current assets			
Cash and cash equivalents		0.9	–
Trade and other receivables	4	255.1	35.7
Corporation tax receivable		11.0	14.1
Total current assets		267.0	49.8
Total assets		848.4	579.0
Current liabilities			
Trade and other payables	6	(21.1)	(46.1)
Provisions	7	(4.2)	(9.3)
Total current liabilities		(25.3)	(55.4)
Net current assets/(liabilities)		241.7	(5.6)
Non-current liabilities			
Provisions	7	(6.4)	–
Total non-current liabilities		(6.4)	–
Total liabilities		(31.7)	(55.4)
Net assets		816.7	523.6
Equity			
Share capital	8	35.6	9.3
Share premium account	8	130.6	130.6
Merger reserve		358.6	99.9
Own shares reserve		(28.8)	(34.2)
Other reserves		14.5	9.5
Retained earnings ¹		306.2	308.5
Total equity		816.7	523.6

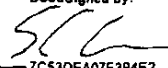
Note:

¹ The Company reported a loss for the financial year ended 31 March 2021 of £1.4m (2020: £14.6m profit).

The accompanying notes on pages 206 to 210 form an integral part of the financial statements.

The financial statements of Mitie Group plc, company registration number SC019230, were approved by the Board of Directors and authorised for issue on 10 June 2021. They were signed on its behalf by:

DocuSigned by:

 8ADD32EBFAC74BE...
Phil Bentley
 Chief Executive Officer

DocuSigned by:

 7C530EA07E394E2...
Simon Kirkpatrick
 Chief Financial Officer

Company statement of changes in equity

For the year ended 31 March 2021

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 April 2019	9.3	130.6	104.2	(38.1)	23.3	290.4	519.7
Profit for the year	–	–	–	–	–	14.6	14.6
Dividends paid ¹	–	–	–	–	–	(14.4)	(14.4)
Share-based payments	–	–	–	3.9	(13.8)	13.6	3.7
Realised merger reserve	–	–	(4.3)	–	–	4.3	–
At 31 March 2020	9.3	130.6	99.9	(34.2)	9.5	308.5	523.6
Loss for the year	–	–	–	–	–	(1.4)	(1.4)
Issue of shares	26.3	–	261.7	–	–	–	288.0
Rights issue expenses	–	–	(3.0)	–	–	–	(3.0)
Share-based payments	–	–	–	5.4	5.0	(0.9)	9.5
At 31 March 2021	35.6	130.6	358.6	(28.8)	14.5	306.2	816.7

Note:

¹ Details of dividends paid to shareholders are given in Note 10 to the consolidated financial statements.

Strategic report

Governance

Financial statements

Notes to the Company financial statements

For the year ended 31 March 2021

1. Significant accounting policies

(a) Basis of accounting

The separate financial statements of the Company are drawn up in accordance with the Companies Act 2006 and Financial Reporting Standard 101 *Reduced disclosure framework* ("FRS 101"). The Company will continue to prepare its financial statements in accordance with FRS 101 on an ongoing basis until such time as it notifies shareholders of a change to its chosen accounting framework.

The Company financial statements have been prepared using the historical cost convention and have been prepared on a going concern basis.

As permitted by FRS 101, the following exemptions have been applied:

- Paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based payment* (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7 *Financial Instruments: Disclosures*;
- Paragraph 91 to 99 of IFRS 13 *Fair value measurement* (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- The following paragraphs of IAS 1 *Presentation of financial statements*:
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement of minimum of two primary statements, including cash flows statements);
 - 38B-D (additional comparative information);
 - 111 (cash flow statement information); and
 - 134-136 (capital management disclosures).
- IAS 7 *Statement of cash flows*; and
- The requirements in IAS 24 *Related party disclosures* to disclose related party transactions entered into between two or more members of a group.

As permitted by Section 408(3) of the Companies Act 2006, the statement of comprehensive income (including the profit and loss account) of the Company is not presented in this Annual Report. The Company has not published its individual cash flow statement as its liquidity, solvency and financial adaptability are dependent on the Group rather than its own cash flows.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Company financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

The key area of judgement that has the most significant effect on the amounts recognised in the financial statements is the review for impairment of investment carrying values. See Note 3.

(b) Principal accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are shown at cost less any provision for impairment.

Investments in subsidiaries are reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the investment's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying value of an asset exceeds its recoverable amount.

1. Significant accounting policies 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 charged to the profit and loss account, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

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.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on unremitted earnings of subsidiaries, joint ventures and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Financial instruments

Intercompany loans are all assessed as being repayable on demand. The assessment of impairment of receivables is in accordance with IFRS 9. A loss allowance for expected credit losses (ECL) on receivable balances is recognised and subsequently measured at amortised cost, using the 'general approach' permitted under IFRS 9.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are measured at amortised cost.

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

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Share-based payments

Details of the Company's equity-settled share schemes are provided in Note 31 to the consolidated financial statements. The costs of options and conditional awards over the Company's shares granted to employees of the Company's subsidiaries are accounted for as a capital contribution within the carrying value of investments in subsidiaries.

Dividends

Dividends are recognised in the financial statements in the period in which the shareholder's right to receive payment of the dividend became unconditional.

Notes to the Company financial statements continued

For the year ended 31 March 2021

2. Profit for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own statement of comprehensive income (including the profit and loss account) for the year.

The Company had no employees throughout the year (2020: no employees)

The auditor's remuneration for audit services to the Company is disclosed in Note 6 to the consolidated financial statements.

3. Investments in subsidiaries

	£m
Shares at cost	
At 1 April 2019	595.2
Capital contribution re share-based payments	3.7
Disposals	(4.7)
At 31 March 2020	594.2
Additions ¹	49.2
Capital contribution re share-based payments	5.5
At 31 March 2021	648.9
Provision for impairment	
At 1 April 2019	66.9
Charged to income statement	1.7
At 31 March 2020	68.6
Charged to income statement	0.8
At 31 March 2021	69.4
Net book value	
At 31 March 2021	579.5
At 31 March 2020	525.6

Notes:

¹ Relates to an increase in investment in Mitie Treasury Management Limited.

Details of the Company's subsidiary undertakings is given in Note 37 to the consolidated financial statements.

The carrying value of the Company's investments in subsidiary undertakings has been tested for impairment in accordance with IAS 36 *Impairment of Assets*. The carrying value is compared to the asset's recoverable amount and has been assessed by reference to value in use. The value in use has been calculated based upon a discounted cash flow methodology using the most recent forecasts prepared by management.

These forecasts cover the next five years with a terminal growth rate of 2% (2020: 2%) and are consistent with those used for Group's going concern assessment.

The key assumptions for the value in use calculation are forecast revenue, direct costs, expectation of future changes in the market and discount rates. Management estimates discount rates that reflect current market assessments of the time value of money and the rate of return a market participant would require. The rate used to discount the forecast cash flows reflects the individual businesses in the Group and is 9.1% post-tax (2020: 9.2% post-tax).

As a result of this analysis, the Directors have determined an impairment of £0.8m (2020: £1.7m) was required to the Company's Investment in Source Eight Limited. All other investments had significant headroom and required no impairment. This is reflective of the Group's market capitalisation of £893m at 31 March 2021, which significantly exceeds the carrying value of the Company's investments of £579.5m.

An increase in the post-tax discount rate from 9.1% to 11% would still not result in an impairment to any of the Company's investments, both in isolation or in totality.

4. Trade and other receivables

	2021 £m	2020 £m
Amounts owed by subsidiaries	188.8	35.2
Other receivables	66.2	3.7
Prepayments and accrued income	0.6	0.1
Total	255.6	39.0
Included in current assets	255.1	35.7
Included in non-current assets	0.5	3.3
Total	255.6	39.0

Notes:

1. At 31 March 2021 other receivables included the £57.6m (2020: £nil) provisional value for the adjustment to consideration which represents management's best estimate of the amount expected to be recovered by the Group through the completion accounts mechanism on the Interserve acquisition. The outcome of the completion accounts process is inherently uncertain, given that this is subject to a commercial negotiation, and potentially expert determination, and the final amount agreed could therefore be materially different from the estimate. See Note 30 to the consolidated financial statements.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. The expected credit loss model was applied to amounts owed by subsidiaries and the impact was not material.

5. Deferred tax

	Accelerated capital allowance £m	Share-based payment timing difference £m	Total £m
Deferred tax asset at 1 April 2020	–	0.3	0.3
Credit to profit and loss account	0.4	0.7	1.1
Deferred tax asset at 31 March 2021	0.4	1.0	1.4

6. Trade and other payables

	2021 £m	2020 £m
Overdrafts	–	21.6
Trade payables	2.9	1.9
Amounts owed to subsidiaries	4.5	14.8
Other taxes and social security	0.4	0.6
Accruals and deferred income	13.3	7.2
	21.1	46.1

Amounts owed to subsidiaries are repayable on demand. The Directors consider that the carrying amount of trade and other payables approximates their fair value.

For details of Group borrowings, see Note 24 to the consolidated financial statements.

7. Provisions

	£m
At 1 April 2019	11.3
Amounts recognised in the profit and loss account	0.4
Utilised in the year	(2.4)
At 31 March 2020	9.3
Amounts recognised in the profit and loss account	4.6
Utilised in the year	(3.3)
At 31 March 2021	10.6
Included in current liabilities	4.2
Included in non-current liabilities	6.4
Total	10.6

Majority of the provisions and related movements in the year are in respect of the insurance reserve. The insurance reserve provides for fleet and liability claims and a claim typically settles over three to five years. This includes a provision for claims that are expected but have not yet been reported.

Notes to the Company financial statements continued

For the year ended 31 March 2021

8. Share capital and share premium

	Ordinary shares		Share capital		Share premium	
	2021 Number million	2020 Number million	2021 £m	2020 £m	2021 £m	2020 £m
At 1 April	373.7	373.7	9.3	9.3	130.6	130.6
Rights issue (see Note 33)	805.1	–	20.1	–	–	–
Interserve acquisition (see Note 30)	248.4	–	6.2	–	–	–
As 31 March	1,427.2	373.7	35.6	9.3	130.6	130.6

Notes:

1 During the year ended 31 March 2021 the Company completed a rights issue. Refer to Note 33.

Each allotted and fully paid ordinary share of 2.5 pence is a voting share in the capital of the Company, is entitled to participate in the profits of the Company and on a winding-up is entitled to participate in the assets of the Company. The Company has one class of ordinary shares, which carry no right to fixed income.

The share premium account represents the premium arising on the issue of equity shares.

9. Contingent liabilities

The Company enters into financial guarantee arrangements to guarantee the indebtedness of other companies within its Group. 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.

In addition, the Company and its subsidiaries have provided performance and financial guarantees, issued by financial institutions on its behalf, amounting to £27.2m (2020: £20.6m) in the ordinary course of business. These are not expected to result in any material financial loss.

Per Note 37 to the consolidated financial statements, Mitie Group plc has taken the audit exemption for a number of subsidiaries by virtue of Section 479A of the Companies Act. A parent company guarantee has been provided for these entities under Section 479C of the Companies Act.

10. Share-based payments

The Company has five equity-settled share schemes as described in Note 31 to the consolidated financial statements.

The Company recognised no expense related to the share-based payment charge for discretionary share option schemes as it has no employees

11. Related parties

The Company makes management charges to its subsidiaries, whether they are wholly owned or otherwise, and receives dividends from its subsidiaries, according to their ability to remit them. Other details of the Group's related party transactions have been given in Note 35 to the consolidated financial statements.

The Directors are remunerated for their services to the Group as a whole. No remuneration was paid to the Directors specifically in respect of their services to Mitie Group plc for the year ended 31 March 2021 or 31 March 2020. Detailed disclosures of Directors' remuneration and share interests are given in the audited section of the Directors' remuneration report on pages 99 to 120. The Company had no employees throughout the years ended 31 March 2021 and 31 March 2020.

Under FRS 101 the Company is exempt from disclosing key management personnel compensation and transactions with other companies wholly owned by Mitie Group plc. The Company had no other related party transactions during the year ended 31 March 2021 (2020: £nil).

Appendix – Alternative Performance Measures

The Group presents various Alternative Performance Measures (APMs) as management believes that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance.

In assessing its performance, the Group has adopted certain non-statutory measures which, unlike its statutory measures, cannot be derived directly from its financial statements. The Group commonly uses the following measures to assess its performance:

Performance before other items

The Group adjusts the statutory income statement for other items which, in management's judgement, need to be disclosed separately by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

These other items include impairment of goodwill, impairment and amortisation of acquisition related intangible assets, acquisition and disposal related costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items. Further details of these other items are provided in Note 4.

		2021 £m	2020 £m
Operating profit			
Operating profit from continuing operations	Statutory measures	8.3	64.6
Adjust for: restructure costs	Note 4	26.3	15.7
Adjust for: acquisition and disposal related costs	Note 4	32.0	3.5
Adjust for: other exceptional items	Note 4	(3.2)	2.3
Operating profit before other items from continuing operations	Performance measures	63.4	86.1
Operating profit from discontinued operations ¹	Statutory measures	3.2	51.8
Adjust for: acquisition and disposal related costs	Note 4	(2.0)	1.3
Adjust for: gain on disposal	Note 4	(1.2)	(50.3)
Operating profit before other items from discontinued operations	Performance measures	–	2.8
Operating profit before other items – Group	Performance measures	63.4	88.9

Notes:

1 Operating profit from discontinued operations comprises the profit before net finance costs and tax of £2.0m (2020: £1.5m) and gain on disposal before tax of £1.2m (2020: £50.3m).

Reconciliations are provided below to show how the Group's segmental reported results are adjusted to exclude other items.

	2021 £m			2020 £m		
Operating profit/(loss)	Reported results	Adjust for: Other items (Note 4)	Performance measures	Reported results	Adjust for: Other items (Note 4)	Performance measures
Segment						
Business Services	30.8	18.6	49.4	42.4	(0.2)	42.2
Technical Services	3.7	22.7	26.4	47.9	8.0	55.9
Specialist Services	18.5	4.0	22.5	25.1	0.2	25.3
Care & Custody	5.5	1.9	7.4	7.6	0.1	7.7
Landscapes	7.6	0.8	8.4	8.6	–	8.6
Waste	5.4	1.3	6.7	8.9	0.1	9.0
Interserve	6.3	7.0	13.3	–	–	–
Corporate centre	(51.0)	2.8	(48.2)	(50.8)	13.5	(37.3)
Total from continuing operations	8.3	55.1	63.4	64.6	21.5	86.1
Catering	(1.6)	1.6	–	53.5	(50.7)	2.8
Healthcare	2.1	(2.1)	–	0.5	(0.5)	–
Pest Control	0.7	(0.7)	–	(0.7)	0.7	–
Social Housing	2.0	(2.0)	–	(1.5)	1.5	–
Total from discontinued operations	3.2	(3.2)	–	51.8	(49.0)	2.8
Total – Group	11.5	51.9	63.4	116.4	(27.5)	88.9

Appendix – Alternative Performance Measures continued

In line with the Group's measurement of profit from operations before other items, the Group also presents its basic earnings per share before other items for continuing operations. The table below reconciles this to the statutory basic earnings per share.

Earnings per share	2021 pence	Restated ¹ 2020 £m
Statutory basic (loss)/earnings per share	(0.6)	12.9
Adjust for: earnings per share from discontinued operations	(0.3)	(7.1)
Statutory basic (loss)/earnings per share from continuing operations	(0.9)	5.8
Adjust for: other items per share from continuing operations	4.4	2.5
Basic earnings per share before other items from continuing operations	3.5	8.3

Note:

1 Restated for the bonus element of the 2020 rights issue. See Note 33.

Organic revenue

The Group adjusts revenue from continuing operations for the impact of acquisitions to show organic revenue in order for users of the financial statements to obtain a proper understanding of the underlying movements in these business measures.

	2021 £m				2020 £m		
	Group revenue	Share of revenue of joint ventures and associates	Adjust for acquisition of businesses ¹	Performance measures	Group revenue	Adjust for acquisition of businesses ¹	Performance measures
Revenue from continuing operations							
Segment							
Business Services	1,085.0	–	(144.0)	941.0	986.9	(172.2)	814.7
Technical Services	820.7	–	–	820.7	947.2	–	947.2
Specialist Services	233.6	–	–	233.6	239.6	–	239.6
Care & Custody	108.8	–	–	108.8	110.2	–	110.2
Landscapes	50.2	–	–	50.2	47.8	–	47.8
Waste	74.6	–	–	74.6	81.6	–	81.6
Interserve	420.2	29.8	(450.0)	–	–	–	–
Total for continuing operations	2,559.5	29.8	(594.0)	1,995.3	2,173.7	(172.2)	2,001.5

Note:

1 Comprises revenue of £450.0m (2020: £nil), £143.2m (2020: £171.7m) and £0.8m (2020: £0.5m) in relation to the acquisitions of Interserve, VSG and GAIG respectively.

Net debt

Net debt is defined as the excess of total borrowings over cash and cash equivalents. It is a measure that provides additional information on the Group's financial position. The Group includes the carrying value of its derivative financial instruments in its reported net debt measure as this carrying value represents the fair value of cross-currency interest rate swaps on the US\$ private placement notes which form part of the Group's financing liabilities. In addition, restricted cash which is subject to various constraints on the Group's ability to utilise these balances, has been excluded from the net debt measure.

A reconciliation from reported figures is presented below:

Net debt	2021 £m	Restated ¹ 2020 £m
Cash and cash equivalents ¹	196.2	139.5
Adjusted for: restricted cash	Note 23	(18.7)
Financing liabilities	Note 24	(278.8)
Derivative financial instruments hedging private placement notes	14.6	28.2
Net debt	(86.7)	(153.0)

Note:

1. The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

The Group uses an average net debt measure as this reflects its financing requirements throughout the period. The Group calculates its average net debt based on the daily closing figures, including its foreign currency bank loans translated at the closing exchange rate for the previous month end. The average net debt includes the fair value of the derivative financial instruments which are used to hedge the US\$ private placement notes. This measure showed average net debt of £47.1m for the year ended 31 March 2021, compared with £327.6m for the year ended 31 March 2020.

Free cash flow

Free cash flow is a measure representing the cash that the Group generates after accounting for cash flows to support operations and maintain its capital assets. It is a measure that provides additional information on the Group's financial performance as it highlights the cash that is available to the Group after operating and capital expenditure requirements are met. The table below reconciles net cash generated from operating activities to free cash inflow.

Free cash flow		2021 £m	Restated¹ 2020 £m
Net cash generated from operating activities ¹	Statutory measures	22.9	70.3
Add: net decrease in restricted cash ²		0.7	–
Interest received		0.8	0.4
Dividends received from joint ventures and associates		0.8	–
Purchase of property, plant and equipment		(7.6)	(8.2)
Purchase of other intangible assets		(15.0)	(11.2)
Disposal of property, plant and equipment		1.0	0.4
Capital element of lease rentals paid		(28.1)	(21.2)
Free cash (outflow)/inflow	Performance measures	(24.5)	30.5

Notes:

1 The Group has changed its accounting policy in relation to the recognition of BACS payments (See Note 1). As a result, the comparatives on the consolidated statement of cash flows for the year ended 31 March 2020 have been restated, with an overall increase in net cash generated from operations of £20.3m due to an increase in payables of £16.3m and a decrease in receivables of £4.0m.

2 Restricted cash on date on acquisition of Interserve was £19.4m (see Note 30) which decreased to £18.7m at 31 March 2021 (see Note 23).

Return on invested capital

Return on invested capital (ROIC) is a measure of how efficiently the Group utilises its invested capital to generate profits. The table below reconciles the Group's net assets to invested capital and summarises how the ROIC is derived.

	2021 £m	Restated¹ 2020 £m
Net assets	361.8	80.5
Add:		
Non-current liabilities	406.5	373.7
Current provisions	48.3	41.4
Amortisation of acquisition related intangibles including joint ventures and associates related to the Interserve acquisition ²	6.7	–
Deduct:		
Non-current derivative financial assets	(14.6)	(28.0)
Current derivative financial assets	–	(0.2)
Non-current deferred tax assets	(32.0)	(32.6)
Cash and cash equivalents ¹	(196.2)	(139.5)
Invested capital	580.5	295.3
Continuing operating profit before other items	63.4	86.1
Tax ³	(11.7)	(14.6)
Continuing operating profit before other items after tax	51.7	71.5
ROIC %	8.9%	24.2%

Notes:

1 The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 31 March 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

2 The amortisation of acquired intangible assets related to the Interserve acquisition has been added back on the basis that this would otherwise erode invested capital to a significant extent.

3 Tax charge has been calculated at the effective tax rate for the year for continuing operations of 18.5% (2020: 17.0%).

Shareholder information

Overview

HY 22 half-yearly results	18 November 2021
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Dividends

No final dividend recommended for FY21.

Annual General Meeting

2021 Annual General Meeting	27 July 2021
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- * Calls cost 12p a minute plus network extras. Lines are open 9.00 am – 5.30 pm Monday – Friday, excluding bank holidays

Mitie online share portal

Mitie has a portal where shareholders can register and can then login to:

- Access information on shareholdings and movements;
- Update address details;
- View dividend payments received and register bank mandate instructions;
- Sell Mitie shares;
- Complete an online proxy voting form; and
- Register for e-communications allowing Mitie to notify shareholders by email that certain documents are available to view on its website. This will further reduce Mitie's carbon footprint as well as reduce costs.

If you wish to register, please sign up at

www.mitie-shares.com

Corporate website

This report can be downloaded in PDF from the Mitie website, which also contains additional general information about Mitie.

Please visit www.mitie.com

Cautionary statement

Certain statements contained in this document constitute or may constitute 'forward-looking statements'.

In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'projects', 'aims', 'plans', 'predicts', 'prepares', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this document. Except as required by applicable law, rule or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. Mitie's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from the expectations disclosed or implied by the forward-looking statements contained in this document. In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. The forward-looking statements contained in this document speak only as at the date of this document.



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