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The exceptional, every day

Mitie Group plc | **Annual Report and Accounts 2018**

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COMPANIES HOUSE

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FY 17/18 highlights

£2.2bn
Adjusted revenue[1]
(FY 16/17: £2.1bn)

£77.1m
Adjusted operating profit[1,2]
(FY 16/17: £82.0m)

£2.2bn
Reported revenue[3]
(FY 16/17: £2.1bn)

£89.6m
Reported operating profit/(loss)[2,3]
(FY 16/17: £(6.3)m)

4.0p
Dividends per share
(FY 16/17: 4.0p)

£4.5bn
Order book[4]
(FY 16/17: £4.4bn)

£193.5m
Net debt (at period end)
(FY 16/17: £147.2m)

£286.1m
Net debt (average)
(FY 16/17: £335.9m)

- Positive adjusted revenue[1] growth
- Adjusted operating profit[1,2] in line with our expectations
- Good performance from Mitie's market-leading core businesses
- Connected Workspace now in deployment
- Transformation programme progressing well
- Higher transformation cost savings, with associated higher cost of change
- On track to exceed three-year cost savings targets
- Investments made in customer service and internal capability
- Commercial reorganisation and finance transformation largely complete; IT and Engineering Services workflow technology transformation begun

For further information

Visit our corporate website mitie.com/investors

https://www.linkedin.com/company/mitie/

Follow us on twitter @wearemitie

Watch our latest content youtube.com/user/mitiegrouppic

On the cover

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Vicky
Housekeeper,
Cleaning

1. To enable an effective comparison of our performance, adjusted revenue and adjusted operating profit are presented for both FY 17/18 and FY 16/17 as Alternative Performance Measures (APMs). FY 17/18 adjusted numbers are presented on pre-IFRS 15 basis. FY 16/17 adjusted numbers are presented as per last year's APM, for continuing operations.
2. Before other items.
3. FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.
4. The order book is presented in line with IFRS 15 requirements for both FY 17/18 and FY 16/17.

Our purpose

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

Opportunities to progress

Free to make decisions

Reward for great work

Trust and respect

Our promise to our people

A place to work where you can thrive and be your best every day

Our promise to our customers

A trusted partner focused on adding value to your bottom line, while creating exceptional environments for your customers and people

A personal pride in our work

Closer working relationships

Brilliant basics

Intelligent use of technology

Insights that make a difference

Our Vision and Values are built on the simple premise of 'The exceptional, every day' – our overarching commitment to both our customers and to our colleagues.

Image removed

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.

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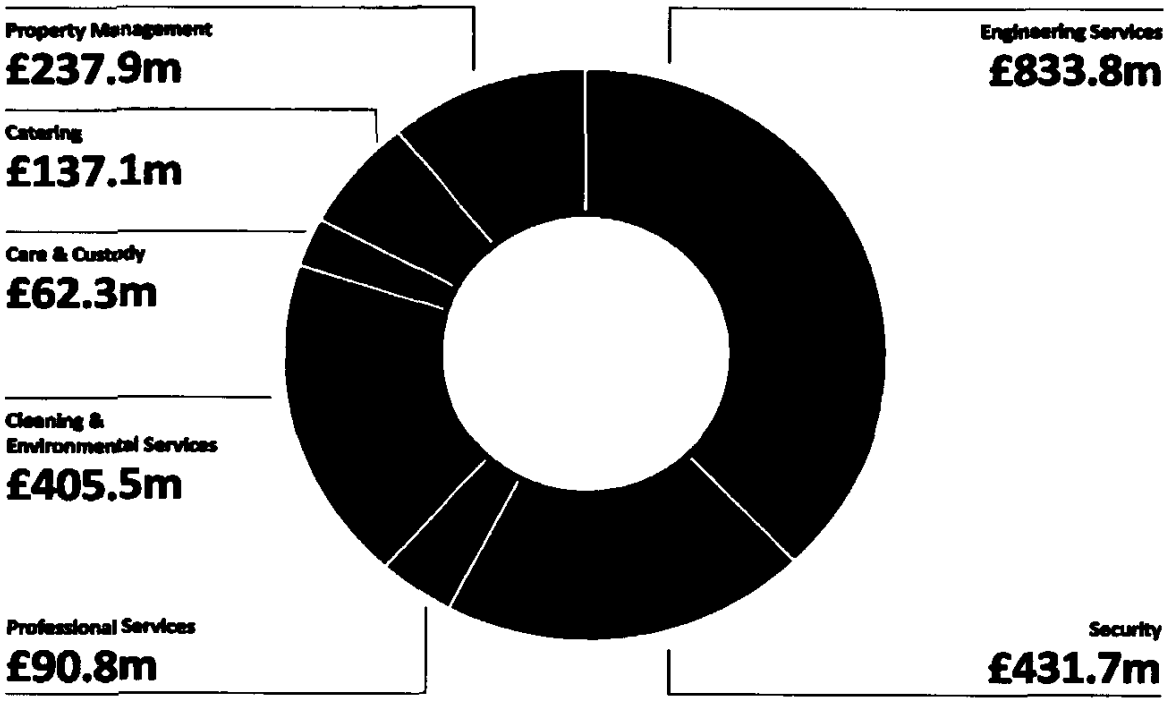
Miriam
Reception Supervisor,
Front of House

Delivering the exceptional

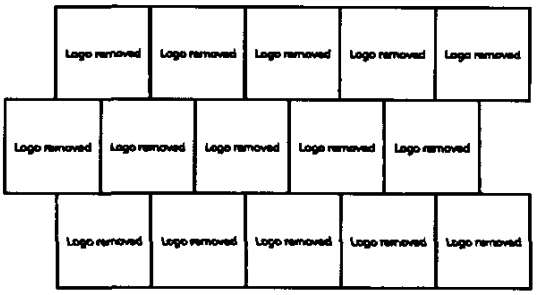
through a range of services...

Delivering the basics brilliantly gives us the solid foundations on which to create, build and tailor solutions that anticipate and meet our customers' needs.

Adjusted revenue FY 17/18



...to a blue-chip customer base.



Six reasons to invest in Mitie

We work in partnership with organisations to deliver long-term savings, managing and maintaining some of the nation's most recognised landmarks for a range of blue-chip public and private sector customers. We are the UK's largest Facilities Management company employing 49,000 people across the country. We are changing the future of FM through the pioneering development of Connected Workspace technology. We are ambitious for the future and for those who work for us.

Exceptional clients and a broad range of services

- Broad client base across both the private and public sectors
- Professional Services provide strategic differentiation
- Our ability to self-deliver is a key strength
- Intelligent use of smart technology
- No reliance on any single or group of customers
- 35% in public sector work and 65% in private sector contracts

High retention rates and significant order book

- Long-term relationships as a trusted partner supporting our customers' strategies
- NPS score of -10 sets the baseline – *a +17 points improvement over past* 12 months
- Stable order book at £4.5bn reported under IFRS 15 guidelines

Proactive Group management

- Creation of One Mitie through a single employing entity and the simplification of the group structure
- Commitment to strong and *transparent financial management*
- Strong covenant headroom
- Realigned dividends to underlying performance

Innovation and technology capabilities

- Major investment in technology to underpin next generation FM
- Data analytics and insight enable and enhance customer workplace performance
- Connected Workspace offering increasingly important to customer proposition
- Pioneers in FM innovation
- Partnership with market leaders such as Microsoft and Vodafone

Transformation programme

- One year into three-year programme, progressing well
- Discovery done, now in delivery phase
- Majority of back-office transformation well advanced
- Investing to generate optimum operating model
- c.£50m of overall run-rate savings by March 2020

Winning culture

- New Purpose, Vision and Values to deliver 'The exceptional, every day'
- One Mitie approach to doing business
- A place to work where our employees can thrive and be their best every day
- We recognise great work, reward and celebrate it
- A 10.7% improvement in staff turnover in a transformational year

Focused transformation in a challenging market

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Derek Mapp, Chairman

"It has been a year of good progress at Mitie, though not without its challenges."

Dear Mitie Shareholder,

Overview

I am delighted to be presenting my first annual review to you as Chairman of Mitie Group plc (Mitie).

This has been a year of discovery, transformation and change for Mitie, all set against a challenging and, at times, difficult market. The outsourcing sector has been in the spotlight with the demise of Carillion, and the challenges faced by many other firms across the wider sector.

Outsourcing and, more specifically, Facilities Management, is a relatively new industry where the early benefits derived from economies of scale and expertise have now, largely, been eroded away. Third, fourth and even fifth generation contracts have resulted in low margins for providers and few cost give-aways for customers. However, technology and scale remain opportunities for the sector and what has become clear is that these need to be delivered in tandem with a wholesale industry-wide correction in the pricing of risk; contracts need to correctly account for price, quality, certainty and timeliness of delivery. The collapse of Carillion, the challenges faced by almost every other industry participant, as well as the failure of many other individual contracts to be delivered on budget, on time or at the quality required, show that wholesale sector recalibration is needed for the economics of FM to continue to be sustainable. We are pleased to see that this is already happening; as we engage with government, prospective customers and existing clients, the focus is moving subtly away from just cost and towards value.

Strategy

Mitie is a strong resilient business, with a broad and diverse client base, and a frontline workforce with specialist skills, expertise and experience. It is also now one year into a major three-year transformation programme under the stewardship of CEO, Phil Bentley. All discovery work has been completed and the business is now firmly in execution and delivery mode.

The four-pillared strategy launched in June 2017 is shaping the direction of the Group and the business is continuing to make significant investments in technology, smart analytics and data-led insight.

Operationally the business has made major strides forward in the last 12 months, removing complexity, duplication, upgrading and simplifying processes, professionalising and understanding the true drivers and levers of the business.

The accounting review completed in June 2017. Recommended changes to reporting and the control environment are progressing and being monitored by the Audit Committee.

The Financial Reporting Council's (FRC) Corporate Reporting Review of the annual report and accounts of Mitie for the year ended 31 March 2016 completed in November 2017, with no further action required of the Company. Although the FRC continue, under the Accountancy Scheme, to investigate Members formerly involved with Mitie, including Deloitte (the Company's former auditors), neither the Group nor current management are the subject of this investigation.

We have also provided extensive material for the Financial Conduct Authority (FCA) investigation in connection with the timeliness of a profit warning announced by the Company on 19 September 2016 and the manner of preparation and content of the Company's financial information, position and results for

the period ending 31 March 2016. We are continuing to co-operate with the FCA, but at this time have had no indication as to when their investigation may be concluded.

People & Community

I would like to acknowledge that this has been a challenging year for many of the people working at Mitie, especially for those interacting every day with our customers. Our own transformation programme, the volatility in the share price and wider sector turbulence have fuelled the uncertainty that comes with change. Yet, despite this, the team at Mitie have demonstrated an unwavering commitment to providing exceptional customer service and to going the extra mile, and I would like to personally thank them for their dedication and hard work. The Board and I all joined the Mitie management team in going 'back-to-the-floor' for a shift in one of our businesses, and we were incredibly impressed by the commitment and passion our colleagues have in all they do.

The Mitie Foundation, our charitable operation focusing on employability, has had a good year. We continue to excel in getting those in our society that are hard to reach, with disabilities, with criminal convictions and with significant barriers to employment, back into work. For the communities in which we work the Foundation plays a very important role, and our people and our customers can see the major impact it can have, both on the lives of the individuals finding a job and on those who are engaged in the process. During the year we have extended our programme with Lloyds Bank plc in Scotland, we have engaged with the Co-op and look forward to working in partnership with them to support vulnerable people, and we have continued to work with a number of schools, prisons and other charities. We believe that the Foundation is vitally important to the sustainability of our business and the continuing role that we wish to play in our communities.

Results

Adjusted revenue grew by 2.8% – a solid result in the first year of transformation, reflecting the good quality of our core business, our market-leading positions and the strength of our broad offering. Adjusted operating profit before other items, although lower than the comparable FY 16/17 result, was in line with our expectations and guidance. We delivered cost savings whilst investing back into our core capabilities and customer service. We continue to operate comfortably within our debt covenants and our order book is strong.

Dividends

The Board has recommended a final dividend of 2.67p, taking the total dividends for the year to 4.0p. Going forward we expect the interim dividend to be approximately one third of the *previous full-year dividend. We expect to hold the dividend flat* until, at least, completion of the transformation programme when we will review the dividend policy.

Board and Corporate Governance

Since the commencement of my role as Chairman in July 2017, the composition of the Board has been further reviewed, leading to several key appointments during the year.

In July 2017, we announced the appointments of Jennifer Duvalier and Mary Reilly as Non-Executive Directors, joining the Board in July and September respectively. In November, we welcomed Paul Woolf as Chief Financial Officer and Philippa Couttie as a Non-Executive Director.

Additionally, as announced in February 2018, we appointed Roger Yates as a Non-Executive Director with effect from 1 March 2018. Roger will succeed Larry Hirst as Senior Independent Director upon Larry's retirement from the Board at the Annual General Meeting (AGM) in July 2018 after more than eight years' service. I would like to thank Larry for his long service to Mitie. Mark Reckitt will stand down from the Board at the 2018 AGM after three years' service. I would also like to thank Mark for his contribution to Mitie. Mary Reilly will succeed Mark as Chair of the Audit Committee.

Our new appointments have significantly strengthened and widened the areas of expertise and experience on the Board.

Outlook

It has been a year of good progress at Mitie, though not without its challenges. The magnitude of the internal restructuring and the number of things that have needed to be 'fixed' are far more significant than was earlier anticipated. However, much of the heavy-lifting is now complete, and we are moving through each stage of our transformation methodically and systemically.

As the Facilities Management sector slowly steadies itself, I am confident that Mitie is increasingly well placed to be an active and significant participant in the future of the industry. Our clear strategy, our focus, our strong management team, our scale and our market leading positions all play to our advantage. We are pioneers in the roll-out of technology, and this is further strengthening our leading positions in UK FM.

We expect to report modest top-line growth (pre-IFRS 15) next year and we remain committed to medium-term margin improvement to around 4.5%-5.5% in the future. We remain confident in our ability to build shareholder value.

Derek Mapp
Chairman

Further reading:
Market review on pp. 10-11
Our investment case on p. 5
Delivering on our strategy on p. 15
Chief Executive's review on pp. 12-14
People & Community on pp. 38-41
Finance review on pp. 44-49
Board of Directors on pp. 60-63
Nomination Committee on pp. 84-87

How we deliver value to our stakeholders

We take care of the essentials brilliantly, so that our customers can deliver the exceptional every day.

WHAT SETS US APART FROM OUR PEERS

1. Our vision
2. Our values
3. Our people and culture
4. Our specialist UK focus
5. Our nation-wide reach and full range of services
6. Our service self-delivery
7. Our flexibility, offering tailored services
8. Our proprietary technology approach to innovation
9. The breadth and diversity of our client base

WHAT WE DO

- Engineering Services
- Security
- Professional Services
- Cleaning & Environmental Services
- Care & Custody
- Catering
- Property Management

We are the UK's leading FM business with market-leading positions, scale and a broad customer base. Our expertise, care, technology and insight create amazing work environments, helping our customers be exceptional every day.

Please see At a glance on p. 4 for the range of services Mitie provides and Operating review on pp. 22-31 for information on our operational performance during FY 17/18

Further reading:
Strategy in action on pp. 18-19
Investment case on pp. 5
Market review on pp. 10-11
KPIs on pp. 16-17
Culture and values on pp. 1 and 38
Risk on pp. 50-57

WHO WE DELIVER FOR

Employees

We develop a great working environment where our employees can thrive and be their best every day. We are proud of our people, our diversity and the opportunities we offer for career development.

Customers

We take care of the essentials brilliantly so that our customers can deliver the exceptional every day. We save our customers money, give them data-led insight and build close working relationships with them.

Shareholders

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

Communities

Through the Mitie Foundation we provide opportunities for learning and employment; we employ 49,000 people in the UK and are proud of the scale and diversity of our workforce and the breadth of skills and expertise our employees offer to our clients.

Suppliers

We are committed to the health of our supply chain; through partnership, sustainability and the opportunity to share our values.

A world of opportunity

We focus on self-delivery across the UK and are increasingly introducing smart technology in our offering.

KEY MARKET DRIVERS

FM industry

The UK remains Europe's largest and most mature FM market, as well as its most sophisticated. As growth slows, new opportunities are becoming more limited and confined to specialised services. Customers are focusing on more flexible services and delivery options and are showing a growing interest in technology, sustainability and employee wellbeing. As a result, there remains a significant opportunity in the UK FM sector with an estimated addressable opportunity of £45bn.

The past 12 months have been turbulent for the FM industry with the liquidation of Carillion, Capita's announcement of its transformation programme, and heightened scrutiny into public sector outsourcing more generally.

UK economy

Brexit continues to generate uncertainty within the UK economy. UK real GDP growth slowed from 1.9% in 2016 to 1.7% in 2017, the weakest since 2012 as consumer spending slowed and businesses held back on investment. The expected growth in 2018 is 1.5%.

The Organisation for Economic Co-operation and Development forecasts that economic growth in the UK is to remain modest at 1.4% in 2018 and 1.3% in 2019, owing to high uncertainties about the outcome of Brexit negotiations. There is little slack in the economy following years of strong growth, and unemployment is projected to remain below 5%. Inflation is projected to fall gradually to slightly above the 2% target of the Bank of England by the end of 2019.

HOW WE ARE RESPONDING

Mitie is the UK's largest facilities manager but with only a 4% market share. We are leaders in the development and application of Connected Workspace technology and are pioneers of next generation FM services.

Outsourcing is typically shielded from economic cycles, benefiting from increased customer cost-cutting focus in time of economic slowdown, and from contract expansion in economic upturns. We believe our national footprint and multi-service proposition remain compelling and a clear differentiator.

Mitie has actively engaged with its customers and stakeholders during the last 12 months, providing context and assurances. We have seen limited impact on our operational business as a result of competitor or industry activity, and we remain fully focused on our transformation programme and the execution of our strategy.

Potential Brexit impacts are expected to be minimal at Mitie, though could be felt in wage inflation and we have budgeted for increasing remuneration costs in FY 18/19. In Catering, our only business-to-customer division, we have seen some impact from food price inflation. We have responded to these pressures by offering menu variety and a wellbeing focus.

More broadly, across the Group, we are reshaping our business with a laser-focus on our key value drivers: customers, costs, technology and people. The transformation programme is beginning to deliver significant cost savings and efficiency gains, which will help us protect our margins.

Public sector services constitute c.35% of Mitie's business, with our biggest client being the Home Office through the recently won Detention & Escorting contract. We believe there are further opportunities for Mitie in the public sector.

Customer expectations

Customer expectations are evolving with a growing interest in sustainability, wellbeing and technology, reducing costs and improving the working environment and employee satisfaction and health. Customers continue to want different FM service options including single-line, bundled, integrated and managed services.

Customers are increasingly looking at flexible workspace solutions and demanding real-time data, analysis and insights which potentially lead to improving the performance of their estate as well as the performance and wellbeing of their people.

Legislation

As a major employer, we have to comply with the developing legal and regulatory frameworks in areas such as taxation, the National Minimum Wage (NMW) and the National Living Wage (NLW), the Apprenticeship Levy and the Modern Slavery Act.

The NLW for workers aged 25 and over increased by 4.4% from £7.50 to £7.83 from April 2018. The NMW and NLW are essential baseline protections for all workers, and the government remains committed to ensuring that all those who are due the NMW or NLW receive it.

The Apprenticeship Levy is required from UK employers to fund new apprenticeships and charged at a rate of 0.5% of an employer's payroll. By law all employers must offer a workplace pension scheme to eligible employees.

We are developing and embedding across our own and our customers' businesses our Connected Workspace technology. This includes an open source platform which can integrate with multiple systems and data sources, perform advanced data analytics and deliver solutions through easy-to-use customer interfaces. We are future-proofing the business through technology and have a number of Connected Workspace partnerships already deployed.

Our nation-wide flexible offering remains attractive and the self-delivery model coupled with the smart use of technology ensures that service expertise and consistent delivery are at the core of every customer interaction.

We are ambitious for the future of the FM industry, our customers and our employees. We have set out a clear strategy to deliver growth and to pioneer next generation facilities management.

Pressure on margins for our core UK FM business will likely continue as labour costs increase (driven by rising NMW, NLW, the introduction of the Apprenticeship Levy and increases in employer contributions for pension auto-enrolment). The majority of our existing contracts already contain a change-of-law clause. However, going forward all our new contracts will contain such a provision, helping us protect our margins. We are looking to utilise the Apprenticeship Levy for frontline staff training and development. We are also moving beyond a 'labour-plus' model towards more value-added services. At the same time, technology plays an increasing role in Mitie's future.

We paid £4m into the Apprenticeship Levy scheme in FY 17/18.

The impact to Mitie from workplace pension scheme was £4m in FY 17/18 and in FY 18/19 it is expected to be £8m.

A year of discovery and transformation

Image removed

"We are implementing a major transformation programme, addressing challenges and opportunities as they arise, whilst focusing on our medium-term strategic goals."

Phil Bentley, Chief Executive

Dear Mitie Shareholder,

I am very pleased to be updating you on my first full year as CEO of Mitie Group plc. It has been a year of discovery, simplification, transformation and significant change. And I firmly believe we have made much progress in the last 12 months, building the foundations that will ensure Mitie continues to be at the forefront of the UK Facilities Management industry.

I have two primary roles as a CEO. The first is to lead and inspire an incredible Mitie workforce of 49,000 people the length and breadth of the country. From gritting the roads overnight when the winter snows fall, to cleaning and polishing the floors of some of the UK's most iconic institutions, to providing sophisticated security schemes for high street retailers, to feeding Britain's hungry workforce – I have been impressed, and occasionally humbled in the last 12 months by my Mitie colleagues going that extra mile.

The second is to build a business that is fit for purpose and fully responds to the needs of our customers. We need to be true partners to our clients, sharing in value creation, benefiting together from advances in technology and together, aspiring to be truly exceptional in all that we do. That means me getting out there talking with our customers and in the last year, I have visited a huge number of them. So important is the work of our frontline staff for our customers, that this year I tasked the 100-strong Mitie Group Leadership Team to each undertake a frontline shift in our operations. Listening, learning, hearing about the ideas our staff and customers have for how we could do better is invaluable in shaping our future.

I believe if the strategy is right, our staff are engaged and our customers are happy – we have the recipe for success. This will then deliver long-term shareholder value.

Strategy and transformation

The strategy that we set out this time last year has provided a strong framework for our actions in the last year. We are executing a wholesale transformation of the Group in a challenging market. We are actively engaging with our private and public sector customers, our regulators and our other stakeholders to help bring about the changes our sector needs to thrive, and there are a significant number of projects and deliverables that we are driving forward. By using the four strategic pillars of our overarching strategy – customer, cost, technology and people – we have remained focused on the task in hand and I am confident in our ability to deliver on our ambitions.

▶ Putting our customers at the heart of our business

We have put a major focus on our customers. Mitie has a diverse and impressive list of over 3,000 major clients and we firmly believe making them happy will drive our own business success. Historically Mitie engaged with its customers in a somewhat fragmented way, creating confusion for them and making client servicing as well as cross-selling for us, more difficult. To address this, we have undertaken a full audit of our customer portfolio; we have centralised the commercial and sales function so that our customers have one primary point of contact with the business; we have implemented one CRM system that gives us valuable, accurate insight across our business units; and we are deploying a standardised internal approach to engagement, dataflow and reporting. We have also centralised our bid processes and have initiated a formal New Business Committee for all commercial opportunities. And we have rolled out a Group-wide Net Promoter Score programme to understand what our customers really think. The outcome of this is that we have more efficient, less costly, more customer-focused teams;

and our customers are increasingly enjoying simpler access, ease of navigation around Mitie and greater visibility of their account team. We have more still to do but we expect to reap further benefits from these actions in the year ahead. Our Net Promoter Score across our top 100 accounts grew by 17 points and the revenue from our top 40 customers grew 9% year-on-year.

▶ Transforming our cost base

In June 2017, we launched Project Helix, to kick start changing the DNA of Mitie. This ambitious three-year programme involves the simplification of our structure, the standardisation of internal processes, the rationalisation of our systems and the removal of spans of management and layers of inefficiencies. We knew that there was considerable work to be done, but we *also knew that it would deliver significant cost savings and* operational upside. The scale of the task is larger than we originally anticipated, but we believe the upside will be greater too.

We have almost completed the full transformation of our Finance function, including outsourcing our back-office processes to Genpact in Kolkata. We are near completion of our HR restructure with a new centralised HR organisational structure and a new Group-wide HR operational system (SAP), replacing multiple legacy systems. We have fully collapsed the highly fragmented 'Mitie earn-out model' and we are intending to move from over 50 legal entities towards one operational reporting entity in FY 18/19, greatly simplifying our internal processes and systems, reducing internal recharging and streamlining almost every aspect of the business. We have built a small dedicated transformation project office, tasked with the sequencing and coordination of the Group's turnaround. Working closely with the Executive Leadership Team, they will focus in the year ahead on our IT and Engineering Services technology transformation programmes.

As at March 2018, this programme has delivered annualised cost savings of £13.2m, and we expect this to rise to annualised cost savings of £50m by March 2020.

We are one year into our three-year programme and we have more to do here but our ambition remains to be the most efficient, value-focused technology-led company in our industry.

▶ Building a winning culture and developing and retaining our people

Mitie is a people business, and our aim is to build a company where each of us can thrive and be the best that we can be, every day.

We have launched our new 'Vision, Purpose, Promises and Values' across the organisation under the banner headline of 'The exceptional, every day.' This articulates and embodies who we are, what makes Mitie great and where we are taking the company. It recognises the importance of our people, our culture, our customers, the role technology plays in our future, and the journey we are on. They articulate the glue that binds us. This is an important step forward as we seek to deliver 'One Mitie'. Looking ahead we will be embedding these new values in all aspects of our organisation, including our annual performance review, our recruitment, in all our marketing and customer communications and in our external engagement. You can find further information on our new Vision, Purpose, Promises and Values on pages 1 and 38.

In the last year, we relaunched our Group Leadership Team Forum and we have overhauled our internal communications programme. We were also delighted to partner with Salary Finance, launching an innovative new loan scheme for our staff, which has had a significant uptake with over 1,400 employees benefiting, helping our people with financial management and removing the need for staff to use pay day lenders. As part of the HR transformation, we have appointed a leading third-party provider to manage the end-to-end process for hiring temporary resources. We expect efficiency improvements as well as cost savings from using the new provider. Looking forward we will be rolling out a new Learning and Development programme, an executive mentoring and development scheme and we will be looking to simplify reward and recognition across the Group.

In April 2018, we partnered with Aon Hewitt to run Mitie's 2018 People Survey to set the baseline of our employee engagement. I am pleased to say that the completion rate was 30% against 19% the year before – almost 15,000 Mitie employees have responded to the survey. In a period of significant change, employee engagement improved, but only marginally, and we have much more to do here. We have evaluated the results and identified the priorities and will be implementing action plans to drive the change needed to become a great place to work.

Mitie champions apprenticeships, and this year we employed 555 apprentices across the Group, 540 of whom were supported through the Apprenticeship Levy. We believe we are well placed to offer exceptional opportunities for those seeking apprenticeships in a wide variety of roles, and we are planning to increase the number and variety of apprenticeships that we offer.

▶ Investing in technology to make Mitie the easiest company to do business with

Technology will be a core enabler for Mitie and its customers in the future. The FM industry is yet to capitalise fully on the benefits of better technology, but Mitie is at the forefront of early adoption.

Our Connected Workspace technology – our 'smart' proposition – helps buildings and people perform better. It pioneers the combined use of sensors, data, expertise and intelligent insight to give our customers information that is invaluable, helping them to improve the performance of their estates and their staff. In the last 12 months Connected Workspace has been part of 29 successful Mitie bids and there are 44 further connected workspace propositions in the pipeline. Becoming a technology-enabled business through our Connected Workspace offering, we believe, will be transformational for Mitie. See more on the Connected Workspace on pages 18 and 19.

Leadership

Our Executive Leadership Team is now almost complete with the appointment in the last year of a new Group CFO, Group HR Director, Group Director of Corporate Affairs & Investor Relations, Group Marketing & Strategy Director and new MDs for our Engineering Services and Cleaning & Environmental Services businesses. These appointments have brought valuable blue-chip and change skills to the senior team. We have also attracted a number of experienced senior managers to the Group Leadership Team during the year and the business is benefiting from their expertise, knowledge and diversity.

Business performance

This, undoubtedly, has been a year of significant change for Mitie. We are implementing a major transformation programme, addressing challenges and opportunities as they arise, whilst focusing on our medium-term strategic goals. This has all been set against the backdrop of a challenged industry in the spotlight. Despite this, we have grown our revenues, reduced our average daily net debt position and won some major new customers and contracts.

We are part way on our journey and we are making good progress. Adjusted revenue was 2.8% up at £2.2bn on the prior year, although adjusted operating profit before other items reduced to £77.1m from £82.0m. The order book grew 2% to £4.5bn and is reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Care & Custody has been the stand-out division this year, winning a notable £525m 10-year contract to provide Detention & Escorting services for the Home Office. Engineering Services and Security have also had a good year in terms of revenues and contract wins. Cleaning & Environmental Services, pleasingly too, has stabilised sales after a recent decline. Property Management has not performed as well as hoped, though this has in part been a result of the distraction of a terminated sales process; the business is beginning now to focus on key social housing opportunities.

Professional Services continues to win consultancy and project management work, though this has in part been offset by the full-year impact of waste contract losses in the previous year. Of particular note is the traction we are now seeing in our Connected Workspace proposition, moving from pilot phase into expansion of initial engagement with a number of customers, such as a European financial services company, an energy drink company and a financial services group. Our Technology and Remote Operating Centre in Bracknell opened this year and provides a perfect forum to showcase our own smart, connected technology to clients.

Balance sheet management has been a core focus for us this year and will continue to be going forward. We are committed to reducing our customer invoice discounting, normalising debtor and creditor days, asking clients for fair payment terms, streamlining our billing processes and delivering faster cash collection. Our efforts have seen a notable decline in average daily net debt and we are operating comfortably within our debt covenants.

Looking ahead

Change and transformation are never easy or without challenges. Mitie is fundamentally a strong business, with great customers, outstanding staff and a real opportunity ahead of it. We want to be shaping the FM industry as it continues to evolve, using our unrivalled expertise, our pioneering technology and our ambition to propel ourselves forward. We have more to do, but we are on track and I am pleased with the progress to date. With an uptick in revenue, a normalising balance sheet, a good order book, a focused execution plan and experienced leadership, I believe Mitie is well positioned for growth in the upcoming years.

Phil Bentley
Chief Executive

Net Promoter Score (NPS)

NPS overview

The NPS methodology uses direct customer feedback to measure the willingness of customers to recommend a company's products or services to others. We are committed to delivering excellent customer experience in support of our purpose to help our customer be exceptional every day. In FY 17/18, we started embedding NPS into our operations as one of our primary customer-focused KPIs.

Our approach

We conducted research between January and March 2018 with our top 100 customers (who account for over 50% of our aggregate revenues), asking them to fill in a short online survey to help us understand their opinions and to capture an NPS rating for Mitie overall.

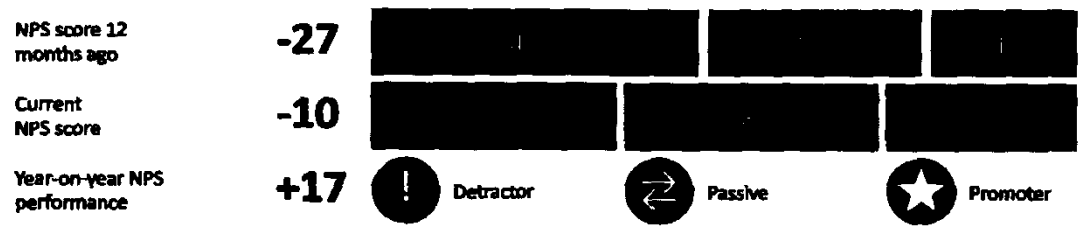
Our performance: overall Group NPS score

Our NPS is a negative 10; however, it is an improvement of 17 points in the last 12 months – a meaningful shift in customers' views of Mitie and a testament that we are on the right track to have a positive impact on our customers.

Outlook and next steps

We will roll out a more extensive programme to cover a wider and deeper section of our customer base. We anticipate that achieving improvements in NPS will become increasingly challenging but it is an essential part of our customer engagement strategy. NPS will be built into our training plans, ensuring our people are informed and empowered to consistently deliver a great customer experience.

How likely would you be to recommend Mitie to a friend or colleague?



Delivering on our strategy

Our four strategic imperatives frame our objective of growing customer lifetime value by offering compelling propositions and delivering the basics brilliantly.

Customer

Image removed

- We put our customers at the heart of our business and have introduced a Net Promoter Score programme to track our performance
- We build close working relationships with customers to understand their needs and deliver lifetime value
- We deliver the basics brilliantly so we can then cross-sell, create, build and tailor compelling offerings for customers

Cost

Image removed

- Project Helix is changing Mitie's DNA to make it the most efficient company in our industry, with the lowest cost base
- We are embedding the Mitie Way of doing things consistently across the Group
- We are instilling the 'One Mitie' culture to deliver an unrivalled service

People

Image removed

- We are transforming Mitie into a place to work where our employees can thrive and be their best every day
- We offer opportunities for individual learning, development and progression and reward great work
- We empower our people to be free to make decisions that improve our customer service, every day
- Trust and respect among all our employees irrespective of their seniority are an essential cornerstone for our success

Technology

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- We are creating standardised platforms and applications across our business and for our customers
- We are using predictive analytics and algorithms in a unique way to generate new insights and opportunities for our customers
- We are focused on developing tailored seamless customer interfaces
- We are pioneers in the delivery of next generation FM

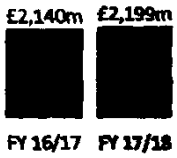
Monitoring our progress

Adjusted revenue[1] growth (%)

Description

Revenue growth reflects the health of our order book, our ability to upsell, pipeline of potential opportunities, our win and retention rates and our broader reputation in the sector.

2.8%



How we did it

We are one year into our three-year transformation programme to re-engineer Mitie's DNA. We are building a world-class commercial team, investing in customer service and technology to drive customer retention and win rates. We are embedding One Mitie approach to working with our customers and winning new business.

Outlook

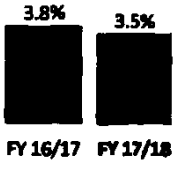
Our plan is to achieve 3%-4% revenue growth in the medium term.

Adjusted operating profit[1,2] margin (%)

Description

The UK FM industry is a mature market characterised by low margins. Historically, Mitie has not been disciplined when bidding for contracts or with its own costs.

-30bps



How we did it

Our unwavering focus is on achieving internal cost savings through our Project Helix. In FY 17/18, whilst we achieved some of the cost savings we had targeted, we also invested some of this back into customer service and internal capabilities.

Outlook

Our medium-term plan is to improve operating profit margin to 4.5%-5.5%.

Average daily net debt (£m)

Description

Our balance sheet health is of paramount importance to the long-term sustainability of our business.

-£50m

How we did it

We reduced the average daily net debt by £50m due to the £24m benefit from higher average invoice discounting and improved working capital performance.

Outlook

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

Net debt/EBITDA (x)

Description

Period end net debt/EBITDA ratio is one of the debt covenants used to assess our financial position.

<3.00x

How we did it

The period-end net debt increased by £46.3m to £193.5m as we focused on normalising working capital and reducing the use of invoice discounting at the end of the financial year. We continue to operate comfortably within our debt covenants.

Outlook

Our objective is to bring average net debt/EBITDA to within 2x over the medium term.

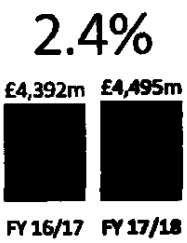
1. Revenue and operating profit margin are presented on an APM basis: FY 17/18 pre-IFRS 15 and FY 16/17 per prior year APM.
2. Before other items.
3. Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

In the first year of our three-year transformation programme, the year of discovery, we reviewed and identified relevant indicators to drive the execution of our strategy and create value for all our stakeholders.

Order book[3] (£m)

Description

We are reporting the order book under IFRS 15 guidelines for both FY 17/18 and FY 16/17. This requires us to include only fixed-term contracted work and excludes variable work, such as catering point-of-sale.



How we did it

The order book grew 2.4%: ES order book remained stable while the order book within Care & Custody grew significantly on the back of the Detention & Escorting contract win. These more than offset declines in order books in other divisions.

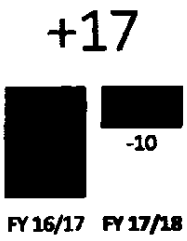
Outlook

We expect our order book to grow moderately as we embed our Connected Workspace offering in bids and contracts and drive our core businesses forward.

Net promoter score (index)

Description

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



How we did it

Movement of +17 points is a significant improvement and is testament to the significant investment we have made in our customers this year.

Outlook

This will be a core focus and we will be further developing our CRM programme, our customer communications and our engagement this year.

Staff turnover (%)

Description

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

How we did it

Our voluntary turnover has reduced year-on-year due to investment in our frontline managers; we are getting better at hiring to common standards and introducing SAP Success Factors has improved our onboarding experience leading to a more informed induction. We have launched new common values.

Outlook

In FY 18/19, we will build on the work to date, introduce better technology to engage with our employees, roll out a new learning platform to continue to develop talent and streamline hiring. We will be reflecting our new values in a new set of Mitie 'behaviours'.

Learning and development spend (£/per head)

Description

Our learning and development spend per head covers a combination of compliance training and development training using internal and external resources.

How we did it

Using the Apprenticeship Levy we have invested more in our people year-on-year providing development opportunities aligned to our career pathways.

FY 16/17: Data unavailable.

Outlook

We will use a 'Levy First' approach to fund training, utilising the new Learning Hub to facilitate digital learning and ensuring we can increase the investment in our talent.

Shaping the future of a technology-led Facilities Management company

Technology, customers and the Connected Workspace

The world of Facilities Management is evolving fast. The sector has faced a number of recent challenges, but with those challenges we believe comes immense opportunity as the industry takes stock, recalibrates and moves forward. Mitie is ambitious for its future, its customers and its employees and has set out a clear strategy to deliver growth and to pioneer next generation facilities management. The Group's strategy focuses on four key pillars, customers, people, costs and technology. All will play a critical role in differentiating our business. Mitie's vision is to deliver the exceptional, every day, through outstanding customer service, supporting and motivating our excellent people and, critically, the application of advanced technology.

We strongly believe that technology will be the cornerstone upon which our business delivers long-term, sustainable value for our shareholders and customers. By focusing on our technology development, we are improving our own efficiency and systems, indirectly enhancing our service delivery as well as developing leading-edge technology-enabled propositions directly for our customers. Mitie is proud to be at the forefront of technology-enabled next-generation FM.

Our Connected Workspace philosophy is already being embedded across our own business and across our client proposition. We are beginning to see the initial benefits of this approach as the Connected Workspace has been a core component of 10% of our significant IFM or multi-service wins. And we are beginning to see how deployment of this smart technology is dramatically changing our own, and our clients' working environments. Connected Workspace is helping organisations create high performance work environments by improving the performance of their buildings and the wellbeing and performance of their people.

At its core, Connected Workspace is a technology platform of linked products and services. It includes:

- a 'data lake' that collects, combines and processes data from multiple sources and business functions. Advanced analytics are then applied to this pool of data to provide new insights, improving building performance, people productivity, the working environment and cost to deliver. It is open sourced so non-Mitie apps, portals and data sources can also be connected to the platform;
- an analytical portal through which information, analytics and insights are managed, communicated and acted upon. This provides real-time visibility and management of often large complex operational estates – in a way that has before now not been possible; and
- user apps which provide the ability for building users to interact with their environments.

Mitie's development of the Connected Workspace technology platform is market-leading. It is designed to allow connection to any external data or workflows, is highly scalable, is purpose-built for the specific needs of the FM and Corporate Real Estate industries and has been developed with world-class technology partners such as Microsoft.

By harnessing data, creating insights and applying those insights to improve the performance of buildings and people, the Connected Workspace technology platform is demonstrating significant benefits for both Mitie and our customers through:

- improving cost control and reducing downtime: decisions become real-time, data-driven and predictive which reduces the cost to serve and increases the performance and resilience of facilities;
- greater efficiency and higher productivity: previously hidden data and insights enable processes, systems and resources to be fine-tuned to optimise efficiency and productivity;
- talent attraction and retention: people are empowered to adjust their working environments and services to suit their own personal preferences. Life is made easier as friction is removed from everyday activity; and
- improved governance, compliance and reduced risk: transparency of information radically improves governance as information, processes and performance are easy to locate, monitor and evidence.

Co-op

Image removed

In FY 17/18, Mitie was awarded a three-year contract with the Co-op following a competitive tender process. Co-op's support centre in Manchester, One Angel Square, is one of Europe's most sustainable buildings and is built to a BREEAM 'outstanding' rating, achieving a record BREEAM score on opening. Demonstrating its commitment to working with the Co-op, Mitie will make a significant investment in implementing its Connected Workspace technology at One Angel Square. Co-op and Mitie will collaboratively implement tailored technology to capture and manage building usage data. This includes monitoring a number of environmental elements such as temperature and occupancy. Mitie will harness this data and use the insight to make both the Co-op's buildings smarter and the working lives better for its employees. The initiatives will improve space utilisation for workstations and meeting rooms, and enhance employee wellbeing through active environment control and wellbeing monitoring.

Connected Workspace has been part of 29 successful Mitie bids and there are 44 further Connected Workspace propositions in the pipeline. Further, Mitie currently has nine dedicated pilots deployed, with a further 14 in the planning stage. 5,000 sensors have been installed providing two million messages a day into the data lake.

Following the announcement in June 2017 that we were working with Microsoft to deliver on Mitie's vision for the Connected Workspace, the relationship has deepened.

Microsoft has provided the expertise, skills and technology infrastructure to support the development and roll-out of the core Connected Workspace technologies. We have accelerated the development of Mitie's Azure-based data lake, the ingestion of data from both Internet of Things (IoT) devices and operational platforms.

Mitie and Microsoft teams have collaborated to ensure Connected Workspace design and architecture are both open by design and secure by design, enabling Mitie to integrate with many building management systems and IoT device manufacturers, as well as acting as an integration platform on Azure. This strong and strategic collaboration will allow the Connected Workspace to enable a safe secure client experience for all of our customers.

Becoming a technology-enabled business through our Connected Workspace offering, we believe, will be transformational for Mitie and for the industry as a whole. We are committed to continuing to reduce costs for our customers, improve their employee experience, reduce our own cost to serve and improve the margin structure of our business. We are excited about a technology-enabled FM sector, and we are committed to being at the forefront of the future of Facilities Management.

Image removed

We are built on integrity and trust

Image removed

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

Joshua
Groundskeeper,
Landscapes

Operating review

To enable an effective comparison of our performance, adjusted revenue and adjusted operating profit are presented for both FY 17/18 and FY 16/17 as Alternative Performance Measures (APMs). FY 17/18 adjusted numbers are presented on pre-IFRS 15 basis. FY 16/17 adjusted numbers are presented as per last year's APM, for continuing operations, restated to reflect changes in management reporting implemented in 2018 for certain business unit activities transferring between segments. The order book is presented for continuing operations in line with IFRS 15 requirements for both FY 17/18 and FY 16/17.

Engineering Services

Mitie Engineering Services (ES) is a leading provider of engineering services in the UK, delivering technical and building maintenance services across a wide range of sectors and real estate assets.

We focus on customer experience, providing the best technology-integrated solutions and building long-term customer relationships. To complement our core offering, the division also supplies specialist services in heating, cooling, lighting, water treatment and building controls.

Performance

£m		FY 17/18	FY 16/17	Change, %
Revenue	Reported[1]	840.7	789.1	6.5
	Adjusted[2]	833.8	803.7	3.7
Operating profit/(loss) before other items	Reported[1]	45.8	(4.5)	nm
	Adjusted[2]	35.5	33.0	7.6
Order book[3]		2,064.2	2,095.2	(1.5)

1. FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.
2. Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.
3. Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Key stats

- **We look after 2.5m assets for our customers.**
- **We handle c.1m reactive calls every year within ES.**
- **2,700 engineers.**

Operational performance

In FY 17/18, we enhanced the quality and efficiency of the service we provide to customers by creating more effective operational teams and streamlining internal processes; in FY 18/19 we will be further investing in state-of-the-art technology to continue this programme. As part of the overall re-shaping of the Engineering Services business, we have focused on reducing layers and increasing spans of control. As part of our One Mitie approach we have centralised our Group Sales team, who service our key national accounts, to ensure our customers receive the highest quality of care and service.

During the year, we continued to invest in our key client relationships. We also introduced Client Operations Executive roles (aligned with the sales structure) to drive clear accountability for the overall performance for our largest and most valuable customers.

To support our growth strategy, we have embarked on a multi-year transformation as part of the Mitie-wide Project Helix programme and we are already beginning to see the benefits of this. In FY 17/18, we faced a number of challenges in our operational delivery, but we are now starting to see major improvements in engineer utilisation and service delivery. We have made notable progress in the following focus areas:

- clearly defining our core operational metrics;
- sharing best practice on-job planning for our mobile workforce;
- redesigning the organisation for consistency and standardisation; and
- listening more to customer feedback.

Engineering Services in action

Image removed

We have seen impressive improvements within our Fleet operations, where we reduced our hire vehicles by 247, resulting in a 33% cost reduction. We have seen cost savings of £100,000 through rigorous monitoring and improvement plans, which resulted in fewer accidents and insurance claims. We won the ROSPA award in 2017 for the health and safety record on two of our big contracts. We have also seen a 20% reduction in RIDDOR Accident Incident Rate per 1,000 employees over the past 12 months.

As part of the Engineering Services transformation programme, we launched Mitie Innovate, which was introduced at the end of 2017. A pilot region in London was chosen to test and improve initiatives before rolling them out to the rest of our national team. As part of the initial roll-out, we conducted 20+ ride-alongs with our mobile and site-based engineers to understand how they went about their day and how we could help provide a better experience for customers and our frontline teams. In the eight-week period following the launch of Mitie Innovate, we saw significant improvements in operational KPIs from the frontline; for example, our engineers were 6% more productive (completing more jobs per productive hour), with some sub-regions improving by 20%. Their travel time reduced by 12% with some sub-regions showing a decrease by 30%; and the first-time fix rate improved by 4% with some sub-regions improving the first-time fix rate by 13%.

The integration of our core workforce has created a highly flexible and skilled team with optimal support systems. Workflow management for scheduling, tasking and billing will start to be introduced in FY 18/19 and our engineers will receive enhanced training and tools to enable them to continue to deliver the highest quality of service.

In the future, technology will be a key enabler for Engineering Services. It will be deployed to link outputs to the Connected Workspace, generating actionable data insights and providing the most responsive and valued service in the market. By using a combination of existing building systems and environment sensors, along with energy, asset and workplace data, we are providing tailored solutions to satisfy each client's unique requirements.

This year, Engineering Services won a multi-year contract for all Co-op's corporate sites, a 5.5-year extension with Heathrow Airport and further work with the Scottish Government. We also retained a significant contract with an NHS Trust. These wins and extensions offset the previously announced loss of a top-20 contract and of another, due to a merger.

Financial performance

The Engineering Services division reported adjusted revenue of £833.8m, an increase of 3.7% on the prior year of £803.7m, driven by good performances from both its core customer contracts (growth of 3%) as well as growth in its projects business. Adjusted operating profit before other items was £35.5m (FY 16/17 £33.0m) reflecting revenue growth and higher gross margins on net new contract wins versus losses. Cost savings from Project Helix were largely reinvested back into improvement in customer service levels, staff training and technology.

Notwithstanding the loss of an important top 20 contract, the outlook remains positive. We achieved a number of contract extensions and new business wins during the year, meaning the order book remains relatively stable at £2.1bn (FY 16/17: £2.1bn). The business is also planning a major investment into its workflow technology over the next couple of years which will improve the experience of our customers whilst also simplifying the business enabling a reduction in costs to serve.

Outlook

The significant focus within the Engineering Services division for FY 18/19 will be on our ongoing transformation. We have commenced the scoping phase, looking into asset and workflow scheduling. We are coming to the end of the discovery phase for the workflow transformation programme.

The objective of this stage of the transformation is to fully upgrade our end-to-end service delivery, from job receipts to billing, via process re-engineering, operational restructure and technology implementation. *This will:*

- improve first-time fix and customer experience by having the right details at enquiry;
- increase efficiency through better resource planning by matching right-skilled resource to the job;
- protect revenue and increase billing accuracy through automating time-sheeting and proof of work;
- improve delivery through better engineering capacity planning, upskilling labour and supply chain management; and
- better engage, inspire and manage our people.

Security

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

Performance

£m		FY 17/18	FY 16/17	*Change, %*
Revenue	Reported[1]	**432.0**	403.7	*7.0*
	Adjusted[2]	**431.7**	403.7	*6.9*
Operating profit before other items	Reported[1]	**27.5**	17.8	*54.5*
	Adjusted[2]	**25.2**	21.6	*16.7*
Order book[3]		**640.8**	724.3	*(11.5)*

1. FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.
2. Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.
3. Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Key stats

- **We monitor 23,000 lone worker devices at MiTec.**
- **c.7m visitors welcomed by our Front of House teams.**
- **13,000 security personnel.**

Operational performance

Our Security business is one of the market-leaders in the UK. The combination of security-related businesses within a single division allows us to develop our technology capabilities and solutions in a collaborative and integrated way. Our goal is to build upon and strengthen our market position; continue to influence buying behaviours; and develop longer-term strategic partnerships with our customers through innovative and technology-led operating models.

Our strategy is to provide a sustainable, high-quality service to our customers that mitigates the risks they face through employing highly skilled personnel, enhanced and supplemented by integrated technologies. This enables our services to flex and be deployed to meet our customers' individual risk profiles at any given time.

By providing innovative proprietary technology to drive a risk-based deployment model, we save management time and increase efficiency. This results in effective front-line security deployment, complemented by the latest technology. Our clients benefit from a greater return on investment, excellent customer service and an improved risk framework.

We are currently the second largest security services provider in the UK with a c.12% market share. We integrate and deliver a full suite of services and products, including security personnel, emergency mobile response solutions, fire and security systems inclusive of CCTV/alarm installation, and maintenance and remote monitoring from our convergence security operations centre (MITec). This suite of services is supported by a risk-based approach and industry-leading risk tools. We are the market leading provider in the Transport, Aviation and Retail sectors.

In FY 17/18, Mitie's Security division has renewed or expanded several major contracts, including with DP World Southampton, a major transport sector client, a major London Airport, Fujitsu, Durham University, Springfields Fuels Limited and TNT. Customer retention rate improved to 93.5% against 84% in the prior year. Notable new contract awards in FY 17/18 include a UK retailer, a global delivery services company and The Royal Academy of Arts.

Document Management has had another robust year with client retention running at 98% and good organic growth. Key new customers include a global investment bank and an international law firm. We have seen the document management business recognised with two national PFM awards for work with our clients, PwC and Linklaters. Document Management launched two new product lines in FY 17/18: document production and examiner services, both focused on servicing the legal sector. The business has continued to develop its national coverage and now has a full-service offering ranging from managed print solutions and outsourcing of mail room activities, to a complete customised restructuring of document workflows and processes.

Our Front of House business, Signature, has had a good year, refocusing its market offering. The business has progressed under new leadership and moved towards a closer alignment with our wider security business, an example of this being the award of The Royal Academy of Arts contract. Our new identity, Signature, signifies a clear change in both the culture and future direction of the business and is underpinned by several impactful programmes to drive growth and sustainability, particularly in new business wins and client retention.

Security Services in action

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In 2017, Procius, our vetting services business, completed an impressive number of checks for the Aviation industry customers, vetting 736 pilots, 2,508 cabin crew and 925 ground staff.

Procius, our employee vetting business, which is one of the UK's largest vetting providers, and the leader in the Transport and Aviation Sectors for pre-employment screening and criminal records checking services, continues to deliver strong growth. In FY 17/18, we saw increasing demand for our services across existing key customers in the Aviation Sector along with good contract wins, including a market leading logistics company, a leading company in the travel and tourism sector and a Premier League football club.

The security market remains highly competitive. We continue to focus on delivering sustainable growth through strong customer engagement, the provision of a comprehensive service offering and the promotion of the benefits of risk-based technology-led solutions. We strive to attract and retain our customers through the provision of exceptional service.

Financial performance

The Security division grew its adjusted revenue by 6.9% in FY 17/18 to £431.7m. This was achieved through new sales wins and record low contract terminations (with a retention rate of 93.5%). Adjusted operating profit before other items increased 16.7% to £25.2m with operational efficiencies and the growing use of technology adding to the impact of the improved top-line performance. Outside the main security businesses, good performances from Document Management and Front of House also contributed to the overall profit growth.

Innovation remains a core focus in Security. In FY 17/18 we developed and expanded our contract with a leading supermarket chain, with the introduction of SMART risk technology and 5,000 lone worker devices, aiding the full implementation of a risk-based deployment model.

Technology-driven accounts now make up c.12% of the business. The order book is £640.8m, down from £724.3m, as the unwinding of large multi-year contracts more than offset new wins.

Within the Security business, technology and the Connected Workspace play an increasingly important role for both our existing and future customers. We have secured several excellent technology-enabled contracts from developing existing and new customers, including contract wins with an engineering company and a major UK retailer. The control centre for the 10-year Home Office Detention & Escorting contract won within Care & Custody will be located at MiTec in Belfast. We saw continued growth of contracts with legacy Fire customers, a telecommunications company and a leading financial services customer, and we also secured new maintenance customers in the NHS and with Rexel.

Outlook

We are optimistic and ambitious for the year ahead. Our focus continues to be on growing our Security business, offering customers tailored solutions, increasing the use of technology to ensure a safe environment and provide seamless operations and utilising data and analytics generated through our proprietary Connected Workspace offering.

Professional Services

Professional Services (PS) brings together Mitie's consultancy services. This includes our Energy, Water and Sustainability business, our Waste and Environmental consultancy and our Corporate Real Estate and Risk and Resilience operations. It is also developing our Connected Workspace offering for the Group.

Performance

£m		FY 17/18	FY 16/17	Change, %
Revenue	Reported[1]	**90.2**	96.6	*(6.6)*
	Adjusted[2]	**90.8**	96.6	*(6.0)*
Operating profit before other items	Reported[1]	**6.5**	6.7	*(3.0)*
	Adjusted[2]	**7.0**	9.3	*(24.7)*
Order book[3]		**75.5**	81.5	*(7.4)*

1. FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.
2. Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.
3. Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Key stats

- **Over 1,000 customer buildings connected to ROC.**
- **Over 3,000 energy surveys conducted.**
- **£1.1bn-worth of energy bills validated each year.**

Operational performance

Energy, Water & Sustainability develop smarter ways to procure, manage, comply, govern and optimise consumption. Waste & Environmental focus on a sustainability-led 'resource, not waste' approach: understanding how waste is created and then looking at how to avoid producing it in the first place. Corporate Real Estate Services provide property and real estate services to deliver exceptional, flexible working environments for our clients. Risk & Resilience focuses on threat, risk and resilience consultancy to help our clients manage their risks.

Connected Workspace customer solutions work to develop and deliver technology that unlocks workspace potential by harnessing data to make buildings smarter and working lives better.

During the year, within our recently established Professional Services (PS) division, the focus has been to bring together and align a number of businesses and service offerings, combining technical skills and teams to lay the foundations for future growth. This has included bringing in new senior leaders for our Occupier Services, Risk and Resilience and Connected Workspace businesses. In addition, we have added senior business development staff to help drive sales actively across the division.

The division started FY 17/18 with the headwind of two contract losses in Waste Management and the immediate focus was on replacing these revenues. Contract wins during FY 17/18, most significantly with two major manufacturing clients ensured that the Waste Management business revenue returned to growth in 2H 17/18. Notwithstanding the revenue impact from the prior year, the Waste Management team has delivered improved operating profit through a drive to simplify its cost structure and focus on profitable revenues.

The Energy component of our Sustainability business has performed well with significant wins, including a contract with a major telecommunications provider and a ground-source heat-pump project delivering significant carbon and cost savings to an engineering client. Consequently, it grew revenue by 16%, also demonstrating growth in operating profit and margin. Within the year we have brought our Water Management business into the PS division to complement our Sustainability offering. We are restructuring this business to return it to growth following the completion of a Mitie earn-out and the departure of the previous management team at the end of FY 16/17.

We continue to win real estate consultancy and project management work as demonstrated by the award of two new significant international project management frameworks with global technology businesses.

Our Connected Workspace offer has moved from early pilot into deployment stages with a number of clients across Mitie and we are pleased to report that we have opened our Innovation Centre in Bracknell. Furthermore, we have agreed and implemented strategic partnerships with various world-class technology partners, including Microsoft and Vodafone. Working across the Group, the PS division continues to define, design, trial and sell our Connected Workspace technology solutions and capabilities to assist our clients in improving the performance of their buildings and people.

We have seen significant interest from existing and potential customers in all areas of our business in our Connected Workspace offering. We are now running nine live pilots at customer sites, with another 14 currently in the pipeline. 5,000 sensors have been deployed providing us with two million readings each day which are fed into our data lake informing insight into building and people performance and offering tangible solutions to our customers to improve results and save money.

Mitie's commitment to transforming and improving customer experience and service is further demonstrated by the investment in consulting services and support by the PS division. During the year, our professional services colleagues were deployed to work with our account management teams to drive improvement in the customer experience and service for many of our large FM clients. Given the work carried out to date, we do not expect the same volume of investment in internally focused engagement to be required in FY 18/19.

Financial performance

The two major Waste contract losses in the prior financial period saw the PS division start the year from a lower base, and overall the PS division reported adjusted revenue of £90.8m, down 6.0%. Adjusted operating profit before other items dropped to £7.0m (FY 16/17: £9.3m), with good performances in Waste & Sustainability driven by operational efficiency measures more than offset by investment in internal capabilities and in customer service. During the year the business also built Real Estate, Risk Management and International service capabilities further enhancing our consultancy offering.

The order book stands at £75.5m against FY 16/17 of £81.5m with this reduction driven mainly by a re-evaluation of our Water Management order book and the unwinding of large multi-year contracts, which have more than offset new wins.

Outlook

The division has recorded a number of contract wins at higher margins during FY 17/18 and, with an energised sales drive to generate new business in the year ahead, the division has closed the year with strong momentum. The revenue pipeline in our Real Estate Occupier Services consultancy, Connected Workspace and International service lines has begun to show encouraging growth; and our technology-led Connected Workspace strategy continues to support growth opportunities across Mitie.

This momentum has delivered fourth quarter FY 17/18 revenues 8.9% higher than those in the first quarter, providing a better trajectory into next year.

Our focus is to act as a trusted partner to our clients, creating exceptional environments for their customers and people and adding value every day. With the provision of world-class professional services, allied to intelligent use of technologies in our industry-leading Connected Workspace solutions, we create insights and solutions that make a difference.

Connected Workspace in action

Image removed

We are now running nine live pilots at customer sites, with another 14 currently in the pipeline. 5,000 sensors have been deployed providing us with two million readings each day.

Cleaning & Environmental Services

We are one of the largest cleaning services providers in the UK, offering a full suite of cleaning services as well as specialist services, such as pest control, landscaping and healthcare services.

Performance

£m		FY 17/18	FY 16/17	Change, %
Revenue	Reported[1]	406.4	395.6	2.7
	Adjusted[2]	405.5	399.2	1.6
Operating profit before other items	Reported[1]	21.5	6.5	230.8
	Adjusted[2]	19.8	20.9	(5.3)
Order book[3]		661.3	736.0	(10.1)

1. FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.
2. Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.
3. Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Key stats

- Ten drone flight pilots across the country.
- We supply 9.6m toilet rolls per year.
- 22,000 cleaning operatives.

Operational performance

Within Cleaning Services we offer commercial and technical cleaning. Landscape Services comprise commercial grounds maintenance, hard landscaping, interior plants and winter gritting. Pest Control Services consist of pest management and control. Healthcare Services include cleaning, retail catering, security, reception and the provision of helpdesks at healthcare facilities.

This year the Cleaning & Environmental Services (CES) division has stabilised following a period of decline; though it continues to face significant structural headwinds from service commoditisation, low barriers to entry and price competition. During the second half of the year, we appointed a new Managing Director for the division, Matthew Thompson, who has wide industry leadership experience, including eight years at Compass Group where he was Managing Director of the UK Sports & Leisure business, covering sector services, from catering to cleaning. The division is undergoing a significant restructuring, and we expect it to stabilise further this year and see steady improvement thereafter.

Despite a difficult trading year, the business continued to secure contracts with high-profile customers, including a new major multi-service contract with a major UK retailer and the West Hertfordshire Hospital NHS Trust and taking on the cleaning services from Carillion at Heathrow T5. This major contract was mobilised smoothly at extremely short notice.

The new multi-service contract with the West Hertfordshire Hospital NHS Trust, worth £55m over a five-year term with an optional extension of a further two years, builds on Mitie's existing strong portfolio of NHS clients. As part of the contract Mitie will be investing in new technology, including new digital software to enable the helpdesk to communicate more effectively across its four sites, we will also be utilising 'Moptimus Prime', the next generation in robot cleaning.

As part of the three-year integrated facilities contract with the Co-op, Mitie will be providing cleaning and landscaping services.

Our client retention rate for FY 17/18 was below expectations. Our NPS score tells a similar story and, though showing an improvement against the previous period, is still negative overall. The margin challenge in Cleaning Services has been exacerbated by an unfavourable change in contract mix during the year. We lost some high-margin contracts and at the same time mobilised material new contracts. In the short term this had an impact on the overall profitability of the business.

In response to the challenging cleaning sector market environment, we are simplifying our management and overhead structure; focusing on delivering our basic service well; and introducing improved technology for better workforce management. We are in the process of implementing Workplace+, a handheld-enabled, all-in-one operations portal for scheduling, payslips and supplies. The wide adoption of Workplace+ will allow the business to better communicate with our employees, measure and analyse productivity patterns, and enable rapid roll-out of best practices.

Financial performance

The CES division reported adjusted revenues of £405.5m (FY 16/17: £399.2m) and adjusted operating profit before other items of £19.8m (FY 16/17: £20.9m). After a period of decline, overall revenue was up 1.6% versus prior year, but the operating profit was down by 5.3%.

The industry backdrop for our core Cleaning business is one of general margin pressure. In FY 17/18, we saw this in several new contract wins which, whilst revenue enhancing, were margin dilutive. We expect to reverse this trend through Project Helix cost savings together with improved execution under new management.

Our Landscape Services business had a good year with both adjusted revenue and adjusted operating profit increasing. The business retained existing contracts, and acquired new ones, with particular success in the retail sector which has been a core target over the past two years.

The Pest Control and Healthcare Services businesses also had a solid year. Healthcare Services is a multi-service Mitie business, providing not just cleaning services, but portering, helpdesk, in-patient and retail catering. During the year, the Healthcare business addressed a number of difficult contracts, so we expect it to show growth over the coming years.

The CES order book stands at £661.3m (FY 16/17: £736.0m) as the unwinding of large multi-year contracts more than offset new wins.

Outlook

We believe that by focusing on the basics of delivery, simplifying the division's structure, implementing new technology that will enable us to improve our overall efficiency and communicate better with our frontline, we will further stabilise this business over the coming year. We are focused on delivering profitable growth in the future. Cleaning is a highly competitive low-margin mass-market business, but we believe that we can enjoy slightly better margins than we have today. We also view cleaning as a cornerstone of our FM offering in building our client relationships and successfully introducing the breadth and depth of our services, including our specialist services.

Care & Custody

Our Care & Custody business delivers a range of public services for vulnerable people in secure environments on behalf of the UK Government.

Performance

£m		FY 17/18	FY 16/17	Change, %
Revenue	Reported[1]	59.9	46.4	29.1
	Adjusted[2]	62.3	46.4	34.3
Operating profit before other items	Reported[1]	1.9	2.2	(13.6)
	Adjusted[2]	3.2	2.9	10.3
Order book[3]		670.1	210.4	218.5

1. FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.
2. Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.
3. Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Key stats

- 1,300 detainees in our care on any given day.
- Leading provider of FME services in England and Wales.
- 2,100 custody professionals, incl. doctors and nurses.

Operational performance

Our services include managing immigration removal centres for the Home Office, Forensic Medical Examiner (FME) services, custody support, sexual assault referral centres and liaison and diversion services for police forces across England and Wales. We also provide offender healthcare provision in two prisons on behalf of NHS England and FM Services for the Ministry of Justice in three secure facilities.

In December 2017, we were pleased to report that Care & Custody had been awarded a 10-year Detention & Escorting contract with the Home Office to provide immigration services. It is the largest ever contract for Care & Custody, worth an estimated £525m. The award of such a significant contract reinforces Mitie's role as the largest supplier of immigration detention services to the UK Government and will double the division's size in FY 18/19.

Mitie will be responsible for escorting immigration detainees, both within the UK and overseas. The contract, which started on 1 May 2018, also includes the management of a number of fixed facilities throughout the UK, including airport holding rooms, reporting centres and two short-term holding facilities. Technology development programmes will be at the heart of the partnership with the Home Office, to transform the way that immigration escorting services are delivered. This focus on the use of new and emerging technologies will modernise working and operational practices to improve efficiency and de-risk removals.

In order to deliver high-quality services, Care & Custody needs to attract and retain high quality and talented people; it is therefore important we seek to create specific career paths and provide access to training and education. For example, we have created a new nurse-led police Forensic Medical Examiner delivery model where our lead nurses train to undertake over 90% of the role previously delivered by general practitioners. This opens up an opportunity for great career paths for our nurses and at the same time our police clients have highly qualified clinical professionals located permanently at their custody suite sites. This has the added benefit of dramatically reducing the waiting time for detainees before their healthcare needs are assessed, creating better outcomes for the service user and the police.

The business has secured c.£520m of new orders in the year. As well as the significant Home Office Detention & Escorting contract win, Care & Custody secured new contracts with several police forces, including Cleveland, West Mercia, Warwickshire, Staffordshire and Nottinghamshire, further cementing Care & Custody's position as the leading supplier of services in police FME and related areas.

In FY 17/18, Care & Custody was awarded a three-year contract by Nottinghamshire Police. Care & Custody will provide medical support services across two custody suites in the county. A 24/7 team will operate at both Bridewell and Mansfield sites, which include over 100 custodial cells. The specialist Mitie team will provide clinical assessments, address the immediate health needs of detainees and provide patients with onward referral pathways for ongoing health and wellbeing following custody.

Care & Custody already delivers these services to 13 police forces across the UK. These include six Sexual Assault Referral Centres and a Short-Term Holding Facility in Northern Ireland. Care & Custody's specialist teams conduct over 180,000 medical interventions every year in 62 police custody facilities. This expertise was instrumental during the Nottinghamshire Police tender process, with scenario responses and the overall value of its proposition setting Care & Custody apart from the competition.

Not only does this contract build on the Care & Custody team's strong track record, this new work with Nottinghamshire Police establishes an East Midlands hub of expertise as it borders with another existing Care & Custody contract in Leicestershire.

In March 2018, two of Care & Custody's employees were awarded Butler Trust Awards at St James' Palace. Dorothy Coomber and Jackie Smart received certificates from HRH, The Princess Royal. These awards recognise the achievements of people working in prisons, probation, detention centres and community and youth justice settings across the UK.

Dorothy Coomber, Learning and Regimes Manager at Campsfield House Immigration Removal Centre, was recognised for the significant contribution she has made towards the mental and emotional wellbeing of detainees since joining Mitie in August 2013. Jackie Smart, Equality, Diversion and Inclusion Manager at Colnbrook Immigration Removal Centre, has been recognised for the support she has given to detainees and officers since 2009.

Financial performance

Care & Custody had a good year, delivering growth of 34.3% in adjusted revenue, up from £46.4m in the previous year to £62.3m. This significant growth is a result of a solid stream of contract wins in custodial and Forensic Medical Examiner services throughout the year, as well as the mobilisation of the Home Office Detention & Escorting contract. As the contract only went live in May 2018, the main benefits will be realised in FY 18/19 and beyond.

Adjusted operating profit before other items grew to £3.2m (FY 16/17: £2.9m). The growth was driven by the new contract wins whilst the operating margin was diluted by business development costs as we invested in building future growth.

The order book increased significantly to £670.1m (FY 16/17: £210.4m) following the transformational Detention & Escorting contract which will double the size of the Care & Custody division.

Outlook

Our sales pipeline remains positive. There are major opportunities with central government through the second half of 2018 with decisions due in early 2019. Care & Custody is well placed to secure further growth as our scale and reach increase and with few experienced competitors in our markets.

The success of the business is built upon our ability to deliver outstanding value-for-money public services to the people in our care, whilst maintaining the confidence of our commissioners, inspectors, regulators, government and the general public. Our leadership team is highly experienced, well-respected in the market and focused upon building long-term relationships, ensuring we have a clear understanding of our clients' needs, so we can develop service design solutions that meet and exceed their expectations. We recognise that our policies and processes must reflect and respond to relevant legislation, and actively embrace external regulatory scrutiny. We underpin these principles by promoting a culture of openness, transparency and high performance.

Care & Custody in action

Image removed

Mitie currently manages two Immigration Removal Centres (IRCs) on behalf of the Home Office, Campsfield House and Heathrow IRCs. Together these currently have the capacity to house over 1,200 detainees.

Catering

Our Catering division comprises Gather & Gather, our business and industry catering brand, and Creativevents, our specialist indoor and outdoor event catering business.

Performance

£m		FY 17/18	FY 16/17	Change, %
Revenue	Reported[1]	137.1	134.3	2.1
	Adjusted[2]	137.1	132.7	3.3
Operating profit before other items	Reported[1]	5.6	4.7	19.1
	Adjusted[2]	5.0	5.3	(5.7)
Order book[3]		34.7	29.4	18.0

1. FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.
2. Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.
3. Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Key stats

- 150,000 customers per day.
- 147,000 litres of used cooking oil converted into biofuel.
- We process 1m app purchases per year.

Operational performance

Gather & Gather provides companies and organisations with in-house catering services directly for employees, in restaurants, coffee shops and within corporate hospitality settings – enhancing clients' workplaces through its founding mission of 'bringing food and people together'. Creativevents is a specialist venue and event catering business providing bars, restaurants, café and hospitality services to a wide range of prestigious clients across the UK.

Against the backdrop of continuing challenging sector dynamics, including the continued impact of food price and labour inflation, as well as a general reduction in discretionary spending across the hospitality sector, our Catering division has delivered solid revenue growth, developed its pipeline and secured some key new contract wins during the period.

Gather & Gather continues to offer a differentiated proposition within a market which has undergone further consolidation over the last 12 months. We continue to be a distinctive quality alternative to the large corporate caterers who dominate the mass market. Specifically, our market-leading technology continues to drive consumer behaviour in our contracts, and as testament to this, we were delighted to be recognised with a Best Use of Technology Award by the Restaurant Marketer & Innovation Awards in January 2018. Gather & Gather is also proud to have re-secured the maximum three-star rating from the Sustainable Restaurant Association, recognising our positive progress in three areas of sourcing, society and the environment.

During FY 17/18, Catering won a contract with a major online retailer in Ireland, as well as contracts within our Integrated FM offerings, such as the three-year integrated facilities contract for all the Co-op's corporate sites to provide tailored catering through Mitie's Gather & Gather business.

Mitie was awarded the three-year contract with the Co-op following a competitive tender process. The contract covers cleaning, landscaping, engineering services, security, front of house, catering and waste. These services will be delivered in a manner to fully reflect the Co-op's commitment to sustainability and employee wellbeing.

Gather & Gather offers a fresh approach to food, working closely with independent and local suppliers to stay ahead of market trends. Its focus on sustainable sourcing and value for money aligns with the Co-op's sustainability and diversity ambitions. Gather & Gather will introduce pop-ups and food truck events in partnership with local suppliers to bring innovation and variety to lunchtime breaks. Further investments in technology will enhance the experience for Co-op colleagues purchasing beverages on site with a launch of a pre-order service through a mobile app, as well as a daily menu microsite.

After two difficult years' trading, it is notable that Creativevents has been successful in re-securing some prestigious and long-standing clients such as RHS Chelsea Flower Show and Royal Ascot. The business unit was also successful in winning some high-volume concert and festival work at the end of April 2018.

Post the year-end the division won an exciting contract to provide bar and food services at BBC Music's The Biggest Weekend. Four festivals took place at four sites over the four days of the late May Bank Holiday weekend (25-28 May 2018). The Biggest Weekend saw BBC Radio 1, BBC Radio 2, BBC Radio 3 and BBC Radio 6 Music stations bring live music to crowds of over 175,000. The financial impact of this contract will be reported in FY 18/19.

Financial performance

Adjusted revenue grew by 3.3% to £137.1m (FY 16/17: £132.7m) driven by the full-year impact of new contract wins in Ireland, volume increases in new events at Creativevents, partially offset by a shortfall in Gather & Gather UK.

The gross margin remained stable after a series of cost saving measures were taken to offset food and labour input price inflation. These included menu changes and tighter staffing schedules.

Whilst the business turned around and exited less profitable contracts in Creativevents and Gather & Gather Ireland, the division's adjusted operating profit before other items decreased by 5.7% to £5.0m (FY 16/17: £5.3m).

The order book for the Catering division increased from £29.4m in FY 16/17 to £34.7m in FY 18/19 driven by contract wins.

Outlook

Having attracted some experienced new talent to the team, momentum for the next 12 months is building. We continue to see opportunities for organic growth through our customisable, modern and high-quality offer, complemented by our market-leading approach to wellbeing and our unique understanding of workplace dynamics and the role of food and hospitality in boosting staff morale, engagement and productivity. As a key component of Mitie's Connected Workspace strategy, the insights and data we collect and receive are invaluable in helping us understand how best to add value to our customers' working day.

Property Management

The Property Management division provides a wide range of maintenance services in the UK, predominantly to clients in the social housing sector. It is also the largest painting and commercial roofing refurbishment provider in the UK.

Performance

£m		FY 17/18	FY 16/17	Change, %
Revenue	Reported[1]	**237.4**	257.7	*(7.9)*
	Adjusted[2]	**237.9**	257.7	*(7.7)*
Operating profit/(loss) before other items	Reported[1]	**7.3**	(4.5)	*nm*
	Adjusted[2]	**7.9**	12.3	*(35.8)*
Order book[3]		**348.7**	515.0	*(32.3)*

1. FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.
2. Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.
3. Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Key stats

- **We look after 250,000 local authority homes.**
- **UK's #1 commercial roofing refurbishment business.**
- **UK's #1 commercial painting business.**

Operational performance

FY 17/18 has been a challenging year for Property Management. The management team's attention was diverted whilst the division was considered for sale; it was later withdrawn from sale in December 2017. Now back in the Mitie portfolio, we have included Property Management within our overall transformation programme.

Within its core maintenance services operations the business has focused on investing in people, and delivering the best quality service to customers at the right cost.

Over the course of FY 17/18, Property Management was successful in winning a number of new contracts in Scotland, expanding its operational and geographical footprint. Of particular note was a contract with was Aberdeenshire Council as part of their Housing Improvement Plan, with a four-year strategic objective to improve the housing stock in line with Scottish Housing Quality Standards and the energy improvement objectives under the Energy Efficiency Standard for Social Housing. Mitie is focused on delivering services worth £40m over the four-year term. Other notable contract wins included:

- Maryhill Housing Association in Glasgow. This contract will see Mitie deliver a range of reactive repairs and maintenance works over the three-year contract, which has an optional two-year extension;
- North Lanarkshire Council, with a contract valued at £3.1m per annum;
- The renewal of a partnership with Oak Tree Housing Association will see Mitie deliver the second phase of maintenance services to 300 properties; and
- A Paisley-based housing association, Williamsburgh, and Sanctuary Scotland adding to our growing list of social housing customers. Williamsburgh is a four-year contract worth £2.8m.

Our goal is to differentiate our offering in a relatively commoditised market, by creating long-term, sustainable partnerships that offer our customers innovative solutions and *services. We have identified four key focus areas based upon* client needs: tackling fuel poverty, fire safety, innovation, and cost planning efficiencies.

Technology has been an integral part of our integrated and partnership offerings, as it brings efficiency and decision-making benefits to our clients. The focus is on leveraging the Group's technology capabilities to support our unique asset management solution for Property Management, using it to build bespoke solutions to reduce call handling requirements, associated costs and to improve customer experience.

Financial performance

Property Management reported adjusted revenue of £237.9m (FY 16/17: £257.7m), down 7.7% year-on-year. This reduction dropped through to adjusted operating profit before other items which was down 35.8% to £7.9m (FY 16/17: £12.3m). In addition, there was a bad debt charge relating to a prior year contract of £1.4m. The division was impacted by a shortfall in capital spend by major clients and lower high-margin project revenue.

In the post-Grenfell environment, one of our large customers has delayed planned investment in its housing stock with the expectation that funds will be diverted to risk and compliance related improvements. This also impacted the division's performance.

Difficult trading conditions defined by continued spending cuts by customers impacted the order book which declined to £348.7m (FY 16/17: £515.0m).

Outlook

Market conditions remain challenging and the main focus for the next 12 months is to re-energise the business, get the basics right, continue to invest in our people, deliver the highest quality service to customers – at the right cost – and to invest in the communities in which we work.

In FY 18/19, Mitie Property Management's businesses, comprising roofing, painting and social housing, will be integrated into Engineering Services. There are considerable synergistic benefits to be achieved by combining Property Management into Engineering Services which will enhance efficiency and customer service.

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.

Rebecca
Gallery Assistant,
Security

Sustainability

We are one of the UK's largest facilities management providers with a nation-wide reach and a blue-chip customer base.

Our business provides facilities management, consultancy, project management and a range of specialist services. Importantly, we focus on self-delivery of our services, giving us close control over quality and customer relationships.

More than five million people pass through the doors of the workplaces we manage and maintain, and our colleagues work hard each day to deliver the basics brilliantly giving us the solid foundations on which to create, build and tailor solutions that anticipate and meet our customers' needs. Service that is recognised time and time again by our clients; the best of UK public and private businesses.

Foreword

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The following report outlines our approach to building a robust and sustainable business, while embracing the contribution from and impact on our employees, our environment and the communities in which we work.

Mitie has a strong heritage of entrepreneurship and collaboration, and many aspects of sustainability are integral to the way we do business. It is a culture of shared values; of putting customers at the heart of our business; of developing and retaining the best people; of operational excellence and embracing innovation and new technologies that set us apart.

We employ 49,000 people, who engage with hundreds of thousands of customers every day across the UK. We recognise the potential of this reach, and whilst historically we have met our sustainability goals, we recognise that the opportunities to drive these in the future are substantial. In Waste, Energy, Occupational Health and Safety in particular, our ambition is to lead the FM industry.

Mitie is one year into a three-year transformation programme. As part of this we are undertaking a strategic review of our sustainability offering and we have established a Sustainability Working Committee that will be reporting into a Sustainability Steering Committee mandated to critically assess Mitie's performance against international best practice, including the UN Sustainability Goals.

This review is now underway and whilst we would like to have a more detailed assessment for this report, our ambition is to set truly achievable targets for our business, improve measurement of our activities, utilise latest technologies to monitor performance, and increase transparency.

Going forward, we will focus on positively influencing our people – the driving force behind our long-term success – our customers and our communities, growing revenue, reducing cost and mitigating potential risk.

To Mitie, sustainability is more than just an agenda add-on, it is integral to the way we do business. During 2017, we have undertaken research to understand what our future sustainability strategy will focus on. Our people, products and services are integral to our ability to deliver long-term sustainable solutions for our business and our customers.

Our Sustainability Working Group was re-aligned in 2017 to represent our diverse business and expertise, and includes a cross-functional group of subject matter experts with people, environmental and operational skills. In FY 18/19, this group will set and agree our '2030 Sustainability Vision'.

The Sustainability Working Group reports into the Sustainability Steering Committee that will report directly to the Board and ensure our plan is fully embedded in and correctly resourced within the business.

Mitie continues to measure and target our carbon footprint. In 2010, we made a commitment to reduce our carbon footprint by 35% by 2020. To date our organisational carbon intensity has decreased by 34.7% against our 2010 baseline year and a further 5.4% against prior year.

Climate change is one of the biggest environmental challenges of our generation, and we are committed to ensuring that our business faces these challenges and tackles our impacts.

Key initiatives undertaken in FY 17/18 were:

- we performed **Climate Change risk and opportunities assessment**;
- **we are reducing our impact on the environment from our travel**, especially from our predominantly diesel fleet;
- we launched a **SpendSmart campaign** to challenge unnecessary business costs and consider efficient resource management;
- we **consolidated our real estate resources**, specifically our property footprint in London;
- we are delighted to have maintained **the Carbon Trust Standard for Carbon**, achieving a qualitative score of 81% - an improvement from 77% previously;
- we are currently implementing an ISO50001 energy management system within our Energy & Water business to continually improve the carbon reduction initiatives and **Energy Management Standards** and engage our people in our journey; and
- we are ensuring that our suppliers and our customers are treated with respect. **Operational sustainability** and **supply chain management** are important elements of our business operations. Mitie is committed to being a reliable and trustworthy corporate citizen and, specifically, in relation to its suppliers – to fair payment terms. We work with a large number of small and medium-size enterprises across our supply chain. Integrity and trust are at the heart of all we do.

Climate Change risk and opportunities assessment

Following guidance from the Task Force on Climate-related Financial Disclosures (TCFD), our Sustainability Working Group have developed a risk and opportunities assessment for our business to ensure we tackle risks and plan for opportunities. Our biggest risks are potential future health impacts to our people, especially those who work outdoors, as a result of warmer summers and colder winters. We will therefore be mitigating these risks, through control measures, re-design of tasks and training and awareness. Similarly, increased incidence of flooding and heat strain on assets we manage for our customers mean we need to adapt our business to accommodate additional service requirements and upskill our people to be competent to deliver these services safely.

Reducing the impact of our fleet

Improving the sustainable credentials of the Mitie Fleet means taking a multidisciplinary approach to both our vehicles and the people who drive them. From consolidating and updating our vehicle stock, to educating our drivers to improve safety, we aim to reduce the fuel expenditure and pollutant emissions created by our 6,300 vehicle fleet. In FY 17/18 we have looked into the following areas:

- we are continually adding more fuel-efficient vehicles to our fleet, representing significant cost and environmental savings for Mitie;
- we have undertaken a successful hydrogen vehicle trial and are actively seeking business cases to extend our Electric Vehicle (EV) ratio; and
- we have introduced telematics and tracking equipment to ensure the safe performance of all our drivers.

Mitie vehicles operate on a rolling four-year lease agreement through our strategic fleet partner. By outsourcing fleet procurement, Mitie can take advantage of the most efficient technology, resulting in notable fuel savings across the business. For example, many of our mobile engineers operate out of Vauxhall Astra estate cars. Since 2014, the fuel efficiency of these vehicles has improved significantly, with current 2018 models travelling approximately 10.8% further with every tank of fuel, whilst emitting 10% less CO_2 emissions.

Within our company car fleet, we have self-imposed a vehicles emissions cap of 130g/km of CO_2. This applies to all non-commercial vehicles. Most of our fleet delivers emissions figures lower than this level, with some vehicles producing just 89g/km of CO_2. Vehicles with lower emissions attract less taxation for employees and lower national insurance contributions for the business, representing a financial incentive to reduce fleet environmental impact. We continue to review our commercial fleet, introducing the most efficient light commercial vehicles available on the market. Our commercial fleet has also experienced significant environmental savings with new Vauxhall Vivaro vans that are 11% more fuel efficient than the vehicles they replace. Using Start/Stop and Adblue technology, these new vans cut NOx emissions by 72% over previous models, aligning them to EURO 6 emissions legislation.

Mitie has explored fleet options beyond conventional fuel, with electrical vehicle and alternative fuel vehicle trials run at contract sites across the estate. Currently backed by government grants, there are significant benefits to introducing EVs to our business, including reduced taxation, fuel costs, and Scope 1 carbon emissions. Following a trial at a large international travel hub, Mitie has ordered a full-time EV van, which should save over 20% in fuel costs over the diesel vehicle it replaces.

Introduction of widespread driver education and telematics on all our vehicles has resulted in a significant reduction in inefficient driving practices across both our commercial and company fleet. With safer eco-driving techniques, we expect to reduce our expenditure on fuel, whilst also reducing our transport risk. A 20mph decrease in speed, from 70mph to 50mph, can increase fuel efficiency by up to 20%, cutting unnecessary resource waste. The number of traffic accidents recorded for our fleet reduced by 18.7% in FY 17/18.

SpendSmart – campaign to reduce resources use

Mitie has an overarching commitment to both customers and colleagues to individually and collectively be the best we can be. Our purpose is to create amazing work environments, helping our customers and colleagues to be exceptional every day.

Spendsmart is an internal campaign that highlights the importance of careful and considered spending. Launched in March 2018 as part of 'One Mitie', its aims are to challenge unnecessary business costs and consider efficient resource management. In reducing the usage of resources and operational costs, Mitie creates greater business value through social, economic and environmental principles of sustainability into its business decisions.

Since launching the campaign in March 2018, Mitie Group has seen a 33% reduction in employee expenses. This has been supported by an updated expenses policy and regular expense auditing. The most recent communications include targeting unnecessary costs associated with travel and colour printing.

Initiatives include questioning the need for air and rail travel when technology such as video conferencing and Skype would be viable alternatives to reduce our carbon impact on the planet. As a result of the campaign, Mitie will also see environmental benefits with a reduction in waste production, energy consumption and carbon emissions.

The overarching aim of the Spendsmart campaign is to target employee expenses by cutting £1 in every £10 to enable a sustainable business. This equates to a 10% reduction of employee expenses; however, the campaign is not all about stopping spend but aims to highlight opportunities to eliminate unnecessary or avoidable spend, providing an opportunity to invest elsewhere and remain sustainable – meeting the needs of the business without compromising Mitie's ability to maintain profit.

The Shard – consolidating our real estate portfolio

As part of our ongoing transformation programme we took the decision to consolidate our London offices into one single city hub based in The Shard. Historically we operated out of three separate buildings covering 45,000 square feet. A single more efficient and flexible 30,000 square foot office replaced this estate, reflecting our ongoing business needs and that of our customers.

The Shard was chosen because it aligned with our sustainability vision to minimise our organisation's environmental impact and provide an environment where our employees could thrive. A particular draw was that the building itself achieved a BREEAM 'Excellent' sustainability rating for its low carbon design and is expected to use 30% less energy than a typical conventional building of its type. We have an ambitious target to reduce our carbon footprint by 35% by 2020 and this move is a key step to achieving this.

Our fit-out also incorporated a number of additional initiatives which helped to further reduce carbon emissions and also have a positive impact on the health and wellbeing of our people:

- all areas of the office are fitted with LED lighting and lighting controls to reduce energy demand. We have incorporated occupancy, temperature and CO_2 sensors in desks and breakout areas to optimise settings based on actual occupancy and comfort levels. This forms part of our Connected Workspace offering which uses advanced analytics to identify efficiencies;
- the installation of sit-stand desks for all fixed working areas. These help to reduce sedentary behaviour which, as research shows, presents a 2% increased risk of all-cause mortality (even after physical activity is taken into account);
- active design – a circular walking route within the workspace and the placement of particular social areas off this circuit nudges people into conducting regular physical activity throughout the day; and
- maximum utilisation of the natural daylight – the perimeter glazing provides a high level of natural light. We designed the space to ensure employees have maximum exposure to this.

Another key element of this move was to shift from a fixed desk working model to a more flexible hot desk approach, which would encourage remote working and avoid unnecessary business travel when not essential. We have also invested in our IT systems to improve remote working through conference and video calling technology to allow staff to attend meetings, workshops and training events from home.

From an operational perspective our energy use in the new London hub fell by 76% when comparing consumption against the previous estate for the same period last year (1 January to 31 March) as denoted in the table below.

	London Hub – various offices	London Hub – the Shard	Reduction	Reduction, %
Energy consumption (kWh)	153,389	36,364	117,025	76%
Carbon emissions (tCO_2e)	68.9	13.9	55.0	80%

We will continue to review our performance and provide further updates on our savings once we have a full year's worth of consumption data. We are currently reviewing our UK-wide real estate portfolio, looking at usage, sustainability and operational efficiency.

Carbon Trust certification

The Carbon Trust provides independent verification and certification services that recognise real achievements in sustainability and identify improvement opportunities. This year we renewed our certification for the external verification and we are delighted to have obtained the Carbon Trust Standard for Carbon with a qualitative score of 81%. Mitie was able to show an absolute reduction in greenhouse gas emissions of 5.7% across the certification period - more than 2,400 tonnes of carbon dioxide equivalent. This certification renewal underpins our commitment towards reducing our carbon footprint and enhancing our sustainability journey.

Mitie has an ambition to be recognised as a sustainability leader in the FM sector, demonstrating the commercial value in improving environmental performance. Our clients have increasingly high expectations of us and they regularly ask what environmental accreditations Mitie holds. We are proud to be able to say that in addition to our ISO14001 certification we have also been certified to the Carbon Trust Standard, a certification that recognises organisations for making real reductions in carbon emissions.

Mitie continues to reduce its emissions through a number of fleet initiatives, such as increased use of telematics, encouraging eco-driving and efficient vehicle selection. Several trials of alternative fuelled vehicles such as plug-in hybrid, EV and hydrogen are helping us to develop a future fleet strategy to make further reductions in carbon for the Group.

Following on from this success, Mitie is currently implementing an ISO50001 energy management system within its Energy & Water business to continually implement the carbon reduction initiatives and position itself as a supplier of choice.

Engaging our people

We recognise that our people are our greatest assets and we have a duty of care to ensure they are equipped to make the best decisions at work or home. One of our core promises is to our employees: to provide a place of work where they can thrive and be their best every day. We have been building our health and wellbeing capabilities and continue, for example, to equip our people with mental health awareness tools and fact sheets.

For a number of years, we have collaborated with sustainability learning specialists to deliver personalised training programmes for our staff and customers. A core component of this partnership is the provision of the accredited 'ResourceAware' eLearning platform. This programme helps organisations manage resources more efficiently and effectively. The training helps reduce carbon, waste and water usage and is accredited by CPD UK, The Energy Institute and The Future Water Association.

Effective behaviour change programmes are at the heart of high performing sustainability strategies. Mitie believes that benefits can be substantial in environmental, social and governance terms; from reducing or improving our impact on the environment, to delivering financial savings and enhanced profit margins. Employee engagement programmes also create a sense of community and inspire collaboration amongst colleagues. Mitie continues to promote the ResourceAware programme throughout the organisation as part of its commitment to consistently deliver tangible savings.

Mitie Foundation

Mitie has presence across the UK. And as a responsible business, we strive to create long-term benefits for the communities in which we operate. The Mitie Foundation is central to our commitment to engage with and positively influence our people, our customers and our communities.

Employee engagement is an essential part of Mitie's business strategy – community involvement and volunteering play an important role in our colleagues' working lives. In addition, joint volunteering opportunities with clients and supply chain partners – supporting their community engagement and corporate responsibility objectives – is a positive way to enhance long-term relationships.

The Foundation had a very good year – existing programmes with Lloyds Bank plc were strengthened and a new partnership developed with the Co-op. Strong relationships with schools, prisons and other charities were enhanced. The flagship programme Ready2Work sustained its remarkable record of 70% of work experience attendees being offered a paid job over the last five years.

During the year:

- Mitie colleagues recorded over 850 volunteering days;
- 24 people found work through our Ready2Work programme; and
- the Foundation delivered 88 employability events, supporting c.8,500 students, in partnership with 76 schools and academies.

Mitie has a broad and diverse client base, and a frontline workforce with specialist skills, expertise and experience. By working in close collaboration with Mitie, the Foundation is strongly positioned to support people who are furthest away from the job market. The Foundation will continue to play a vital role in our own business sustainability and the major role that we wish to play in society.

Building One Mitie

The exceptional, every day

Our Vision and Values are built on the simple premise of 'The exceptional, every day' – our overarching commitment to both our customers and our colleagues.

In 2017, we consulted with our colleagues on what makes Mitie different and special. The output of these discussions became our Vision and Values, and our Purpose and our Promises, which we shared with everyone at Mitie:

- Our Vision and Values are built on the simple premise of 'The exceptional, every day' – our overarching commitment to both our customers and to our colleagues.
- Underpinning 'The exceptional, every day' is our Purpose: our expertise, care, technology and insight create amazing work environments, helping our customers to be exceptional every day.
- Our Promise to our people is to create a place to work where we at Mitie can all thrive and be our best every day. Our Promise to our customers is to be a trusted partner creating exceptional environments for our customers and people, adding value every day.
- Our Values set out how we all should behave at Mitie, what we should expect from our colleagues, and what our customers can expect from us.

We view this as a differentiator for Mitie. This new mindset goes well beyond delivering to the letter of the contract by focusing on the ultimate outcomes – amazing environments and adding value every day.

"What does 'exceptional, every day' really mean? It means individually and collectively being the best we can be."

Phil Bentley
Chief Executive

Our culture: our core values and how we behave

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

Developing a diverse team

Mitie is a diverse organisation that engages and develops its people, at all levels, and seeks to demonstrate the benefits of its social value.

Our diversity is a major part of who we are – we all have different skills, insight, styles, expertise and experiences to bring to the table. We are beginning to share a common vision, a common approach and a common language through our new Purpose and Values and our *One Mitie culture*. *Together, we believe that is a* powerful combination.

Across Mitie's 49,000 employees, we have over 130 nationalities; a diverse workforce carrying out a large variety of roles. Engender is Mitie's programme to promote education and awareness of diversity internally and across the industry, with four networks focused on LGBT, disability, ethnicity and gender.

Gender pay gap reporting

In line with mandatory requirements, Mitie reported in March 2018 that as at 5 April 2017 it had a mean average gender pay gap of 16% and a mean bonus gap of 71%. The bonus differential is in part due to the way in which bonuses are classified across the Group.

Mitie is a diverse and complex business, and gender representation can differ depending on job type. We also recognise that in many of our businesses we have a higher proportion of men in more senior positions and bonuses are more typically paid to those in senior roles.

We recognise that there is more to do across the organisation and intend to put in place a grading framework that gives parity across all backgrounds and helps individuals to be the best they can be.

49,000
Employees

4
Women on the Board

15%
Women on the ELT

c.40%
Female employees

Mitie Group

	Median	Mean
Pay gap	0.0%	16.0%
Bonus gap	77.4%	71.0%

	Men	Women
% employees receiving bonus	12%	10%

Employees by pay quartile	Men	Women
Upper	75%	25%
Upper middle	66%	34%
Lower middle	58%	42%
Lower	45%	55%

Since June 2017, we have welcomed four women to our Board of Directors (women: 4; men: 7) and women now account for 15% of our Executive Leadership Team (up from 0% – women: 2; men: 11) and 24% of our Group Leadership Team (up from 20% – women: 23; men: 73) as at 31 March 2018. Across Mitie Group female employees account for c.40% of our workforce (women: 20,100; men: 28,900).

30%
Upload response rate

33%
Engagement score

Engagement

Mitie is a diverse organisation that engages and develops its people, at all levels, and seeks to demonstrate the benefits of its social value.

This year, we have partnered with Aon Hewitt to run Upload – Mitie's 2018 People Survey – to assess employee engagement. 30% of employees completed the survey and our engagement score was 33%. Mitie is one year into our three-year transformation programme and, inevitably during such challenging times, we need to work much harder to listen to and engage with our people. We are doing some things well, but we certainly have work to do when it comes to employee engagement. This year we have a clear benchmark for improvement and plans in place to work hard to drive positive engagement with our employees. Our three key focus areas for 2018 will be: leadership capability, reward and recognition, efficiency and process improvement through technological investment.

As a significant UK employer, Mitie seeks to support the physical, mental and financial wellbeing of its workforce. December 2017 saw the successful launch of an employee loan scheme run in partnership with Salary Finance. This scheme helps provide education and support around the financial wellbeing of our frontline workforce. To date, more than 1,400 Mitie employees have benefited from obtaining a loan from Salary Finance with an average loan size of £2,200. As well as offering loan products the Salary Finance hub provides financial education and financial tools to assist our colleagues.

Mitie believes everyone should have opportunities to progress, from working with amazing customers to individual learning and development. This year saw the creation of a 'one stop shop' for all development at Mitie called 'the Learning Hub', bringing together a vast array of apprenticeship programmes, technical accreditations and leadership training. In FY 17/18, 555 apprentices were enrolled into a range of programmes from business and administration, to digital and hospitality.

mitiefoundation

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Collaborated with 76 schools and academies to broaden students' employability prospects

The Mitie Foundation was established in 2012 with a vision to support people with barriers to employment and to improve social mobility. Its focus is on employment, education and enterprise.

More information can be found at the Mitie Foundation website www.mitiefoundation.com.

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Enterprise

Entrepreneurship lies at the heart of Mitie. The Foundation goes beyond volunteering, to engaging talent and enhancing long-term relationships with our customers, our supply chain and our communities.

Policies

Mitie's Code of Conduct has been designed to help employees understand our core values and the behaviour expected of them to support these values.

Our Code of Conduct applies to the Mitie Board, senior management and all employees, and aims to ensure that at every level of the organisation, at all times, employees conduct themselves in an ethical way. This includes their dealings internally and externally with third parties to ensure the highest standards of honesty, integrity and fairness and to foster an environment based on such standards, as well as complying with all related legislation.

The Code emphasises that every Mitie employee must be aligned to the achievement of Group goals. A copy of the Code, as well as a full list of Mitie's policies, is available for download on the Company's website www.mitie.com.

Mitie is undergoing a Group-wide GDPR readiness programme and met its deliverables for the regulatory deadline. All business units are engaged in the effort to ensure regulatory compliance and sound data privacy practices. Mitie is committed to ensuring privacy is at the forefront of our technologies and processes. This is instilled through policy, architectural design, controls and assurance.

Our new, independent whistle-blowing hotline service was introduced in September 2017. 139 reports were logged via the service. The majority of these related to HR matters or grievances and were passed onto our HR teams for resolution. Other reports are investigated by the Legal, QHSE, Internal Audit or Enterprise Risk teams as appropriate.

24 people found work through our Ready2Work programme

Image removed

Image removed

The foundation delivered 88 employability events

Image removed

Mitie employees completed 850 volunteering days

Education

Mitie volunteers the time and expertise of its workforce to support people of disadvantaged backgrounds towards improved career chances, through sharing skills in leadership, resilience and critical thinking.

Employability

Ready-to-work is Mitie's flagship programme that gives candidates eight-weeks of work experience within a Mitie or partner business, with the goal of helping them to secure full-time employment.

Image removed

We go the extra mile

Image removed

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.

Zak
Barista,
Catering

Finance review

Image removed

"Culturally and operationally we are moving towards a One Mitie way of delivering our products and services."

We are pleased with progress one year into our three-year transformation programme. Culturally and operationally we are moving towards a One Mitie way of delivering our products and services. This has enabled us to simplify and streamline operational and financial processes across the organisation. We have reduced ongoing costs by delayering management infrastructures and centralising support functions such as IT, Finance and HR.

Adjusted operating profit before other items was impacted by the investment of transformation cost savings into improved customer service levels, technology and internal capabilities. These are the building blocks of our future growth plans. To deliver these transformation changes we have incurred a number of costs which are shown in other items, along with various impairments and other one-off charges.

We are operating comfortably within our financial covenants. In particular, our leverage ratio has remained below 2, notwithstanding a material reduction in our customer invoice discounting programme and an improvement in our supplier payment performance.

We have taken the decision to early-adopt IFRS 15, using the cumulative retrospective method, which means we have restated opening reserves rather than restating the prior year comparatives.

Following on from the Accounting Review undertaken last year, Mitie implemented a series of measures to strengthen its financial control environment. Management now operates a structured process for identifying material accounting judgements and a number of new internal Group accounting policies were put in place in areas such as trade receivables and accrued income provisioning. As part of converting to IFRS 15, Mitie has adopted a conservative contract asset accounting approach which will only enable certain strictly defined assets to be recognised on the balance sheet, with the remainder being expensed. We are also increasing the size of our internal audit team to enable a broader selection of areas to be audited each year.

During the year we have moved our finance transactional processing operations to our partner Genpact. This entailed the consolidation of activities in multiple locations across the UK into a single operations centre in Kolkata. Genpact have deep experience in improving efficiency, streamlining processes and codifying controls for a global blue-chip customer base. We expect to benefit from all these areas in the coming months once the initial transfer is fully bedded down.

Reported financial performance

Reported revenue and reported operating profit are set out below:

£m	FY 17/18	Restated FY 16/17	Change, %
Revenue	2,203.7	2,123.4	3.8
Operating profit/(loss) before other items	89.6	(6.3)	(1,522.2)
Other items	(97.9)	(36.6)	167.5
Operating loss	(8.3)	(42.9)	(80.7)

Reported revenue was £2,203.7m compared with £2,123.4m in FY 16/17. The Group reported an operating profit before other items of £89.6m compared with a loss of £6.3m in FY 16/17 which was a consequence of the Accounting Review carried out that year.

Note that the prior year comparatives have been restated due to an accounting error in respect of an under accrual of costs with a corresponding increase in accrued income and revenue. There was no impact on total net assets or operating profit. We have disclosed the impact of the restatement in Note 1 to the financial statements.

Reported balance sheet

£m	FY 17/18	FY 16/17	Change, %
Goodwill and intangible assets	347.9	397.1	(12.4)
Property, plant and equipment	33.6	32.3	4.0
Working capital balances	(198.2)	(152.0)	30.4
Net debt	(193.5)	(147.2)	31.5
Retirement benefit liabilities	(56.8)	(74.2)	(23.5)
Deferred tax	35.9	21.1	70.1
Other net assets	7.1	12.7	(44.1)
Total net (liabilities)/assets	(24.0)	89.8	(126.7)

The Group had reported net liabilities at 31 March 2018 of £24.0m (2017: net assets £89.8m). The £113.8m reduction is primarily driven by the adoption of IFRS 15, which is explained in more detail later in this review.

Basis of comparatives – Alternative Performance Measures (APMs)

To enable an effective comparison of our year-on-year performance, FY 17/18 is shown pre-IFRS 15 and FY 16/17 is shown for continuing operations on the previously reported APMs, per last year's published Annual Report and Accounts, as restated. The APMs are referred to as 'adjusted revenue', 'adjusted operating profit', 'adjusted other items', 'adjusted net assets' and 'adjusted cash flows'. Further details can be found in Note 1 to the financial statements on pages 136 to 142 and the Appendix on pages 204 and 205.

FY 17/18 APMs: Mitie has adopted the IFRS 15 revenue recognition accounting standard from 1 April 2017 using the cumulative retrospective method. This leads to an adjustment to reserves on the date of adoption rather than a restatement of the comparative periods presented. As a consequence, unless otherwise stated, all figures presented in the Strategic Report and Governance sections of this Annual Report and Accounts are presented pre-IFRS 15 adoption, in order to retain comparability with prior year results. We have disclosed the impact of IFRS 15 for each line item in the financial statements in Note 1 to the consolidated financial statements on pages 140 to 142. The FY 17/18 APMs adjust for the impact of IFRS 15.

FY 16/17 APMs: as a result of the Accounting Review in FY 16/17, which led to asset write-downs of a non-recurring nature, the FY 16/17 APMs have been provided to facilitate a comparative assessment between FY 17/18 and FY 16/17. The FY 16/17 APMs adjust for one-off items.

Adjusted financial performance

£m	FY 17/18	FY 16/17	Change, %
Revenue	2,199.1	2,140.0	2.8
Operating profit before other items	77.1	82.0	(6.0)
Operating margin	*3.5%*	*3.8%*	*(0.3ppt)*

Adjusted revenue was £2,199.1m (2017: £2,140.0m), representing growth of 2.8% during Mitie's first year of transformation. Adjusted operating profit before other items of £77.1m represents a drop of 6.0%. This reduction is a consequence of investment in customers, technology and capability more than offsetting growth in the profitability of contracts and cost savings from the transformation programme.

Adjusted balance sheet

£m	FY 17/18	FY 16/17	Change, %
Goodwill and intangible assets	348.9	397.1	(12.1)
Property, plant and equipment	33.8	32.3	4.6
Working capital balances	(83.8)	(152.0)	(44.9)
Net debt	(193.5)	(147.2)	31.5
Retirement benefit liabilities	(56.8)	(74.2)	(23.5)
Deferred tax	16.9	21.1	(19.9)
Other net assets	4.3	12.7	(66.1)
Total net assets	69.8	89.8	(22.3)

The Group's adjusted net assets reduced at 31 March 2018 to £69.8m (2017: £89.8m). The £20.0m reduction is primarily driven by impairment and amortisation of goodwill and other intangible assets of £58.5m and an increase in net debt of £46.3m, partly offset by intangible asset additions of £10.1m, a working capital movement of £68.2m, and a reduction in the net deficit on defined benefit pension schemes of £17.4m. These movements are explained in more detail later in the report.

IFRS 15

NO IMPACT	KEY AREAS OF ADJUSTMENT
To lifetime revenue or lifetime profitability of contracts	• Derecognition of accrued income assets previously recognised on long-term complex contracts following the elimination of percentage of completion accounting • Derecognition of mobilisation assets not meeting the more stringent criteria under IFRS 15 • Derecognition of work in progress assets where control of output is yet to pass to the customer on contracts where revenue is recognised over time
To cash flows of contracts	• Higher deferred income recognised from customer payments made in advance of delivering contract outcomes and where significant contracted discounts including extension discounts have been offered

The Group has early adopted IFRS 15 effective from 1 April 2017 in line with its goal to simplify the business and improve transparency. The adoption of IFRS 15 improves the alignment of financial results with the cash flows of contracts. The effect of adopting IFRS 15 is a reduction of £108.2m in the opening net assets as at 1 April 2017 and an increase of £12.5m in reported operating profit before other items for FY 17/18.

Our adoption process followed the principles set out in the standard's five-step model:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when or as the entity satisfies its performance obligations.

This process identified the following six key areas of adjustment discussed in more detail below:

- percentage of completion accounting;
- mobilisation assets;
- design and development and other upfront fees;
- contract assets;
- work in progress; and
- contracted discounts including extension discounts.

IFRS 15 gives rise to changes in the timing of revenue and cost recognition but does not impact the lifetime profitability or the cash flow of contracts. The main changes for Mitie from the adoption of the accounting standard are on its long-term contracts. In particular:

- revenue is more evenly matched over the life of contracts in line with the delivery of outcomes to clients and, consequently, the timing of profits is re-profiled;
- in certain cases, there will be lower profits, or even losses, in the early years of contracts where there are significant upfront restructuring or mobilisation costs, with a compensating increase in profits in later years;
- the overall impact on the income statement at Group level is a function of the balance of contracts in the early or late stage of their lifecycle. For FY 17/18, the impact is a £12.5m increase in operating profit before other items;
- a number of contract related assets have been derecognised, comprising of the accrued income balance associated with percentage of completion accounting, work in progress where control is yet to pass to the client and cannot be reliably estimated, and the elimination of certain deferred mobilisation costs that do not meet the more stringent criteria of recognition as an asset under IFRS 15;
- the Group's balance sheet under IFRS 15 includes limited contract assets created in the process of mobilising and transforming services;
- there is an increase in the level of deferred income in relation to contracts where advance payments have been received from clients to undertake work prior to the recognition of revenue and planned outcomes being delivered. Deferred income will unwind over the life of contracts; and
- due to the changes in the pattern and timing of revenue and cost recognition under IFRS 15, and the resulting adjustment to opening reserves on 1 April 2017, the principles of IAS 12 give rise to a movement in deferred tax, primarily an increase in the deferred tax asset recognised.

The impact on reported net assets as at 1 April 2017 and on the reported revenue and reported operating profit before other items recognised for the year ended 31 March 2018 for the Group are as shown in table 1.

Divisional breakdown of adjusted financial performance

The Group's adjusted revenue increased in the year, from £2,140.0m to £2,199.1m as shown in table 2. This was principally due to good revenue growth in Security, Care & Custody and Engineering Services offset by significant volume declines in Property Management and a smaller reduction in Professional Services.

Adjusted operating profit before other items fell by 6.0% in the year from £82.0m to £77.1m as shown in table 3, reflecting investments made to enhance customer services, investment in technology and capability in Professional Services and corporate centre, and the volume declines in Property Management, partly offset by solid growth from both the Security and Engineering Services divisions.

Adjusted other items before discontinued operations

Adjusted other items before tax total £103.0m (2017: £36.6m). £34.6m (2017: £15.0m) relates to impairment of the Property Management goodwill which is further described below. £47.3m (2017: £14.9m) is related to organisational change, to support the Group's cost efficiency and transformation programmes, and specifically relates to consultancy and project management for the change process, redundancy and double running costs, property closure costs, and assets written off as a function of the transformation programme. Of this, £34.7m relates to Project Helix. £8.4m (2017: £6.7m) relates to the amortisation of acquisition related intangible assets, business acquisition costs and costs associated with the aborted disposal of Property Management. Other exceptional items of £12.7m include £3.3m for settlement of a contractual dispute, £3.1m in relation to contract terminations and extensions, £2.3m in relation to costs associated with various regulatory enquiries, £1.9m relating to pension curtailments, £1.3m for property dilapidations, and £0.8m of IFRS 15 adoption costs. The tax credit on other items was £11.7m (2017: £4.1m) resulting in other items after tax of £91.3m (2017: £32.5m). As noted above, as a result of the Accounting Review, a number of one-off items in the FY 16/17 financial statements were included in the loss before other items rather than in other items, and adjusted through the APMs to provide a more meaningful comparison.

Table 1

£m	Net assets 1 April 2017	Revenue FY 17/18	Operating profit before other items FY 17/18
Pre-IFRS 15	89.8	2,199.1	77.1
IFRS 15 adjustments:			
Percentage of completion	(50.2)	7.6	7.6
Mobilisation assets	(24.9)	(0.6)	4.4
Design and development and	(30.1)	3.1	3.3
Accrued income and contract	–	–	1.0
Work in progress	(26.5)	(6.1)	(4.6)
Contracted discounts	(1.5)	0.6	0.8
Tax	25.0		
Total IFRS 15 adjustments	**(108.2)**	**4.6**	**12.5**
As reported under IFRS 15	**(18.4)**	**2,203.7**	**89.6**

Table 2

Adjusted revenue, £m	FY 17/18	FY 16/17	Change, %
Engineering Services	833.8	803.7	3.7
Security	431.7	403.7	6.9
Professional Services	90.8	96.6	(6.0)
Cleaning & Environmental	405.5	399.2	1.6
Care & Custody	62.3	46.4	34.3
Catering	137.1	132.7	3.3
Property Management	237.9	257.7	(7.7)
Total	**2,199.1**	**2,140.0**	**2.8**

Table 3

Adjusted operating profit/(loss) before other items, £m	FY 17/18	FY 16/17	Change, %
Engineering Services	35.5	33.0	7.6
Security	25.2	21.6	16.7
Professional Services	7.0	9.3	(24.7)
Cleaning & Environmental	19.8	20.9	(5.3)
Care & Custody	3.2	2.9	10.3
Catering	5.0	5.3	(5.7)
Property Management	7.9	12.3	(35.8)
Corporate centre	(26.5)	(23.3)	(13.7)
Total	**77.1**	**82.0**	**(6.0)**

Tax contribution

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

Mitie is a significant contributor of revenues to the UK Exchequer, paying £481.2m in the year ended 31 March 2018 (2017: £534.4m). This comprised £492.8m of indirect taxes including business rates, VAT and payroll taxes paid and collected, less an £11.6m refund of UK corporation tax. The tax refund was due to the utilisation of losses resulting from the accounting adjustments in the prior year's accounts. As Mitie's business is primarily based in the UK, the effective tax rate should track the UK statutory tax rate. Losses reported as a consequence of the adjustments to the balance sheet following the adoption of IFRS 15 will reduce the Group's corporation tax payments over the next few years.

Discontinued operations

Following a strategic review of the operations of the Group earlier in the year, a sale process was initiated in connection with the Property Management business. It was therefore classified as a discontinued operation in the half-yearly financial report for the six months ended 30 September 2017. On 5 December 2017, Mitie confirmed that it had withdrawn the Property Management business from sale, as none of the indicative offers received were at an acceptable level.

It has therefore been classified as a continuing operation as at 31 March 2018 and will now be integrated into the Engineering Services division.

On 28 February 2017, the Group completed the sale of its Healthcare division following the Board's decision to withdraw from the domiciliary healthcare market. As a result of the disposal, the Healthcare business was classified as a discontinued operation for the year ended 31 March 2017.

Dividends

The full-year dividend is 4.0p per share (2017: 4.0p per share), comprising an interim dividend of 1.33p per share and a final dividend recommended by the Board of 2.67p per share.

Mitie Model

As previously signalled, the Group has ceased its past practice of creating Mitie Model jointly held companies, with specific earn out targets, and all remaining minority shareholder interests have been bought out during the year.

Adjusted goodwill and intangible assets

Adjusted goodwill and other intangible assets of £348.9m (2017: £397.1m) were held on the balance sheet at 31 March 2018. As part of its annual review of impairment the Group has updated its estimate of the recoverable amount of the Property Management cash-generating unit (CGU), principally due to changes in broader market conditions, which has resulted in an impairment charge of £34.6m being taken in other items. In addition, other intangible assets impairment charges, mainly relating to software development assets that are no longer in use, were £10.4m, and other intangible assets amortisation was £13.5m.

Other goodwill balances have been maintained and there were no acquisitions during the year giving rise to goodwill.

Adjusted cash flow

The Group took steps to strengthen its balance sheet during the year, including normalising its working capital position. Utilisation of non-recourse invoice discounting was reduced at the year-end and supplier payment performance was improved. Although this negatively impacted cash flow during the year, it resulted in a stronger underlying balance sheet position and an improved position for suppliers.

The adjusted operating cash inflow, before movements in working capital, was £49.6m (2017: £9.1m). This includes a cash outflow of £27.5m relating to other items charged to the income statement in FY 17/18.

Adjusted cash used in operations during the year was £6.6m (2017: cash generated £151.1m), as a result of a working capital outflow of £56.2m (2017: inflow £142.0m). The working capital movement is explained in more detail below.

After paying interest of £13.5m (2017: £12.7m) and corporate tax receipts of £11.6m (2017: paid £15.3m) the adjusted net cash outflow from operating activities was £8.5m (2017: inflow £122.8m). Capital expenditure reduced by £0.8m compared to the prior year, to £26.1m (2017: £26.9m). Dividends of £4.8m were paid in the year (2017: £37.4m). Other net cash outflows totalled £6.9m, including the settlement of amounts owed in connection with the disposal of Healthcare of £9.7m (2017: £27.4m, including share buybacks of £24.4m).

Overall, this resulted in an increase in the Group's net debt of £46.3m (2017: £31.1m decrease) to £193.5m (2017: £147.2m).

Adjusted working capital

As highlighted above, the Group took steps to normalise its working capital balances as part of a series of measures to strengthen its balance sheet. There were two main drivers explaining the working capital movement of £56.2m in FY 17/18.

Firstly, the Group reduced its non-recourse customer invoice discounting by £34.4m to £76.3m. The invoice discounting facilities are netted off against trade and other receivables within the balance sheet and therefore led to a working capital outflow from receivables of £34.4m (2017: £28.5m inflow). Excluding the impact of invoice discounting, there was an underlying decrease in receivables of £4.3m and total working capital increased by £21.8m.

The second factor was the measures taken to improve our supplier payment performance at the year end. Total payables reduced by £30.3m over the year as the Group improved its supplier payment days to 58 days (2017: 72 days).

Net debt

The Group's net debt increased by £46.3m to £193.5m as at 31 March 2018 (2017: £147.2m). However, average borrowings of £286.1m were £49.8m lower than the prior year (2017: £335.9m), of which £23.6m can be attributed to higher average invoice discounting (in contrast to the lower year-end position). As noted above, this increase in net debt can be attributed to the measures taken to reduce the year-end use of invoice discounting and to improve supplier payment performance. The Group is focused on continuing to drive further sustainable improvements to its average borrowings.

Liquidity and covenants

As at 31 March 2018, the Group had £466.5m of committed funding arrangements (2017: £526.8m), compared to net debt of £193.5m (2017: £147.2m). The £275m multi-currency Revolving Credit Facility (RCF) matures in July 2021. The £191.5m of US Private Placement notes are spread over three maturities: December 2019 £40.0m; December 2022 £121.5m; and December 2024 £30.0m. In December 2017, £60.2m of US Private Placement notes matured and this was funded as anticipated through existing facilities.

Mitie's two key covenant ratios are leverage (ratio of net debt to covenant EBITDA to be no more than 3 times) and interest cover (ratio of covenant EBITDA to net finance costs to be no less than 4 times). At the year end, we were operating comfortably within these ratios at 1.98 for leverage and 6.8 for interest cover.

Mitie's intention is to consistently maintain adequate headroom within its committed facilities. In addition to its committed funding, the Group utilises ancillary facilities, including invoice discounting of £76.3m (2017: £110.7m). The Group's trade creditors include amounts due to UK suppliers which make use of supply chain finance arranged by Mitie of £45.1m (2017: £39.5m).

Retirement benefit schemes

The net defined benefit pension liability at 31 March 2018 was £54.8m (2017: £70.7m) for the Mitie Group scheme. The reduction in the deficit is principally due to a 5bps increase in the discount rate driven by improvements in corporate bond rates since 31 March 2017. On 14 November 2017, the Group closed the final salary section of the main Mitie Group scheme to future accrual and the resulting annualised savings to the Group from FY 18/19 are expected to be in the region of £0.8m per annum. The latest valuation of the Mitie Group scheme as at 31 March 2017, indicated an actuarial deficit of £46.6m (31 March 2014: £6.0m), largely due to a fall in discount rates since 2014. The Group has negotiated, subject to final approval, a deficit recovery plan with the Trustee totalling £58.0m over 10 years, of which £3.0m was paid in FY 17/18.

The Group also makes contributions to customers' defined benefit pension schemes under Admitted Body arrangements as well as to other arrangements in respect of certain employees who have transferred to the Group under TUPE. At 31 March 2018, Mitie's net defined benefit pension liability in respect of these schemes, which it is committed to funding, amounted to £2.0m (2017: £3.5m).

In addition, the Group also participates in four industry multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme. These schemes are accounted for as defined contribution schemes, either because the assets and liabilities cannot be apportioned among employers or the amounts involved are not significant. Contributions to these schemes for FY 18/19 are expected to be approximately £0.1m. The Group is exposed to Section 75 employer debts in respect of two of these schemes. These liabilities crystallise when the Group ceases to have any active employees in the schemes. Further details can be found in Notes 34 and 37.

Conclusion

In line with recent Financial Reporting Council guidance, we will continue to simplify our operational and financial processes as we increase transparency and improve our internal control environment.

Principal risks and uncertainties

We have performed a robust and systematic review of those risks that we believe could seriously affect Mitie's performance, future prospects, reputation or its ability to deliver against its priorities. Our process for identifying and managing risk is set out in more detail on pages 69 and 70 of the corporate governance report. The following table and subsequent pages set out our principal risks and examples of controls and mitigating factors.

The risks identified do not comprise all of the risks associated with our business and are not set out in priority order. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

#	Category	Risk
1	Strategic	Ineffective bidding for contracts and poor mobilisation and delivery processes, resulting in onerous contract terms, financial loss and damage to our customer relationships
2	Strategic	Uncertainties in the economic, political and regulatory landscape which may have a negative impact on the demand for our services and our access to resources
3	Strategic	Poor sentiment towards the outsourcing sector could lead to fewer opportunities, increased scrutiny and an adverse effect on our reputation
4	Strategic	Failure to deliver our transformation programme leading to lower benefits than anticipated, higher costs and weaknesses in operational processes
5	Operational	Failure to maintain appropriate controls in and availability of critical IT systems leading to major contract delivery issues
6	Operational	Inadequate controls over confidential and customer data and/or failure to comply with data protection legislation could lead to reduced confidence in our abilities to protect data and fines from regulators
7	Operational	Failure to adhere to sufficiently high standards in health, safety and environmental management resulting in harm to our employees, fines and damage to our reputation
8	Operational	Inability of our business to attract and retain sufficient talented resources with a resultant detrimental effect on our operational and financial performance
9	Operational	Inability to maintain access to sources of funding due to concerns over our financial strength could have a significant impact on our performance and client relationships
10	Financial	Failure of a significant counterparty (e.g. supplier, banker) to deliver contractual requirements resulting in financial penalties and reputational damage
11	Regulatory	Non-compliance with emerging legal and regulatory frameworks leading to fines, prosecutions and damage to our reputation

Risk Number: 1

Ineffective bidding for contracts and poor mobilisation and delivery processes, resulting in onerous contract terms, financial loss and damage to our customer relationships

Impacts on:

- Customer
- Cost

It is critical to our business model that we are able to develop competitive and profitable bids, and mobilise and deliver on a variety of contracts which are often over long periods and highly complex. In order to do this, we need to have a compelling and differentiated market offering, and balance the cost and margin pressures that are an important factor in our industry. Failure to do so would impact our ability to retain clients and secure new contracts, with a detrimental effect on our financial performance.

We need to fairly balance risk and reward, as well as contractual terms in our bids, and have suitable monitoring mechanisms to ensure this is achieved. It is important to make sure we can deliver the services in a contract, by fully understanding the risks involved and having the appropriate skills and resources required. Incorrectly assessing the risks may result in onerous contracts, penalties and early termination of contracts.

Failure to properly mobilise a contract may result in breaches of terms and conditions, additional unanticipated costs and problems with operational performance. In addition, the delivery of each contract must be closely monitored so that we understand our performance against the contract obligations and Key Performance Indicators (KPI), and that any changes are properly assessed and monitored.

If we are unable to deliver the services as agreed in the contract, this could have a negative impact on our customer relationships and reputation and lead to legal disputes with our customer and termination of the contract. We have a number of large integrated contracts and major service specific contracts, the loss of any of which would have a significant financial impact.

Controls and mitigations

- Strategic account management
- Revised group-wide Sales & Bid process rolled out
- Centralisation and standardisation of pricing models
- Executive management bid committee approval for complex bids
- New Sales and CRM teams in place
- Development of Connected Workspace and capability in professional services
- Use of specialist mobilisation teams for complex contracts
- Detailed contracting guidelines developed and rolled out
- Revised and reissued delegated authorities register
- Risk registers in place for large-scale contracts
- KPI/SLA formal reviews with customers
- Improved CRM capabilities with active relationship management
- Focus on Net Promoter Score

Future plans

- Ongoing review to redefine and optimise the way we use our CRM tool (SalesForce), to ensure best practice is shared across all client teams
- Introducing new Sales Academy

Risk Number: 2

Uncertainties in the economic, political and regulatory landscape which may have a negative impact on the demand for our services and our access to resources

Impacts on:

- Customer
- People
- Cost
- Technology

The performance of our business may be affected by general economic conditions and other financial and political factors outside its control. A downturn in the economic cycle usually results in decreased project work and discretionary spend by customers, which can lead to a fall in our financial performance.

Mitie drives most of its revenue from a client base in the UK, with limited exposure to the wider global economy. We continue to monitor the results of negotiations resulting from the decision of the UK to exit the European Union, commonly referred to as 'Brexit'. This may result in changes to the regulatory framework in which we operate, and could place restrictions on the mobility of individuals and hence availability of resources.

We need to be able to respond to variations in particular sectors by providing service solutions that are competitive and profitable. Our diverse business portfolio also helps provide resilience to economic uncertainty.

Controls and mitigations

- Mix of long-term contract portfolio in both the public and private sectors
- Development of professional services, Connected Workspace and new and innovative solutions
- Focus on higher margin growth opportunities
- Regular reviews of the sales pipeline
- Increasing spread of client base, reducing reliance on individual customers
- Strategic account management
- Project Helix transformation programme

Future plans

- Continue to source Connected Workspace technology platform to provide next generation FM services that increase customer stickiness, improve win rates, increase retention and provide opportunities for higher margins
- Significant increase in our customer retention focus through better understanding customer needs (NPS), improving operational efficiency and developing expertise and capability within our commercial function
- Build a customer focus, demand led marketing and communication programme to better engage our customers

Strategic risks continued

Risk number: 3

Poor sentiment towards the outsourcing sector could lead to fewer opportunities, increased scrutiny and an adverse effect on our reputation

Impacts on:

- Customer
- Technology

Mitie's reputation may be affected by the activities and results of other companies operating in our sector, as well as any negative publicity for our business. This has been particularly heightened since the liquidation of Carillion plc in January 2018. This has resulted in increased scrutiny of companies in the outsourced facilities management sector, regarding their financial health, operational performance and long-term prospects. In addition, it has increased debate, predominantly in the public sector, about the benefits and viability of outsourced contracts. We also operate a number of government contracts which attract very high levels of media scrutiny, for example immigration removal centres.

If we are unable to demonstrate our ability to deliver the obligations in our existing contracts and financial performance in line with market expectations, we may be unable to retain existing clients or secure new contracts. In addition, any negative publicity in respect of our performance on public-sector contracts may have a negative impact on our financial performance and reputation.

Controls and mitigations

- Regular engagement with both public and private sector clients
- Strategic account management and increased cross selling to current customers
- Project Helix transformation programme
- Long-term contract portfolio and spread of client base
- Strong relationships with financial institutions
- Regular financial performance and balance sheet reviews

Future plans

- Continue to source Connected Workspace technology platform to provide next generation FM services that increase customer stickiness, improve win rates, increase retention and provide opportunities for higher margins
- Significantly increase our customer retention focus through better understanding customer needs (NPS), improving operational efficiency and developing expertise and capability within our commercial function
- Build a customer focus, demand led marketing and communication programme to better engage our customers

Risk number: 4

Failure to deliver our transformation programme leading to lower benefits than anticipated, higher costs and weaknesses in operational processes

Impacts on:

- Customer
- People
- Cost
- Technology

To ensure that we develop and grow our business in line with the new operating model, our transformation programme (Project Helix) has been running throughout the year. The programme contains multiple projects designed to improve and optimise business processes, controls and operating structures, with major projects in areas such as Finance, IT, HR and our Engineering Services division.

The changes being introduced are vital to the future success of the business, and failure to adequately manage the programme of work, identify and manage interdependencies, develop appropriate solutions and implement the changes and ensure they are sustainable, could severely limit the pace at which these changes are delivered. Additionally, the investment required to implement the projects needs to be closely monitored, to ensure we deliver the expected operational and financial benefits and savings in overheads.

Controls and mitigations

- Board and Executive Leadership Team (ELT) sponsorship and regular monitoring of the transformation programme
- Highly experienced programme managers brought in to establish an overall programme management office, with effective governance, controls, monitoring mechanisms and reporting. This ensures regular oversight with clear visibility of progress and early warning of any challenges.
- Experienced individuals within the business dedicated to the individual projects to allow focus on the transformational activity
- Regular communication of progress and awareness of the impact of changes being introduced to minimise business disruption
- Dedicated risk management and assurance procedures within the programme to ensure internal controls are operating effectively

Future plans

- Develop a training programme for change management to build and enhance internal capability
- Create a permanent Enterprise PMO capability to govern, manage and control all change management activities post-Transformation

Risk number: 5

Failure to maintain appropriate controls in and availability of critical IT systems leading to major contract delivery issues

Impacts on:

- Customer
- Technology
- Cost

Technology is becoming increasingly critical to the success of our business in meeting customers' expectations. This is particularly important where we are responsible for looking after data and critical infrastructure on their behalf, and any failure could not only impact our ability to operate, but also the customers' business.

We are continuing to increase the use of technology with customers, especially as we develop our Connected Workspace offering, and need to ensure we have effective controls and monitoring in place.

In addition, we are seeking to automate processes and improve systems across our business to improve efficiency and control. A number of these initiatives are being delivered through our transformation programme (Project Helix); a key system change already delivered is a work management system in our Cleaning & Specialist Services division (also utilised by our Security division). Other significant planned changes include the implementation of improved HR solutions and a planning and scheduling solution for Engineering Services.

Investment in technology is critical to delivering on our contract obligations and to delivering operational improvements. As our dependency on IT solutions increases, we will need to continue to invest to minimise system failures and have adequate business continuity and disaster recovery plans.

Controls and mitigations

- Standardisation and rationalisation of operational and ERP systems and infrastructure
- Recruitment of highly skilled IT professionals who are familiar with the new technologies and can use these to de-risk the current estate
- Improved cyber and operational controls for existing systems and included in all new system developments
- Development and testing of effective business continuity and disaster recovery plans
- Investment strategy and support for technology development

Future plans

- The proposed outsource of routine IT operations to a partner organisation which has the scale and depth of skills to run this more effectively and with lower risk
- The continued migration from the legacy estate to leverage new technologies, such as AI, big data, API management, open systems etc to improve scalability, performance and resilience

Risk number: 6

Inadequate controls over confidential and customer data and/or failure to comply with data protection legislation could lead to reduced confidence in our abilities to protect data and fines from regulators

Impacts on:

- Customer
- Technology

There has been an increase in the regulations and penalties for failing to adequately secure the data we hold regarding our customers, suppliers, employees and others. As with all organisations we face increased risk of cyber-attacks, malware and internal breaches, which could affect our operational performance and cause damage to our reputation. It is important that we maintain adequate security controls to prevent the loss or theft of data we hold.

In particular, we have a programme of work and dedicated team in place to ensure we are compliant with the General Data Protection Regulation (GDPR), which came into force in May 2018.

Information is an important asset for the business and needs to be protected at all times from disclosure or misuse. We handle information in many forms and have formal secure technical and procedural controls in place to mitigate risks to the information. The secure processing, maintenance and transmission of sensitive and confidential data is achieved through the integrity, confidentiality and availability of our systems. Appropriately applied information security helps to ensure business continuity and minimise disruption by preventing or minimising the impact of security breaches. Failure to do this would raise questions about how we handle information with care, reduce confidence in our abilities and potentially expose us to significant fines from regulators.

Controls and mitigations

- Centralised information security team in place and experienced new Chief Data and Security Officer recruited
- Information Security Management System (ISMS) in place and certified to ISO/IEC27001:2013 for key information assets
- IT security controls in place to proactively test, monitor, identify and respond to cyber threats
- Cyber Essentials accreditation
- Cyber insurance policy
- Ongoing Security Awareness For Everyone (SAFE) programme
- Information security considered for all new critical activities and products

Future plans

- Adoption of new, and optimisation of existing, security functionality to respond to the evolving cyber threat landscape.
- Further embedding the principles and procedures of Privacy by Design into core BAU activities
- Transition of legacy email gateway functionality into the strategic toolset
- Implementation of Single Sign-On (SSO), delivering security and end-user experience benefits
- Redesign of Joiners-Movers-Leavers controls in line with new HR transformation activities and toolsets

Operational risks continued

Risk number: 7

Failure to adhere to sufficiently high standards in health, safety and environmental management resulting in harm to our employees, fines and damage to our reputation

Impacts on:

- Customer
- People

The nature of the services we perform for our clients means that there is potential for our employees, our partners and members of the public to be exposed to health and safety risks, and for environmental damage. It is essential that we maintain very high health, safety and environmental (HS&E) standards to manage these risks.

We are completely committed to ensuring our people operate in safe conditions, hard is not caused to others who may be affected by our activities and prevention of damage to the environment. Effective management of these risks is essential to the success of our business. Failure to do so could lead to significant harm to individuals and the environment and result in prosecution, action by regulators, fines and substantial damage to our reputation.

Controls and mitigations

- A professional and skilled HS&E team
- New Director of QHSE appointed and revised operational model introduced with clear roles and responsibilities
- Regular training and communication delivered at appropriate levels throughout the company
- Improvements in incident recording, monitoring and reporting
- Certified HS&E management systems to OHSAS 18001 and ISO14001
- Clear and standardised KPIs introduced to monitor progress and improvements
- HS&E performance reviews conducted at divisional and Board meetings

Future plans

- Implementation of QHSE Culture program (LiveSafe) specifically designed to develop QHSE cultural maturity across the organisation
- Implementation of systems and processes which ensure effective sharing of QHSE learnings across the organisation and industry

Risk number: 8

Inability of our business to attract and retain sufficient talented resources with a resultant detrimental effect on our operational and financial performance

Impacts on:

- Customer
- People

To achieve our objectives and operate successfully we must attract, develop, motivate and retain talented individuals. If we fail to maintain a skilful workforce there will be an adverse impact on our operational and financial performance, and customer satisfaction.

It is important to have a variety of views and experience within the business and to attract specific technical expertise to enhance our customer offering. It is also essential that we develop and support the current and future leaders in our business. This will help ensure we have the right culture in the business to maintain high standards of working and an effective system of governance and control.

Controls and mitigations

- Launch of Vision and Values
- Updated and improved training portal developed and deployed during the year
- Competitive remuneration, terms and conditions
- Personal development plans related to annual performance appraisals
- Succession planning and talent management
- Regular employee communications and offers

Future plans

- Partnership with 3aaa developed to utilise the Apprenticeship Levy to build capability and attract talent
- Implementation of employee and manager self-serve technology to enhance employee experience
- Digital learning suite to be rolled out
- Action planning from engagement survey results
- Creation of resourcing centre of excellence to enhance candidate experience

Risk number: 9

Inability to maintain access to sources of funding due to concerns over our financial strength could have a significant impact on our performance and client relationships

Impacts on:

- *Customer*
- Technology

It is important that we maintain a range of suitable sources of finance, including banking facilities, private placements and supply chain funding, in order to maintain a strong liquidity position. Failure to do so would restrict our ability to grow either organically or through acquisition, and affect our ability to meet our financial commitments. We need sufficient funds to be available to pay our suppliers, invest in our business and, most importantly, pay our staff on time, as this is our most significant cost.

We continue to pursue initiatives to improve our financial position and given the concern about the viability of companies operating in our sector, we need to continue to demonstrate good financial discipline to maintain access to appropriate sources of funding.

Controls and mitigations

- Maintenance of strong banking, debt and equity relationships
- Committed long-term funding facilities
- Focus on appropriate payment terms with customers and supply chain
- Strong focus on and monitoring of cash collection
- Daily monitoring of bank balances
- Regular forecasting of cash flow
- Regular financial performance and balance sheet reviews – which have been enhanced during the year
- Regular monitoring of working capital
- Policy on provisions

Future plans

- Streamline our order to cash process
- Introduce incentives linked to cash collection

Risk number: 10

Failure of a significant counterparty (e.g. supplier, banker) to deliver contractual requirements resulting in financial penalties and reputational damage

Impacts on:

- *Customer*

To meet our contractual commitments and succeed as a business, we are reliant on our ability to manage our relationships with third parties including insurers, suppliers and banks. Poor performance or failure of one of these counterparties could have a significant impact on our operational and financial performance, and damage our reputation and client relationships.

It is important that we maintain effective ongoing relationships with our significant counterparties and monitor their performance, and develop contingency plans as necessary.

Controls and mitigations

- Ongoing credit monitoring of significant counterparties
- Annual material counterparty risk reviews and Board approval
- Regular contact with external financial and commercial markets
- Business continuity plans developed
- Maintenance of sufficient committed debt facilities to minimise the impact of any adverse financial conditions caused by counterparty failure

Future plans

- Exercise continued vigilance in monitoring and managing key counterparty relationships

Regulatory risk

Risk number: 11

Non-compliance with emerging legal and regulatory frameworks leading to fines, prosecutions and damage to our reputation

Impacts on:

- Customer
- People

The Group is subject to a wide variety of laws and regulations. These include employment, and anti-bribery and corruption laws, National Minimum Wage and the Apprenticeship Levy. Failure to comply with applicable legal and regulatory frameworks may result in significant fines, prosecutions, debarment from public sector contracts and revocation of licences, as well as damage to our reputation. This could harm our prospects of winning future bids and retaining existing customers.

It is important that we maintain strong governance and oversight to ensure we continue to comply with legal and regulatory frameworks and that we respond to any changes that are introduced. It is also necessary to communicate the requirements to our employees to ensure they are fully aware and can demonstrate compliance.

Controls and mitigations

- Group functions (including Company Secretariat, QHSE, Finance, Legal and HR) monitor requirements and assess the impact on the Group
- Training and awareness is provided to employees for changes in laws and regulations
- Ongoing compliance monitoring is undertaken and management is required to confirm compliance
- Management oversight by Group and divisional leadership teams
- External experts consulted for specialist advice
- Code of conduct maintained and deployed to employees
- External regulatory audits
- Whistleblowing service launched and externally hosted
- Tax reporting framework in place to ensure compliance with the Senior Accounting Officer rules
- Group-wide policies and processes maintained in the Business Management System (BMS)

Future plans

- Revised Group risk governance architecture will be rolled out during 2018
- Digital learning suite to be rolled out
- Recruitment of additional subject matter experts to Group functions
- Ongoing review of BMS to update policies and process

Viability statement

The Group's principal markets and strategy are described in detail in the Strategic Report (pages 1 to 56). The key factors affecting the Group's prospects are:

- Mitie is the leading FM business in the UK with 4% 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 in its transformation programme; and
- Mitie has a diverse portfolio of blue-chip and public sector clients, the largest of which constitutes only 7.4% of revenue.

In accordance with section C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the prospects of the Group over a three-year period to March 2021.

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 principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This included 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 69 and 70, were considered.

In adopting IFRS 15, Mitie reported net liabilities of (£24m) at FY 17/18. This change does not affect forecast cash flows, liquidity, or the ability of the Group to meet its obligations as they fall due in the future and therefore does not impact this analysis.

In undertaking its viability assessment, as a base case, the Board used the agreed budget for FY 18/19, which includes analysis of the forecast performance of the Group's existing contract base, expectation for future growth including sales targets and expected win rates, and overhead cost base. Based on this budget, further projections for viability purposes have been made using prudent assumptions:

- modest revenue and margin growth beyond FY 18/19;
- no major changes in working capital;
- customer invoice discounting continues to decrease over time;
- future dividends in line with current policy;
- no changes to Group structure; and
- no additional capital beyond current committed debt facilities.

The resulting financial model assesses the ability of the Company to remain within the financial covenants and liquidity headroom of its existing committed facilities. During the forecast period, £40m of the US Private Placement notes mature and the model assumes these are not refinanced. The Group also utilised £76m of invoice discounting at 31 March 2018, 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 reduction in operating margin required to cause a *breach of leverage covenant, in combination with the reduced* revenue and operating cash scenarios.

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

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

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

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

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.

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Hyun
Workplace Consultant,
Professional Services

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Derek Mapp
Non-Executive Chairman

Board Committees
Chairman of the Nomination Committee

Date of appointment to the Board
May 2017

Other current appointments
Derek is chair of Informa plc and Huntsworth plc. He will step down from his role as chairman, and from the board, of Huntsworth plc once a suitable replacement is found. Derek is chair of Imagesound Limited, 3aaa and Salmon Developments Limited, which are all privately held companies. Derek also has a *number of other business interests.*

Past roles
CEO of Tom Cobleigh PLC, chair of Leapfrog Day Nurseries Limited, chair of The East Midlands Development Agency, chair of Sport England and chairman of the British Amateur Boxing Association.

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
Chairman of the Results and Investment Committees

Member of the Nomination Committee

Date of appointment to the Board
November 2016

Other current appointments
None

Past roles
Phil was the group chief executive officer of Cable & Wireless Communications Plc from January 2014 until its sale to Liberty Global *plc In May 2016. From 2007 to* 2013 he was managing director of British Gas and was on the board of Centrica plc from 2000 to 2013, having held the roles of group finance director (2000-2004) and managing director, Europe (2004-2007). He was a non-executive director of IMI plc from October 2012 to December 2014 and Kingfisher plc (2003-2010).

Skills and experience
- Executive and non-executive experience with FTSE 100 public companies for over 15 years.
- 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.*

Paul Woolf
Chief Financial Officer

Board Committees
Member of the Nomination, Results and Investment Committees

Date of appointment to the Board
November 2017

Other current appointments
None

Past roles
Paul was previously CEO of Virgin Active Health Clubs, and prior to that he was CFO of Jack Wills, CFO/COO of Birds Eye Iglo Group and CFO of the Automobile Association.

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

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Nivedita Krishnamurthy Bhagat
Independent Non-Executive Director

Board Committees
Member of the Audit and Nomination Committees

Date of appointment to the Board
June 2017

Other current appointments
Chief executive, Infrastructure Services & Cloud Services UK, Ireland and Northern Europe at Capgemini SA, a French publicly listed multinational corporation, and a member of its UK management board.

Past roles
Senior roles at Capgemini SA; head of Enterprise Solutions, EMEA and head of London Development Centre at Infosys Technologies Ltd. Prior to joining Infosys, Nivedita was a consultant in the corporate finance division at KPMG India.

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

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Jack Boyer, OBE
Independent Non-Executive Director

Board Committees
Chairman of the Remuneration Committee

Member of the Nomination Committee

Date of appointment to the Board
June 2013

Other current appointments
Non-executive director and member of the nomination, remuneration and audit committees of TT Electronics PLC. Board member of the Sir Henry Royce Institute for Advanced Materials. Chairman of Academies Enterprise Trust.

Past roles
Former chairman of Ilika plc; non-executive director and chairman of the remuneration committee of Laird PLC; deputy chairman of the Advanced Materials Leadership Council (BEIS); council member of the Engineering and Physical Sciences Research Council and the Innovate UK Energy Catalyst. Previously founded and was chief executive officer of companies in the engineering, telecommunications and biotechnology sectors. Investment banker at Goldman Sachs and strategy consultant at Bain & Co.

Skills and experience
- Director of FTSE 250, AIM and private companies, and chairman of AIM companies and private companies.
- Chief executive and entrepreneur with a track record of steering successful corporate innovation, growth and globalisation in multiple sectors.
- Significant experience in mergers and acquisitions, IPOs and financial markets in the UK, US and Asia.
- MBA.

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Philippa Couttie
Independent Non-Executive Director

Board Committees
Member of the Audit and Nomination Committees

Date of appointment to the Board
November 2017

Other current appointments
Member of the House of Lords, party whip and member of the Polling and Digital Media Select Committee.

Past roles
Philippa spent five years leading Westminster Council, prior to which she served as the cabinet member for Housing and the cabinet member for Finance. She was also the deputy cabinet member for Children's Services. She joined the Council in 2006. Before progressing her career in public service, Philippa was a director at Citigroup Capital following its takeover of Schroders, where she headed up its principal finance business. Prior to joining Schroders, she was chief executive of Cornerstone Communications, a subsidiary of Birkdale Group plc.

Philippa has served as a non-executive director on a number of boards since 2006. These include the Royal Parks, the London Local Enterprise Partnership Board, chairing the West End Partnership, and sitting on the governing body for Imperial College-whilst also chairing its audit committee.

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

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Jennifer Duvalier
Independent Non-Executive Director

Board Committees

Member of the Remuneration and Nomination Committees

Date of appointment to the Board

July 2017

Other current appointments

Non-executive director at GMG plc, the body which governs strategy and commercial operations of the Guardian Media Group. She is also a member of the Council of the Royal College of Art, and chair of its remuneration committee.

Past roles

Until March 2017, Jennifer was executive vice president, People, for ARM Holdings plc, the global technology business, and was an executive committee member with responsibility for People and Internal Communications activity. From August 2007 to August 2013, she was Group People and Culture Director at UBM plc, and was Group HR Director at Emap plc from October 2003 to August 2007.

Skills and experience

- Skill areas include leadership development, talent management and succession planning; mentoring; HR strategy; organisation development and change management; employee engagement; international communications; corporate social responsibility and partnerships; executive remuneration; executive team and board effectiveness.
- MA (Hons) from Oxford University in English and French.

Larry Hirst, CBE
Senior Independent Director

Board Committees

Member of the Remuneration and Nomination Committees

Date of appointment to the Board

February 2010

Other current appointments

Chairman of the Imperial College Data Science Institute Advisory Board. Community interests include acting as an ambassador to Everywoman and Black British Business. Member of the National Research Council for Cyber Security.

Past roles

Until his retirement from IBM in 2010, Larry was chairman of IBM (EMEA) and held a number of other senior positions during his 33-year career with IBM.

He represented IBM before the European Commission and other authorities. Chairman of the Transition to Teaching Committee; a commissioner for the Government's Employment and Skills Council; chairman of the UK Trade and Investment Executive Board; chairman of e-skills, the Sector Skills Council; member of the British Airways International Advisory Board; a private sector Business Ambassador, appointed by the then Prime Minister; member of the South African President's Advisory Council.

Until September 2016, Larry was a non-executive director and chairman of the remuneration committee of ARM Holdings plc.

Skills and experience

- Served on both government and private sector boards at senior level.
- Significant expertise in the global information technology industry, in particular in relation to defining and executing the strategies required to drive business success.

Mark Reckitt
Independent Non-Executive Director

Board Committees

Chairman of the Audit Committee

Member of the Nomination Committee

Date of appointment to the Board

July 2015

Other current appointments

Non-executive director and chairman of the audit committee at both Cranswick plc and Hill & Smith Holdings plc.

Past roles

Non-executive director and chairman of the audit committee of J D Wetherspoon plc; group strategy director, Smiths Group plc; divisional president, Smiths Interconnect; interim managing director, Green & Black's; chief strategy officer at Cadbury plc. Mark also held a range of strategy and finance roles at Cadbury since joining in 1989, including finance director of Cadbury UK. Prior to joining Cadbury, Mark spent six years in investment banking and retailing.

Skills and experience

- Significant international strategic experience.
- Experienced non-executive director and audit chair at FTSE 250 companies.
- Finance leadership of large scale complex divisions whilst at Cadbury plc.
- Extensive strategic leadership at both Cadbury plc and Smiths Group plc, implementing large scale change programmes.
- In depth experience in mergers and acquisitions across multiple international and product markets.
- Chartered accountant.

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Mary Reilly

Independent Non-Executive Director

Board Committees

Member of the Audit and Nomination Committees

Date of appointment to the Board

September 2017

Other current appointments

Non-executive director 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, a US-listed publisher of travel, entertainment and local offers, and of Ferrexpo Plc, an iron ore mining company.

Past roles

Mary was a non-executive director and chair of the audit & risk committee of the Department of Transport in the UK, of Crown Agents Ltd, an international development company, and of Cape plc, a global industrial services company.

Mary was also a partner at Deloitte LLP for over twenty years, including as audit partner, UK Manufacturing, and Head of Outsourcing. She has also served as a non-executive director on a number of boards since 2000.

Skills and experience

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

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Roger Yates

Independent Non-Executive Director

Board Committees

Member of the Nomination Committee

Date of appointment to the Board

March 2018

Other current appointments

Non-executive director of Jupiter Fund Management plc, JPMorgan Elect plc and St James's Place plc, where he is also chair of the remuneration committee.

Past roles

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

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

Skills and experience

- Substantial board experience, a strong business track record and extensive knowledge of the finance and investment community.

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Peter Dickinson

General Counsel and Company Secretary

Board Committees

None

Date of appointment

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 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 and, in addition, between 2008 and 2015, Peter was the co-head 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 Southampton University.

Chairman's introduction to Corporate Governance

Derek Mapp, Chairman

As a Board, we are dedicated to delivering and maintaining the highest levels of governance. The Board is continually seeking to adapt and respond to meet its responsibilities to shareholders and other stakeholders for the Group's activities and its long-term success.

The Board is kept up to date on all matters of key governance by way of a comprehensive report prepared by the Company Secretary for each Board meeting, and communication during the periods between meetings with both the Company Secretary and the wider teams where necessary.

There have been many corporate governance consultations, updates and modifications released during the year, including the Financial Reporting Council's review of the UK Corporate Governance Code (the Code). Proposed revisions to the Code remains high on our governance agenda and the Board will continue to monitor the changes and adapt where necessary to maintain compliance.

Statement of compliance with the Code

The value of good governance is clearly recognised by the Board as an area of great importance.

I can confirm on behalf of the Board that the Group has complied throughout the year with all of the principles and the relevant provisions set out in the April 2016 edition of the Code, which can be found on the Financial Reporting Council's website at www.frc.org.uk. Details of how we have applied the principles and complied with the provisions are explained throughout the Annual Report and Accounts. In this section, we explain how the Code is implemented via Mitie's governance framework.

Board composition

Since my appointment as Chairman in July 2017, the composition of the Board has been further reviewed, leading to several key appointments during the year. External advisors were engaged to assist and support the process, further details of which are set out on pages 84 to 87 as part of the Nomination Committee report.

Following the appointment of Nivedita Krishnamurthy Bhagat in June 2017, in July 2017, we announced the appointment of Jennifer Duvalier and Mary Reilly as Non-Executive Directors joining the Board in July and September respectively. In November, we welcomed Paul Woolf as Chief Financial Officer and Philippa Couttie as a Non-Executive Director.

Additionally, as announced in February 2018, we appointed Roger Yates as a Non-Executive Director from 1 March 2018. Roger will succeed Larry Hirst as Senior Independent Director upon Larry's retirement from the Board at the Annual General Meeting (the AGM) after more than eight years' service.

Mark Reckitt will stand down from the Board at the 2018 AGM after three years' service. Mary Reilly will succeed Mark as chair of the Audit Committee.

During its reviews of the composition of the Board and succession planning, the Board is mindful of both the Hampton-Alexander review and the Parker review. Further details on these, and of the Group's policy on diversity, are included in the Nomination Committee report on pages 84 to 87.

The new appointments have significantly strengthened and widened areas of expertise and experience on the Board. Full biographical details of each member of the Board are set out on pages 60 to 63.

An overview of the activities and the effectiveness of each of our Board Committees is explained further on pages 72 to 109.

External auditor change

During the year the Board carried out a competitive tender process for the provision of audit services. As a result, Deloitte LLP resigned as the Company's auditor with effect from 19 September 2017, and the Board appointed BDO LLP to fill the casual vacancy until the forthcoming AGM, when shareholders will have the opportunity to vote on their appointment. Further detail can be found in the Audit Committee report on pages 72 to 83.

Regulatory update

As announced in August 2017, the Company is subject to an ongoing review by the Financial Conduct Authority (the FCA) in connection with the timeliness of a profit warning announced by the Company in September 2016 and the manner of preparation and content of the Company's financial information, position and results for the year ended 31 March 2016. The Company is fully cooperating with the FCA, and will update the market on completion of the investigation.

In November 2017, we announced that the Company had been advised that the Financial Reporting Council's Corporate Reporting Review team's review of the annual report and accounts of the Company for the year ended 31 March 2016, which was initiated in October 2016, had been concluded and that they did not intend to pursue the matter further.

Remuneration policy review

The remuneration policy was approved by shareholders at the AGM in 2015, and in accordance with the Code we will present an updated remuneration policy to shareholders for approval at the 2018 AGM. Further information is included on pages 88 to 109.

In conclusion

Although there have been challenges during the past year, including in the outsourcing sector in general, significant steps have been made towards delivering on our strategy, and the Board remains committed to delivering shareholder value in the years ahead.

Derek Mapp
Chairman

Board members

Every company should be headed by an effective Board. All Directors are expected to allocate sufficient time to the Company to discharge their responsibilities effectively and, where possible, attend all Board meetings and the AGM. Any time commitment matters are addressed by the Chairman with the Director concerned.

The members of the Board are set out below and their accompanying biographies are set out on pages 60 to 63.

Chairman (Non-Executive)	Derek Mapp (from 26 July 2017)[1] Roger Matthews (until 26 July 2017)
Board members (Executive)	Phil Bentley Paul Woolf (from 13 November 2017) Sandip Mahajan (until 13 November 2017)
Board members (Non-Executive)	Nivedita Krishnamurthy Bhagat (from 1 June 2017) Jack Boyer Philippa Couttie (from 15 November 2017) Jennifer Duvalier (from 26 July 2017) Larry Hirst Mark Reckitt Mary Reilly (from 1 September 2017) Roger Yates (from 1 March 2018)

Note:

1. Derek joined the Board as Non-Executive Chairman-elect on 9 May 2017 and became Chairman on 26 July 2017.

Key purpose of the Board

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

The Board reviews and agrees the strategy for the Group proposed by the Executive Directors on an annual basis and reviews aspects of the strategy at Board meetings during the year. When setting Group strategy, the Board considers a wide range of matters including, but not limited to: finance; shareholder returns; the Group's corporate structure; market trends; competitive environment; private/public sector approach; international aspects of the business and opportunities; and people and talent.

Key responsibilities of the Board

The formal schedule of matters reserved for the Board was reviewed and adopted by the Board in March 2017, and can be found at www.mitie.com/investors/corporate-governance. The schedule sets out in detail the key matters and responsibilities that are set aside to be dealt with exclusively by the Board, which include:

- setting the Group's long-term objectives and commercial strategy;
- approving material changes to the Group's corporate, capital and control structures;
- approving the Half-Year Report and the Annual Report and Accounts;
- approving business plans and budgets and monitoring performance against them;
- ensuring that a sound system of internal controls, including financial, operational and compliance controls and risk management systems, is maintained;
- reviewing and monitoring the effectiveness of those risk and control processes, with the assistance of the Audit Committee, through internal audit;
- approving material acquisitions, disposals and business start-ups (including any material transactions outside the normal course of business);
- agreeing changes to the structure, size, composition and diversity of the Board and ensuring adequate succession planning for the Board and senior management;
- undertaking a formal and rigorous review annually of its own performance and that of its Committees and individual Directors;
- determining the division of responsibilities between the Chairman and the Chief Executive Officer and approving the terms of reference of Board Committees;
- making arrangements for dialogue with shareholders and canvassing shareholder opinion;
- approving resolutions and corresponding documentation to be put forward to shareholders at general meetings;
- approving Group policies relating to share dealing, the code of conduct, health and safety, corporate social responsibility and ethical trading; and
- approving new material banking facilities, the appointment of principal professional advisors, the annual renewal of the Group's insurance arrangements, and material changes to the rules or statement of investment principles of the Group's pension schemes, as well as considering the level of funding required for these schemes.

The Directors continue to be mindful of their legal duties to act in a way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders, having regard also to other stakeholders.

Frequency of Board meetings

During the year ended 31 March 2018, there were 12 scheduled Board meetings.

	Attendance
Number of scheduled meetings in the year:	12
Derek Mapp[1]	10/10
Roger Matthews[2]	6/6
Phil Bentley	11/12
Paul Woolf[3]	3/3
Sandip Mahajan[4]	9/9
Nivedita Krishnamurthy Bhagat[5]	9/9
Jack Boyer	11/12
Philippa Couttie[6]	3/3
Jennifer Duvalier[7]	5/6
Larry Hirst	12/12
Mark Reckitt	10/12
Mary Reilly[8]	5/5
Roger Yates[9]	1/1

Notes:

1. Derek Mapp was appointed to the Board on 9 May 2017.
2. Roger Matthews resigned from the Board on 26 July 2017.
3. Paul Woolf was appointed to the Board on 13 November 2017.
4. Sandip Mahajan resigned from the Board on 13 November 2017.
5. Nivedita Krishnamurthy was appointed to the Board on 1 June 2017.
6. Philippa Couttie was appointed to the Board on 15 November 2017.
7. Jennifer Duvalier was appointed to the Board on 26 July 2017.
8. Mary Reilly was appointed to the Board on 1 September 2017.
9. Roger Yates was appointed to the Board on 1 March 2018.

The Board wishes to clarify that, due to the changing environment during the year, several Board and Committee dates were rescheduled at short notice resulting in Mark Reckitt and Jack Boyer being unable to attend one Board meeting each. Mark was absent from one further Board meeting due to illness.

Jennifer Duvalier was unable to attend one Board meeting due to a longstanding commitment preceding her appointment to the Mitie Board.

As advised in September, Phil Bentley was absent from the business for a period of time due to illness which resulted in his non-attendance at the September Board meeting. Peter Dickinson, General Counsel and Company Secretary, occupied the role of acting Chief Executive Officer during Phil's absence.

In addition, two ad hoc Board meetings were held during the year, to consider various matters including the appointment of the Chairman.

Key areas of business

In addition to the key responsibilities described above, during the year the Board spent time discussing:

- developments in corporate governance;
- the Market Abuse Regime;
- whistleblowing;
- the delegated authority register and contracting guidelines;
- principal risks and viability;
- risk management;
- funding and liquidity;
- gender pay reporting; and
- the FCA's investigation in connection with the timeliness of a profit warning announced by the Company in September 2016 and the manner of preparation and content of the Company's financial information, position and results for the year ended 31 March 2016.

Division of responsibilities of the Chairman and the Chief Executive Officer

Whilst the Chairman and Chief Executive Officer are collectively responsible for the leadership of the Group and for promoting the highest standards of integrity and governance, there is a clearly defined and effective division of accountability and responsibility between them.

They have an open dialogue and meet regularly between Board meetings to ensure a full understanding of business issues and facilitate efficient decision making.

The document setting out this division of responsibilities is available on the website at www.mitie.com/investors/corporate-governance.

The Chairman

The Chairman is a Non-Executive Director and is responsible for:

- chairing the Board and ensuring its effectiveness in all aspects of its role, including the regularity and frequency of meetings;
- liaising with the Company Secretary to set Board agendas, taking into account the issues and concerns of all Board members;
- ensuring there is an appropriate delegation of authority from the Board to the executive management;
- managing 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;
- facilitating the effective contribution of Non-Executive Directors and encouraging active engagement by all members of the Board;
- ensuring constructive relations between the Executive and Non-Executive Directors;
- ensuring that new Directors participate in a full, formal and tailored induction programme;
- ensuring that the performance of the Board, its Committees and individual Directors is evaluated at least once a year, and acting on the results of such evaluation; and
- maintaining sufficient contact with major shareholders in order to understand their issues and concerns, in particular in relation to governance, strategy and remuneration, and ensuring that their views are communicated to the Board as a whole.

The Chairman holds meetings with the Non-Executive Directors, without the Executive Directors being present.

During Phil Bentley's absence due to illness, the Chairman provided support to Peter Dickinson in his role as acting Chief Executive Officer and to the Executive Leadership Team and others by joining several operational meetings, attending the head office in London on a regular basis, maintaining consistent dialogue with senior management and making himself available as required.

The Chairman is also available to consult with shareholders throughout the year and will be available at the 2018 AGM.

The Chief Executive Officer

The Chief Executive Officer is responsible for all aspects of the operation and management of the Group and its business within the authorities delegated to him by the Board. He is specifically responsible for:

- developing Group objectives and proposing and implementing strategy, having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- recommending to the Board an annual budget and strategic and financial plan and ensuring their achievement following Board approval;
- optimising the use and adequacy of the Group's resources;
- examining all investments and major capital expenditure proposed by subsidiary companies and recommending to the Board those which, in a Group context, are material in either nature or cost;
- evaluating, approving and executing material contracts, investments including technology investments, acquisitions, disposals and new business opportunities;
- ensuring at all times that the Group's risk profile, including the health and safety performance of the business, is in line with the extent and categories of risk identified as acceptable by the Board;
- making recommendations on remuneration policy, on other remuneration related matters and in respect of the appointment of Executive Directors to the various Board Committees (other than the Nomination, Audit and Remuneration Committees);
- setting Group HR policies, including management development and succession planning for senior management and approving the appointment and termination of employment of members of that team; and
- ensuring the effective implementation of Board decisions, and regularly reviewing the operational performance and strategic direction of the Group's business.

The Chief Financial Officer

The Chief Financial Officer is responsible for:

- leading, directing and overseeing all aspects of the finance and accounting functions of the Group, including financial reporting, tax, treasury, strategy, performance analysis and financial planning, financial systems and the development of the back office and management information of the Group, and managing the processes for financial forecasting, budgets and consolidated reporting;
- evaluating, approving and advising the Board and the Executive Leadership team on the financial and commercial impact of material contracts and transactions (including mergers and acquisitions), technology investments in support of the development of the Group, long-range planning assumptions, investment return metrics, risks and opportunities and the impact of changes in accounting standards;
- overseeing and directing the Group's Risk, Insurance, Pensions, Internal Audit and Assurance functions and managing the relationships with the external auditor, key financial institutions and advisors to the Group;
- ensuring that effective internal controls are in place and that the Company complies with appropriate accounting regulations for financial, regulatory and tax reporting; and
- providing an underpin to all aspects of the Group's governance framework, the application of its delegated authorities and its investment activities.

The Non-Executive Directors

The Non-Executive Directors review proposals for the strategic direction of the Group, constructively challenging and probing proposals presented by the Executive Directors based on their breadth of knowledge, experience and individual skills and contributing to the formulation and development of strategy.

They are responsible for monitoring high level corporate reporting and satisfying themselves as to the integrity of financial information and the operation of key controls. They are required to maintain an effective understanding and oversight of the Group's principal risks and the assurance in place relating to those risks, including the results of the internal audit programme.

The Non-Executive Directors play a key role in determining the remuneration policy for the Chairman, the Executive Directors, the Company Secretary and members of senior management and take a primary role in Board succession planning. They have a responsibility to exercise their independent skill and judgement in carrying out their duties.

The Senior Independent Director

The role of the Senior Independent Director includes acting as a sounding board for the Chairman, serving as an intermediary for the other Directors when necessary, conducting the Chairman's annual performance evaluation and leading any new Chairman appointment process. The Senior Independent Director also acts as chairman of the Board, in the absence of the Chairman, where necessary. The Senior Independent Director is available as an alternative point of contact for shareholders should they have concerns which have not been resolved through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer, or for which such contact is inappropriate in the circumstances.

Evaluation of the performance of the Board and its Committees

A performance evaluation of the Board and its Committees is carried out annually to ensure they continue to be effective and that each of the Directors demonstrates commitment to his/her respective role and has sufficient time to meet his/her commitment to the Company.

In line with the Code recommendations for an externally-led independent evaluation every three years, the performance evaluation of the Board was externally facilitated during 2017. During 2018 the Chairman conducted a Board performance evaluation, which involved one-to-one meetings with each of the Directors, facilitated by a questionnaire devised by the Chairman and completed by each Director in advance.

The Chairman shared his conclusions with the Board at its meeting in June 2018.

The evaluation of the Chairman was facilitated by the Senior Independent Director in conjunction with the General Counsel and Company Secretary.

Director election and re-election

The performance of each Director is reviewed as part of the annual Board evaluation process and the Board is satisfied that each of the Directors continues to operate effectively and to demonstrate clear commitment to his/her role. Paul Woolf, Jennifer Duvalier, Mary Reilly, Philippa Couttie and Roger Yates will stand for election at the 2018 AGM.

Phil Bentley and the remaining Non-Executive Directors, except for Larry Hirst and Mark Reckitt, will submit themselves for re-election at the 2018 AGM.

The terms of appointment of the Non-Executive Directors and the Executive Directors' service contracts are available for inspection at Mitie's registered office, Mitie's head office in London and at the AGM.

Director induction process and training

All Directors receive a personally tailored induction to Mitie which includes:

- meetings with the Executive Directors and other key members of the senior management team;
- a review of the Group's governance policies, structure and business, including details of the risks and operating issues facing the Group;
- visits to divisional offices and key client sites; and
- a briefing on key contracts.

In order to ensure that Directors' skills and knowledge are regularly updated, briefing notes are circulated on matters such as changes in the regulatory and governance environment. Visits to different business sites and offices are arranged in order to help all Board members gain a deeper understanding of the business. The Board also receives regular updates and management presentations on the strategic development, operational and financial performance of the Group.

Members of the Board are given access to an online board portal which, as well as holding copies of all recent Board and Committee reports and minutes, has a reading room where the Directors can access a Board Handbook containing essential information about the Group, including:

- the Company's current Articles of Association;
- the latest Annual Report and Accounts;
- Board and Committee terms of reference;
- guidance on directors' statutory duties;
- governance and regulatory guidelines;
- the Group's approved delegated authorities; and
- an overview of the Group's directors' and officers' liability insurance arrangements.

The Handbook was last reviewed and updated in early 2018 and will continue to be subject to annual review.

Each Director has access to all available e-learning modules via Mitie's Learning Management System, is actively encouraged to complete relevant modules and is notified when new modules become available. E-learning is available for matters such as the Market Abuse Regime, Bribery Act, Data Protection and Modern Slavery.

Board accountability and assurance explained

Risk management approach

During the year, the Board has continued to oversee the improvements being implemented by the management team to address the underlying issues raised during the comprehensive review of the Group's balance sheet conducted in the prior year, and the approach to governance, risk management and internal control. These have included simplification of the organisational structure, clarity of reporting lines for the central functions, notably HR, Legal and Finance, cessation of the 'Mitie Model' arrangements, outsourcing of the back-office finance transactional processes to Genpact and continued standardisation and simplification of processes and procedures in the Group. In addition, a new Group-wide delegated authority register (DAR) has been deployed which clarifies the accountabilities and authority to take decisions on specific matters within defined financial limits, at levels from the Board to divisional leadership. This helps to disseminate the Board's risk appetite. Similarly, authority registers are also being implemented in each division, which follow the same principles as the DAR. This structure should ensure a consistent approach to acceptance and management of risk across the business. The whistleblowing line, provided by an external party, has been launched during the year, with all reports being reviewed and investigated. This also enhances the identification of risks. Improvements in IT systems have continued to bring the business onto consistent platforms, with improving management information and visibility of common risks and effectiveness of controls. The Internal Audit function has targeted its work at areas of the business where risk management and internal controls are suspected of requiring improvement, which has helped to improve the risk and control frameworks.

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

Risk culture

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

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

Risk management processes

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

Risk identification and assessment

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

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

Risk mitigation

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

The terms of reference for the operation of these meetings are aligned with the Audit Committee's objectives, and once the process is fully operational, summary reports of the matters reviewed will be provided to 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, with the Audit Committee formally reviewing performance throughout the year and advising on the effectiveness of the risk management system in place.

Risk monitoring and review

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

The risk management framework is designed to manage, rather than eliminate, the risk of failing to achieve the objectives and strategies of the Group and can therefore only provide reasonable, and not absolute, assurance against material risk and loss. The Board, through the Audit Committee, considers the nature and extent of significant risks in setting the Group's strategy. Details of the principal risks of the Group are set out on pages 50 to 56. It should be noted that other risks are identified as part of the risk management process, but these do not have a material impact on the Group's overall ability to achieve business objectives. These risks are managed via the existing risk management process.

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

Whistleblowing

In September 2017 Mitie launched its new 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 third party, can be accessed via a freephone number, a free online app or through the service provider's website.

Details of the new service were communicated to employees via Mitie's intranet, email, payslip notes and posters, to suppliers via Mitie's sourcing portal and to other third parties via www.mitie.com.

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

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

Internal control and assurance

Mitie operates a 'three lines of defence' model incorporating internal controls, risk management and functional oversight, and internal audit. The implementation of the system of internal control is managed by the leadership of each business unit. Group functions (such as Finance, Legal and HR) collaborate with business units' teams to promote continuous improvement and ensure that controls are operating effectively. Mitie's policies and procedures are available to management and employees through an intranet portal. A formal review of the internal control environment is undertaken by the Head of Internal Audit with engagement from business units' leadership teams on an annual basis. An internal control assessment exercise which previously operated in the Group is currently being revised to ensure it reflects the changes to the business structure and risk profile, and focuses on the key internal controls which manage the risks faced by the business.

The Audit Committee reviews the effectiveness of internal controls through this process, through receiving updates from specific functions, and via the independent testing undertaken by the Internal Audit function as part of its work. During the year there have been a significant number of internal control weaknesses reported to the Audit Committee in reports produced by the Internal Audit function. This has partly been a result of the internal audit work plan being targeted at areas known or suspected to have weak or ineffective internal controls. The remedial action plans developed by management to address these weaknesses are monitored by the Audit Committee to ensure timely closure of the actions.

Internal Audit

The Internal Audit function's authority and responsibilities are defined in its charter, approved in May 2017. The Internal Audit function operates independently, reporting directly to the Audit Committee and administratively to the Chief Financial Officer. This reporting line offers independence from the audited activities and allows it to achieve objectivity. The chairman of the Audit Committee oversees the appointment and removal of the Head of Internal Audit and assesses the function's performance against the internal audit objectives. The annual internal audit plan and budget are approved by the Audit Committee. Any significant deviation from the approved annual internal audit plan is communicated to the Audit Committee through periodic activity reports. The results of each internal audit are documented in an audit report for internal distribution and action.

The chairman of the Audit Committee and the external auditor, BDO LLP, have access to all internal audit reports that are issued during the year and the Audit Committee receives a quarterly detailed update reporting on internal audits completed in the period.

The Audit Committee also receives regular reports from BDO LLP arising from its audit work, contributing a further independent perspective on the Group's internal financial control systems.

Committees of the Board

The Board has five formally constituted Committees: the Audit Committee, the Nomination Committee, the Remuneration Committee, the Results Committee and the Investment Committee, the scope of which are set out on the following pages.

The Company also has an informal Bid Committee which is comprised of the Chief Executive Officer, the Chief Financial Officer, the General Counsel and Company Secretary and members of Mitie's sales team. The Bid Committee meets each week to consider all material bids being submitted.

Audit Committee Chairman's introduction

Image removed

Mark Rackitt, Audit Committee Chairman

The FY 17/18 year was one of transition for Mitie in ways described elsewhere in the Annual Report and Accounts. Three new members, Nivedita Krishnamurthy Bhagat, Mary Reilly and Philippa Couttie, were appointed to the Audit Committee, BDO LLP was appointed as external auditor following a tender process held in September 2017 and a new Head of Internal Audit was appointed in June 2017.

Accounting Review

As noted in the previous annual report KPMG had been appointed in January 2017 as independent accountants to review and report on the most material judgements made on the balance sheet amounts in relation to long-term complex contracts, accrued income, work in progress and mobilisation. In addition, KPMG provided support to management in their own review of the remaining areas of the balance sheet. This work was undertaken between January and May 2017 and reviewed by the Audit Committee during the period up to the approval by the Board on 12 June 2017 of the accounts for the year ended 31 March 2017.

As part of that work, management made various recommendations on the changes required to ensure that Mitie's financial reporting and control environment would meet the standards required. These recommendations were reviewed and supported by the Audit Committee during the early period of the current year and the progress made in their implementation has been reported to the Committee during the year.

The ongoing Project Helix transformation programme involves simplifying legal structures, standardising processes and rationalising systems. As part of this programme, the Finance function has been restructured. Management has implemented a standardised bidding process across the Group and issued updated commercial standards and customer contracting guidelines.

The Legal function was centralised to ensure greater consistency of application of the Group's minimum commercial standards.

Core accounting policies were updated and issued, including the policies in relation to long-term complex contracts, mobilisation costs, accrued income, work in progress, capitalisation and amortisation of intangible assets and amounts receivable from customers.

As a further result of the review, the internal audit plan was reassessed and work programmes were updated to include business unit reviews, review of specific controls and a sample of key contracts and processes. The Audit Committee considered and agreed the scope of the updated plan. An assessment of communication of values and key messages as part of culture was included in internal audit work programmes and there was regular engagement with the business leaders to ensure that the audit plan covered current and relevant risks, and findings were closed promptly and effectively.

Overall, good progress has been made in strengthening the finance team at the centre of Mitie, including the appointment of Paul Woolf as CFO in November 2017, and in ensuring that detailed and clear accounting policies and practices have been communicated to the finance teams in all parts of the Group. Additionally, a start has been made on strengthening the Internal Audit team with new leadership and tighter standards for the work undertaken and the reports made by that team. It is apparent that further work is required to implement the recommendations in all parts of the Group and the Committee asked that the Internal Audit team focus on areas which were felt to be at higher than average risk of control weakness, with consequent adverse impact for the accuracy and timeliness of internal reporting and safeguarding of assets.

As noted elsewhere in this report, management have implemented a plan to improve the effectiveness of the finance back office by engaging Genpact to undertake much of the work previously carried out by the finance teams at Mitie. The Audit Committee reviewed and supported the implementation of this project in the belief that the professionalism of Genpact would enhance the accuracy and timeliness of a significant part of the financial reporting across the Group.

External auditor

In the previous annual report, the Audit Committee reported that it was satisfied with the improvements made by Deloitte, the external auditor at that point, following the findings made by the Audit Quality Review team at the Financial Reporting Council (FRC). The Audit Committee also concluded that Deloitte had been effective in their role as external auditor for FY 16/17.

However, because of the issues encountered during the financial year it was concluded that a formal tender should commence such that a new external auditor could be appointed during the financial year ending 31 March 2019 and, that Deloitte should be re-appointed as external auditor for FY 17/18.

In July 2017, the Company was informed by Deloitte that they would resign as auditors no later than 30 September 2017 as a result of being informed by the FRC that their audits of Mitie for the years ended 31 March 2015 and 2016 would be the subject of investigation. Deloitte acknowledged that Mitie were obliged by law to appoint an external auditor at the AGM on 26 July 2017 and consequently consented to being put forward for election as external auditor at that AGM, but on the basis that they would resign by 30 September 2017. As a result, the Audit Committee agreed to accelerate the plans, already in place, for an audit tender process in order that a new external auditor could be appointed by 30 September 2017.

At the AGM on 26 July 2017 the reappointment of Deloitte LLP as external auditor was passed, but with 29.4% of votes against the resolution, as well as a significant proportion of votes withheld.

The tender process was completed at meetings of the Audit Committee and Board on 13 September 2017, when the Audit Committee recommended to the Board that BDO be appointed as external auditor with effect from 19 September 2017. The detailed tender process can be found on page 81.

Accounting judgements

During the review of the half-year financial report and the accounts for the year ended 31 March 2018, the Audit Committee focused on the treatment of long-term complex contracts and claims made by customers, the disclosure of the alternative performance measures, the valuation and accounting treatment of Property Management (which was the subject of a sale process that was subsequently terminated), the adoption of IFRS 15 and judgements associated with the recoverability of trade receivables and accrued income, provisioning and contingent liabilities.

In relation to Property Management the Audit Committee considered management's assessment of the sale process and the number of bidders at that stage of the process in mid-November. It also compared the value of the bids to the assessed value of the prospects of the business together with the value of claims being made by current and previous clients of the business. The Committee challenged a number of the assumptions being made within the process of valuation of the business and the provisions for the claims. At the half year, the valuation for Property Management was reduced resulting in an impairment of £10.0m against the goodwill. On 5 December 2017 it was announced that the Board had considered all indicative offers received for the Property Management business, and concluded that none were at a sufficient level with which to proceed.

The Audit Committee has considered the valuation of the Property Management business at meetings held in May and June 2018, reviewing and challenging management assumptions about the level of future revenues, profit and cashflow together with updated assessments of the claims previously assessed in June and November 2017. Whilst the Audit Committee acknowledges that this remains a profitable business with potential for profitable growth, it also believes that the climate for outsourcing within the social housing sector has deteriorated during recent months and consequently asked management to use a much more cautious forecast for the future profit and cash generation of the business. This has resulted in a further reduction in the valuation of the Property Management business and a consequent further impairment of goodwill of £24.6m (a total of £34.6m for the year ended 31 March 2018).

As part of the year-end process the Audit Committee has also reviewed and considered the other material accounting judgements made by management in the preparation of the financial statements.

Adoption of IFRS 15

A key part of the work of the Audit Committee during the year has been to assess the work undertaken by management to adopt IFRS 15, which is concerned with the accounting for revenue and in particular affects businesses which capitalise costs incurred in the course of long-term complex contracts as well as other contracts. Managament undertook a substantial amount of work to provide an assessment and quantification of the impact of adoption of IFRS 15, which was supported by a team from EY, including resource which had direct experience of this from other companies, and overseen by a steering group which included Mary Reilly, a member of the Audit Committee, who had extensive relevant experience from over 20 years as an audit partner at Deloitte.

FRC reporting review

As detailed in the previous annual report, the Corporate Reporting Review team of the FRC had raised questions relating to the impairment testing of Healthcare goodwill and treatment of accrued income in the Annual Report and Accounts for the year ended 31 March 2016. I am pleased to report that the Company received confirmation in November 2017 that this review had been completed by the FRC and that, having taken into consideration the various disclosures and accounting adjustments made in the Annual Report and Accounts for the year ended 31 March 2017, no further action was required. To date the Corporate Reporting Review team have not sought any information from Mitie.

Conclusion

The Audit Committee has considered the control environment, particularly in light of the perspective brought by new auditors, both external and internal and, challenged management to ensure that the higher standards now being applied in some parts of the business are put in place across all parts of the business, and that appropriate and consistent accounting judgements are made.

This has been an important year for Mitie as it seeks to embed higher standards of internal control and more accurate financial reporting. The Audit Committee supports management in this activity and has asked it to ensure that sufficient financial resource is made available to enable this.

I have been a non-executive director of Mitie and chairman of the Audit Committee since July 2015 and I believe that a chair of Audit Committee who can bring a fresh perspective will best serve the interests of shareholders and the business.

Accordingly, I have decided not to seek re-election at the AGM on 31 July 2018 but will be available to answer any questions that shareholders may wish to raise at or before the AGM.

Details of the Audit Committee's work can be found on the following pages.

Mark Reckitt
Chairman of the Audit Committee

Audit Committee members

Mark Reckitt has been Chairman of the Audit Committee since July 2015. Mark continues to be deemed by the Board, as at the date of this report, to have significant, recent and relevant financial experience through his qualifications and ongoing positions. Mark's biography is included on page 62.

Mark will stand down as chair of the Audit Committee and the Board at the 2018 AGM after three years' service. Mary Reilly will succeed Mark as chair of the Audit Committee. 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 international management experience. Mary's full biography can be found on page 63.

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

Chairman	Mark Reckitt
Committee members	Nivedita Krishnamurthy Bhagat (from 1 June 2017)
	Jack Boyer (until 26 July 2017)
	Philippa Couttie (from 22 May 2018)
	Larry Hirst (until 26 July 2017)
	Mary Reilly (from 1 September 2017)

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 also meets with the external auditor and the Head of Internal Audit without the Executive Directors present. As chairman of the Audit Committee, Mark will be available at the AGM to answer any questions about the work of the Audit Committee.

Principal responsibilities of the Audit Committee	Key areas discussed and reviewed during year
Reporting and external audit	
• Monitoring the integrity of the financial statements of the Company, preliminary results announcements and any other formal announcements relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and estimates and judgements having regard to matters communicated to it by the external auditor. • Reviewing the external auditor's audit plan, nature and scope of work and overall summary of key issues and judgements. • Assessing the effectiveness of the external auditor including the appropriateness and skills of its audit team and the quality of its services. • Agreeing the audit fee for the year. • Reviewing summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature. • Reviewing the Half-Year Report and Annual Report and Accounts, including the fair, balanced and understandable statement, statements concerning internal controls and risk management, all other material information presented with the financial statements including the strategic report, the viability statement, the corporate governance statements (insofar as they relate to the audit and risk management), and recommending the same for Board approval. • Reviewing and challenging, where necessary, accounting policies and key areas of accounting judgement. • Considering and making recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Group's external auditor. • Reviewing and monitoring compliance with the non-audit services policy and maintenance of external auditor independence	• Results, commentary and announcements. • Key accounting judgements, including contract margins and impairment reviews. • Changes to accounting policies and procedures. • Going concern and the viability statement. • Fair, balanced and understandable assessment in relation to the Annual Report and Accounts. • External auditor effectiveness. • External auditor reports on planning and executing their half-yearly review and full-year audit, including their final opinion and remuneration. • Responses to audit findings and recommendations for control improvements, including reviewing the external auditor's management letter.

Principal responsibilities of the Audit Committee	Key areas discussed and reviewed during year
Risk and internal control	
• Keeping under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems (being the systems established to identify, assess, manage and monitor financial and other risks). • Providing advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period, why the period is regarded as appropriate and whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary. • Reviewing the Group's consolidated risk register prior to its approval by the Board. • Reviewing the adequacy and security of the Group's arrangements for its employees and business partners to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters (ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action). • Reviewing the Group's procedures for detecting fraud. • Reviewing the Group's systems and controls for the prevention of bribery.	• Identification of the Group's principal risks and movement in exposures. • Status of key risk indicators including any breaches of thresholds. • Review the effectiveness of the risk management and internal control systems, including the effect of the migration of certain finance functions and processes to Genpact. • Fraud risk assessment. • Cyber security. • Whistleblowing procedures.
Internal audit	
• Monitoring and reviewing the role and effectiveness of the Group's Internal Audit function, reviewing the internal audit plan and ensuring the Internal Audit function has adequate resources and appropriate access to information to enable it to perform its work effectively. • Reviewing key internal audit reports and findings. • Considering management's response to any major internal or external audit recommendations. • Monitoring the effectiveness of the external auditor and risk management systems and functions.	• Annual internal audit plan, including consideration of its alignment to the principal risks, consideration of emerging areas of risk, coverage across the Group and review of the Group's processes and controls. • Review of the execution of the internal audit plan and the resultant audit reports and findings. • Internal audit effectiveness. • Annual internal controls overview.
Other	
• Ensuring the Group's compliance with the Competition and Markets Authority's Statutory Audit Services Order, in particular with regard to audit tender.	• Effectiveness of the Committee.

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

Frequency of Audit Committee meetings

During the year ended 31 March 2018, the Audit Committee met nine times. Invitations to attend meetings are normally extended to the Group's external auditor, the Chairman, the Senior Independent Director, the Chief Executive Officer, the Chief Financial Officer, the Director of Group Finance and the Head of Internal Audit.

	Attendance
Number of scheduled meetings in the year:	9
Mark Reckitt	9/9
Nivedita Krishnamurthy Bhagat[1]	6/6
Jack Boyer[2]	3/4
Larry Hirst[3]	4/4
Mary Reilly[4]	5/5

Notes:

1. Nivedita Krishnamurthy Bhagat was appointed to the Committee on 1 June 2017.
2. Jack Boyer stood down from the Committee on 26 July 2017.
3. Larry Hirst stood down from the Committee on 26 July 2017.
4. Mary Reilly was appointed to the Committee on 1 September 2017.

Philippe Coutlie was not appointed to the Committee until 22 May 2018.

The role of the Audit Committee – 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-Year Report and Annual Report and Accounts, concentrating on, amongst other matters:

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

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

Significant issues considered by the Audit Committee during the year

The Audit Committee pays particular 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 and other relevant Mitie employees.

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

The Audit Committee discussed the papers with management and sought the views of the external auditor on each matter and for each area of judgement concurred with the treatment presented by management in the Annual Report and Accounts.

Issue	How addressed
Adoption of IFRS 15 'Revenue from contracts with customers' Consideration of the process and disclosures for the adoption of IFRS 15	The Audit Committee received regular updates from the project team and steering group and supported the recommendation from the steering group and management that Mitie adopt IFRS 15 'Revenue from contracts with customers' with effect from the year ended 31 March 2018, using the cumulative effect method. The project team was supported by a team from EY, including resource which had direct experience of this from other companies and all the work was reviewed and audited by the external auditor. The adoption of IFRS 15 has led to significant changes to the Group's revenue recognition policies, a significant restatement of the opening equity position as at 1 April 2017 and the creation of new categories of contract assets and liabilities. The impact of such early adoption is a reduction of £108.2m in the opening net assets of the Group as at 1 April 2017. Further detail on this significant change is disclosed within the Finance Review on pages 46 and 47 and Note 1 to the consolidated financial statements. The Group's accounting policy for revenue has been rewritten to reflect the adoption of IFRS 15. This new policy is included in full in Note 1(a) to the consolidated financial statements. The new policy also includes the treatment of accounting for contract fulfilment assets, pre-contract costs and deferred income. The steering group reviewed the material judgements applied by management as part of the year-end close process. In the context of IFRS 15, the steering group reviewed the key judgements applied to how revenue is recognised on long-term contracts; from discounts, variations or other scope changes, where significant judgement needs to be exercised by management due to uncertainties over contractual terms and ongoing negotiations with clients; and to the appropriate phasing and recognition of upfront payments from customers, including design and development fees. In addition, the steering group reviewed the key judgements applied by management in the recognition of contract assets as part of the transition to IFRS 15. The new revenue recognition policy includes disclosure of the significant judgements and estimates in relation to its application and the Audit Committee is satisfied that these have been properly disclosed. The Audit Committee is satisfied that the disclosures given within the accounts are sufficient to gain a proper understanding of the methodology of accounting for revenue across the Group.
2017 accounting review Update and implementation of findings	In January 2017, the Audit Committee asked management to conduct a detailed balance sheet review with independent expert support. The Audit Committee engaged KPMG to review and report on the most material judgements made on the balance sheet amounts in relation to long-term complex contracts, accrued income, work in progress and mobilisation. In addition, KPMG provided support to management, who carried out a review of the remaining areas of the balance sheet. At the conclusion of the review in June 2017, management made a number of recommendations on the changes required to ensure that Mitie's financial reporting and control environment meet the standards required. Since June 2017, members of the Audit Committee have been briefed by management on the progress of these changes as necessary. The ongoing Project Helix transformation programme involves simplifying legal structures, standardising processes and rationalising systems. As part of this programme, the Finance function has been restructured. Management has implemented a standardised bidding process across the Group and issued updated commercial standards and customer contracting guidelines. The Legal function was centralised to ensure greater consistency of application of the Group's minimum commercial standards. Core accounting policies were updated and issued, including the policies in relation to long-term complex contracts, mobilisation costs, accrued income, work in progress, capitalisation and amortisation of intangible assets and amounts receivable from customers. Twice-yearly contract issues reporting and impairment review processes have been formalised and carried out. As a further result of the review, the internal audit plan was reassessed and work programmes were updated to include business unit reviews, review of specific controls and a number of key contracts and processes. The Audit Committee considered and agreed the scope of the updated plan.

Issue	How addressed
The valuation of goodwill Reviewing the carrying value of goodwill, with a focus on Property Management in the context of the terminated sale process.	The Group has made a number of acquisitions in previous periods and carries goodwill as an intangible asset on its balance sheet in respect of the businesses acquired (see Note 14). The Group considers the carrying value of all goodwill on at least an annual basis, or when an indicator of impairment has occurred. The valuation and impairment review of goodwill is assessed for each individual cash-generating unit (CGU) and considers the balance sheet value of the goodwill compared to the net present value of the post-tax cash flows that are expected to be generated by that CGU. The approach involves an estimation of the future cash flows expected to be derived from each CGU and the selection of appropriate discount rates, which are then applied to the cash flows to calculate a net present value. The assumptions underpinning the review of the carrying value of goodwill were considered by the Audit Committee. The cash flow forecasts used in the review were derived from the most recent CGU budgets which have been reviewed and approved by the Board and the long-term business plans of the Group. The assumptions underpinning the review and the sensitivity of changes in key assumptions were considered by management and presented to the Audit Committee. At the half year the Audit Committee considered a paper regarding the carrying value of the Property Management goodwill and concurred with the conclusion that an impairment of £10.0m should be made. When this paper was prepared there was an active sale process for Property Management resulting in the business being disclosed as a discontinued operation and therefore the carrying value of goodwill was considered with reference to the offers received from potential purchasers. Subsequently, the business was withdrawn from sale and the sale process was terminated on 5 December 2017. For the year ended 31 March 2018 the Audit Committee has considered a further paper regarding the carrying value of the Property Management goodwill, including sensitivities, and concurred with the conclusion that an additional impairment of £24.6m should be made. In the absence of an active sales process for the business this paper considered the carrying value of the goodwill on a value in use basis resulting in a total impairment charge of £34.6m for the year (Note 13). The Audit Committee noted the substantial change in the forecasts for the Property Management business since the half-year, driven by general negative sentiment in the social housing sector and the reduction in local authority work following the tragedy at Grenfell Tower.
Use of Alternative Performance Measures (APMs)	The Company's performance measures continue to include some measures which are not defined or specified under IFRS. In particular management have introduced measures referred to as 'profit before other items', 'adjusted revenue', 'adjusted operating profit', 'adjusted cashflows' and 'adjusted net assets' as key measures to review current performance against the prior year by removing the impact of the adoption of IFRS 15 in FY 17/18 and of the prior year adjustments in FY 16/17, as well as asset write-downs of a non-recurring nature, which include those identified during the 2017 Accounting Review. The Committee noted the guidance issued by the FRC in relation to the use of APMs and, supported by the challenge of the external auditor, considered whether the performance measures used by management provided a meaningful insight for shareholders into the results of the Group. The Audit Committee then also reviewed the treatment of items considered for separate disclosure. With the support of the external auditor, the Audit Committee reviewed the proposed disclosure of APMs in the Annual Report and Accounts ahead of their approval by the Board. The Audit Committee also continued to support the judgements made by management regarding the items considered as being exceptional and requiring separate disclosure. The Audit Committee concluded that clear and meaningful descriptions had been provided for the APMs used. It was also concluded that the relationship between these measures and the statutory IFRS measures was clearly explained, supported the considered understanding of the financial statements and that the Audit Committee had considered that they had been accorded equal prominence with measures that are defined by, or specified under, IFRS.
Potential impact of IFRS 9 and IFRS 16 Consideration of the disclosures made in respect of the impact of IFRS 9 and IFRS 16	The Group will be required to comply with the requirements of IFRS 9 'Financial instruments' for the year ending 31 March 2019 and IFRS 16 'Leases' for the year ending 31 March 2020. The Audit Committee has considered papers prepared by management in respect of these accounting standards and the disclosures made in Note 1 to the consolidated financial statements. The Audit Committee concurs with management's assessment that IFRS 9 will have no significant impact on the Group's financial statements and that IFRS 16 will result in a substantial change in the presentation of the Group's Income Statement and Statement of Financial Position, however pending further detailed analysis a quantitative disclosure in respect of IFRS 16 is not appropriate at the present time.

Audit Committee continued

Issue	How addressed
FRC guidance Consideration of the sector-specific guidance issued by the FRC following the collapse of Carillion plc.	The Audit Committee has considered guidance issued by the FRC in January 2018 following Carillion plc entering liquidation and have reviewed the conclusions reached and disclosures made by management in the context of this guidance. The Audit Committee concurs with management's conclusion that the disclosures presented in the Annual Report and Accounts are consistent with this guidance.
Accounting for material contracts The Group operates a broad portfolio of complex contracts; the accounting for certain contracts may be underpinned by assumptions or judgements made by management in respect of the outcome of future events.	Following the conclusion of the Accounting Review in June 2017, management have put in place detailed accounting policies and procedures for the Group which improve consistency and reduce the latitude for the application of accounting judgements to routine matters. For the year ended 31 March 2018 management operated a structured process for identifying the material accounting judgements made in arriving at the results and reported these to the Audit Committee for its consideration. In relation to material contracts the Audit Committee has considered papers prepared by management in respect of: • PFI lifecycle surpluses; • provisioning for commercial settlements/disputes; • disclosures in respect of contingent liabilities; • the need for provisions in respect of potentially onerous contracts; and • the recoverability of trade receivables and accrued income.
Other material accounting judgements The judgements associated with provisioning, contingent liabilities, and disclosure matters.	In relation to other accounting judgements the Audit Committee has considered papers prepared by management in respect of: • contingent liabilities related to compliance with National Minimum Wage legislation; • contingent liabilities related to the Group's participation in multi-employer pension schemes; • provisions related to indemnities provided as part of the disposal of the Healthcare business; and • disclosure of other items. The Audit Committee reviewed the information provided by management as well as the views expressed by the external auditors. The Audit Committee challenged management on a number of matters relating to the contingent liabilities and was satisfied that such matters had been correctly accounted for.

Issue	How addressed
Appointment of an external auditor The process and governance associated with the appointment of BDO LLP as the Company's external auditor.	Following Deloitte confirming in July 2017 that it would resign as the Group's auditor no later than 30 September 2017, a tender process was started and an auditor Selection Committee was formed. The Selection Committee was led by the chairman of the Audit Committee, Mark Reckitt, and comprised the other members of the Audit Committee, the Chief Financial Officer and the Director of Group Finance. Consistent with the FRC 'Audit Tenders Note on Best Practice' issued in February 2017 the tender process was not limited to the 'Big 4'. Deloitte was not invited to tender. During July and August, Mark Reckitt, together with senior members of the Mitie team, met audit partners at PwC, EY, KPMG and BDO in order to assess whether they were able to participate in the audit tender process. Both PwC and EY declined to participate, as, due to the nature of non-audit work carried out for Mitie during FY 16/17 and FY 17/18, they were not deemed independent under EU rules. Both KPMG and BDO confirmed that they were independent and willing to participate in the process. The Selection Committee reviewed and approved Request For Proposal documentation and a data pack to be issued to both participants, which provided detailed information to support the submission of quality and accurate bids by participants. Both participants then had the opportunity to spend time with various management stakeholders to obtain a more detailed understanding of the Group and existing management processes and challenges to better inform their tender submission. These meetings included time with the Chief Financial Officer, Group Finance, Tax, Treasury, Internal Audit, Risk, General Counsel and Company Secretarial, IT, as well as the managing director and finance director of each of the operational businesses. The bids submitted were subject to review by the Selection Committee. Both firms then met with the Selection Committee to present their proposals with a question and answer session then led by the members of the Audit Committee present. The Selection Committee reviewed the tender submissions and scored them independently based upon the quality and relevant sector experience of the proposed team, depth of the team and the wider organisation relevant to the Company, cultural fit, proposed approach to the transition plan and wider audit and potential for audit efficiency and effectiveness. The Selection Committee recommended BDO LLP as the preferred external auditor for the Company. The Board ratified the decision of the Selection Committee and announced the decision to the London Stock Exchange in September 2017.
Review of the Group's going concern and viability statements	The Audit Committee considered the evidence that supports the ability of the Directors to conclude that the Group has adequate financial resources to continue in operation for the foreseeable future and can prepare its financial statements on a going concern basis. The Audit Committee considered the future prospects and performance of the Group including: the future business plans of the Group; the potential impact of acquisition activity and possible changes to the composition of the Group; the projected future cash flows of the Group; the availability of core and ancillary financing facilities and compliance with related covenants; the projected drawn positions and headroom available on the core committed financing facilities; and those matters reviewed in connection with the Viability Statement. It also reviewed and considered the disclosures on the matter of going concern and viability in the Annual Report and Accounts and considered them to be appropriate. Details of the conclusions arrived at by the Directors in preparing the financial statements on a going concern basis can be found in the Directors' report: other disclosures on pages 113 and 114, as can the details of the conclusions arrived at by the Directors in assessing the viability of the Group. The more detailed assessment of the Group's long-term viability is set out in the Viability Statement on page 57.

Internal audit development Review of the focus of the internal audit workplan and resources available to the team	During the year, the Audit Committee reviewed and challenged the scope of work undertaken by the Internal Audit team and resources available to it, following a review undertaken by the new Head of Internal Audit. The focus of the internal audit work has been on areas of high risk and where internal controls are suspected to be weak. The audit work has also focused on areas identified in the Accounting Review of the balance sheet as well as on the quality of internal controls in Group-wide processes. The plan is kept under regular review to ensure it reflects the risk profile of the business. The Audit Committee also requested that the Internal Audit team expand its coverage, with an increased number of audits included as part of the plan which was approved for the year ending 31 March 2019. Audits of the commercial process and accrued income are also planned in the coming year. The Internal Audit team has started to increase its resources in terms of both numbers and skill-set, with recruitment still ongoing due to a competitive market for internal auditors, and continues to use Grant Thornton resource to support the delivery of the internal audit plan. The Head of Internal Audit also outlined plans to introduce a programme of bringing talented managers from all parts of the business in to assist with specific audits and for longer-term secondments. This will help to improve the understanding of the importance of effective risk management and internal controls across the business. The Audit Committee also received regular updates on developments in the internal control environment and associated improvement activity.
Review of internal audit findings Consideration of the conclusions and recommendations arising from the internal audit work conducted during the period	An assessment of communication of values and key messages as part of culture was included in internal audit work programmes and there was regular engagement with the business leaders to ensure that the audit plan covered current risks and that relevant findings are closed promptly and effectively. The Internal Audit function included an increased number of contract audits in the FY 17/18 plan, covering bids, financial and operational performance. This included the approach to contract risk management, evidence that financial models have been appropriately reviewed and approved, and reviews of any financial improvement plans to ensure they had sufficient evidence to support the assertions and had been properly reviewed and approved. As part of the contract audits, there has also been an enhanced focus on contract obligations, variations, work in progress and amounts recognised in relation to long-term complex contracts. Further reviews were undertaken specifically on bid management. A significant number of internal audits reported to the Audit Committee were rated as either unsatisfactory or requiring significant improvement. The Audit Committee reviewed these and all other internal audits reported to the Audit Committee in six meetings held up to and including June 2018 and challenged management to ensure that all recommendations made in the reports are implemented on a timely basis. It is clear that further work is needed to ensure that all finance staff across the Group are properly trained and managed and support the actions of the CFO to ensure that the Group provides sufficient resource to implement all remaining recommendations.

External audit

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

Tendering of external audit services

It was reported in the Annual Report and Accounts 2017 that the Committee had decided to commence a formal tender for a new external auditor to be in place for the year ending 31 March 2018. The detailed tender process followed can be found on page 81.

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 Process and Audit Committee Responsibilities) Order 2014.

External auditor effectiveness

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

- the experience, expertise and perceptiveness of the auditor;
- the planning and execution of the agreed audit plan and quality of audit reports; and
- the conduct of the auditor including the Audit Committee's experience of interaction with the auditor, which included meetings held in the absence of management.

Non-audit services provided by the external auditor

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

These are such that the external auditor does not:

- audit its own work;
- make management decisions for the Group;
- create a conflict of interest; or
- find itself in the role of advocate for the Group.

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

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

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

Non-audit services provided to the Group for the year ended 31 March 2018 included tax and other audit related services. *Further details can be found in Note 6 to the financial statements.* The Audit Committee considered reports from both management and the external auditor, none of which raised concerns about auditor independence.

A summary of the fees paid to the external auditor is given in Note 6 to the financial statements. The Audit Committee confirms that the requirements of the non-audit services policy have been met throughout the year.

Assurance

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

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

Features of the internal control and risk management systems that ensure accuracy and reliability of financial reporting include: a culture of good governance, integrity, competence, fairness and responsibility; Group level policies and procedures to support the business by providing an operational internal control framework; and clearly defined responsibilities, delegated in accordance with the Group's delegated authorities and authorisation registers.

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

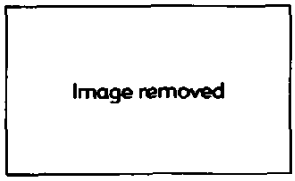
As noted above the Group has taken significant steps to improve the efficiency and effectiveness of its back-office activities. Whilst this project is in progress, there is an inherent increase in risk and therefore additional controls are in place to monitor this.

Review of whistleblowing processes

Part of the Audit Committee's role is to ensure that appropriate procedures are in place in relation to whistleblowing and to review on an annual basis the Group's whistleblowing policy.

To ensure that whistleblowing arrangements remained effective and independent of management across the business, Mitie outsourced its 'Speak up' service to an independent third-party provider. The new service was launched in September 2017, and can be accessed via a freephone number, a free online app or through the service provider's website. Further detail can be found on page 71.

Nomination Committee Chairman's introduction



Derek Mapp, Nomination Committee Chairman

The role of the Nomination Committee is to ensure the Board is appropriately balanced in terms of its composition, considering matters of skills, experience and diversity.

I firmly believe that the responsibilities of the Nomination Committee are matters for all Board members to consider.

Accordingly, the Nomination Committee is now comprised of the whole Board and, in accordance with the UK Corporate Governance Code (the Code), membership continues to be a majority of independent Non-Executive Directors, all of whom are considered to be appropriately experienced to fulfil their duties.

Nomination Committee members

At the date of this report the Nomination Committee comprises:

Chairman	Derek Mapp (from 26 July 2017)
	Roger Matthews (until 26 July 2017)
Committee members	Phil Bentley (from 26 July 2017)
	Paul Woolf (from 14 March 2018)
	Nivedita Krishnamurthy Bhagat (from 14 March 2018)
	Jack Boyer (from 14 March 2018) *
	Philippa Couttie (from 14 March 2018)
	Jennifer Duvalier (from 14 March 2018)
	Larry Hirst
	Mark Recktt (from 14 March 2018) *
	Mary Reilly (from 14 March 2018)
	Roger Yates (from 14 March 2018)

* Mark Recktt and Jack Boyer stood down from the Nomination Committee on 26 July 2017. Both re-joined the Committee on 14 March 2018 per the Chairman's decision that all Board members should form part of the Nomination Committee.

Key purpose of the Nomination Committee

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

The Nomination Committee also ensures that appropriate succession plans for the Non-Executive Directors, Executive Directors and the Group's senior management are also kept under review, taking into account the challenges and opportunities facing the Group, and the skills, expertise and diversity required for the future.

Key responsibilities of the Nomination Committee

The key responsibilities of the Nomination Committee include:

- making recommendations to the Board regarding succession planning for Directors and other senior executives, and in particular for the key roles of Chairman, Chief Executive Officer and Chief Financial Officer;
- reviewing the structure, size and composition of the Board (including its skills, knowledge, experience and diversity) and making recommendations to the Board with regard to any changes;
- keeping under review the leadership needs of the Group in order to ensure it continues to compete effectively in the marketplace;
- making recommendations to the Board concerning the following:
  - potential candidates to fill Board vacancies when they arise;
  - membership of the Board Committees;
  - candidates for the role of Senior Independent Director;
  - appointment of any Director to executive or other office;
  - reappointment of any Non-Executive Director at the conclusion of their specified term of office (particularly in relation to those being re-elected for a term beyond six years);
  - appointment of the Company Secretary; and
  - any matters relating to the continuation in office of any Director; and
- reviewing the results of the Board performance evaluation process that relate to the composition of the Board.

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

Key activities during the year

The Nomination Committee reviewed the composition and chairmanship of the Board and each of its Committees. The Nomination Committee is satisfied that the Board's composition and diversity has been appropriate throughout the year, having regard in particular to the integrity, skills, knowledge and experience of its Directors and the size and nature of the business.

The Nomination Committee recognises the importance of planning for the future and the succession planning process. During the year, the Nomination Committee continued to consider its ongoing succession planning and refreshing of the Board. As announced on 13 November, Paul Woolf was appointed to the Board as Chief Financial Officer with immediate effect, in place of Sandip Mahajan, who held the role of Chief Financial Officer from February 2017 until his resignation from the Board in November.

Paul's previous experience as a chief executive officer, chief financial officer and chief operating officer in both public and private companies brings additional skills to both the Board and the Executive Leadership Team. The ongoing ability to attract high-calibre executive talent to Mitie reflects the Board's conviction that, looking to the future, there are significant operational and growth opportunities for the Group.

In accordance with the Code, Paul will stand for election at the 2018 AGM.

The Nomination Committee worked with executive search firms JCA Group and Russell Reynolds Associates to find additional Non-Executive Directors with key skill sets to complement those of existing Board members.

Neither search firm has other connections with the Company.

Work with the JCA Group resulted in the selection of Jennifer Duvalier, Mary Reilly and Roger Yates as potential Non-Executive Directors and the search with Russell Reynolds Associates resulted in the selection of Philippa Couttie.

After careful consideration, the Nomination Committee recommended the appointment of each candidate to the Board. The appointment of Jennifer was announced on 18 July with effect from 26 July 2017, the appointment of Mary on 25 July with effect from 1 September 2017, the appointment of Phillipa on 8 November 2017 with effect from 15 November 2017, and the appointment of Roger on 23 February with effect from 1 March 2018.

Jennifer, Mary, Philippa and Roger will stand for election at the forthcoming Annual General Meeting, in accordance with the Code.

Frequency of Nomination Committee meetings

During the year ended 31 March 2018, the Nomination *Committee met three times.*

	Attendance
Number of scheduled meetings in the year:	3
Derek Mapp[1]	2/2
Roger Matthews[2]	0/1
Phil Bentley[3]	2/2
Jack Boyer[4]	1/1
Larry Hirst	3/3
Mark Reckitt[5]	1/1

Notes:

1. Derek Mapp was appointed to the Committee on 26 July 2017.
2. Roger Matthews resigned from the Board on 26 July 2017.
3. Phil Bentley was appointed to the Committee on 26 July 2017.
4. Jack Boyer stood down from the Committee on 26 July 2017.
5. Mark Redditt stood down from the Committee on 26 July 2017.

Members appointed to the Nomination Committee on 14 March 2018 do not appear in the above table as there were no further scheduled meetings in the year ended 31 March 2018.

Roger Matthews did not attend the Nomination Committee meeting in May 2017 as the meeting considered the appointment of his successor.

Diversity and inclusion

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

The Board retains a key focus on diversity of skills, gender and experience in its membership, and the Nomination Committee considered the voluntary recommendations provided in the Parker Report into Ethnic Diversity and the Hampton-Alexander Review on Women in Leadership Positions during the year.

On appointment, the Chairman made it an objective of the Board to increase female representation on the Board. Accordingly, both JCA Group and Russell Reynolds Associates focused their search on finding the highest calibre female candidates whilst remaining cognisant of the skills, knowledge and experience required to ensure that the Board remains appropriately balanced.

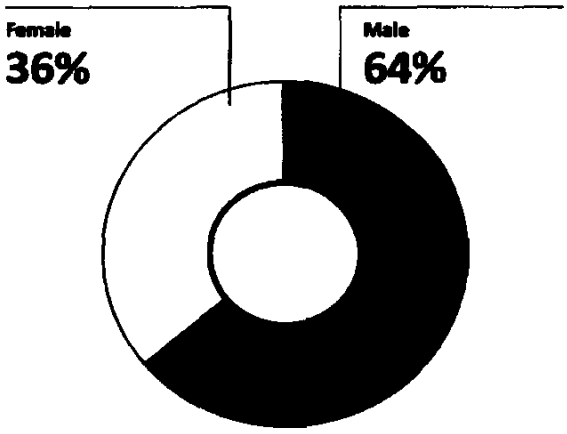
The Committee is pleased to report that as at 31 March 2018 36% of the Board are female. Further, 15% of the Executive Leadership Team are female.

The Board ensures that the Group's employment practices and policies are designed to recruit, motivate, retain, train and develop the very best people, recognising that this can be achieved only through offering equal opportunities regardless of gender, race, religion, age, disability, sexual orientation or any other aspect of diversity.

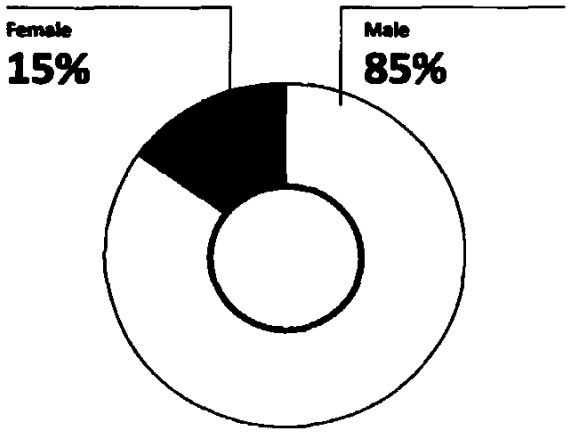
Mitie is very proud of its rich and diverse culture and backgrounds – these create ideas and insights. Everyone has a voice and is treated as an equal.

An employee diversity network strategy was documented in January 2018, with network leads elected to represent ethnic, gender, LGBT and disability diversity. The networks formally launched in Q1 2018-19, with a face-to-face and virtual events calendar – in addition to an online network platform on which to interact and share ideas. The purpose of the networks is to champion diverse policies and practices and to support Mitie's aim to create a place to work where everyone feels included and valued. The networks will work closely with the Mitie Foundation to execute the principal strategies of increasing apprenticeships and applications from diverse backgrounds, particularly into front line operational and delivery roles. The network will also work closely with the HR function to advise on enhancements to key policies including maternity and parental leave, transgender integration and disability.

Board



Executive Leadership Team



Further details of the Group's commitment to diversity and the diversity of Mitie's people can be found in the sustainability section of our website at www.mitie.com. A breakdown of employee diversity as required by the Companies Act 2006 can be found on page 39 of this report.

Derek Mapp
Chairman of the Nomination Committee

Results Committee

Overview and purpose

The Results Committee assists the Board in approving matters such as half-year and preliminary results announcements, other routine, non-material announcements and shareholder communications.

The Results Committee, which comprises the Chief Executive Officer, as chair, and Chief Financial Officer, met twice during the year ended 31 March 2018.

Investment Committee

Overview and purpose

The Investment Committee facilitates the internal approvals process by approving matters as delegated by the Board and referring recommendations for Board approval. The Investment Committee, which comprises the Chief Executive Officer, as chair, and Chief Financial Officer, did not meet during the year ended 31 March 2018.

Statement from the Remuneration Committee Chairman

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Chairman's introduction

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 March 2018. It 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 the new policy and remuneration outcomes during the year.
- **The remuneration policy.** Our existing policy has been in place since it was approved by 94% of shareholders at the 2015 AGM. We are therefore presenting the new policy for approval at the 2018 AGM. The policy review and the main changes are described below.
- **The annual report on remuneration.** This details how we implemented our current policy in FY18 and how we intend to apply the new policy in FY19.

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.

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. This included consulting with major shareholders and investor bodies. Their input from the 2017 AGM and during recent consultations has been incorporated into the development of the new policy.

The Committee believes in an approach to executive pay which aligns with value creation for shareholders. If the value created for shareholders is below our expectations, we believe that executives should receive reduced or no variable pay. Conversely, if shareholders enjoy strong returns, we believe it is right that the executives responsible for creating that value should share in those returns too.

Given the Committee's actions in recent years in setting stretching targets, holding executives to account for achieving those targets and exercising negative discretion in lapsing awards, we feel we have a strong track record in taking a responsible and appropriate approach to executive pay.

This approach informed how we reviewed the policy and the main outcomes of the review are set out below:

- **No increase in quantum.** Maximum incentive opportunities remain the same for the next policy cycle. No increase in salaries for FY19.
- **Deferral provisions strengthened.** 50% of the annual bonus is to be deferred. Previously, the bonus was delivered in cash up to 100% of salary, with only any excess deferred.
- **Incorporation of best practice features.** We are enhancing the post-vesting holding period to two years for LTIP awards, strengthening malus provisions and introducing clawback provisions across the Company's incentive plans.
- **Simplification.** Reduction in the number of LTIP performance measures from four to two, with FY19 awards based 50% on adjusted EPS and 50% on cash conversion.

Further detail is provided in the Executive remuneration at a glance section after this statement, and the new policy is provided in full in our policy report.

Chief Financial Officer succession

As announced on 13 November 2017, Paul Woolf, former CEO of Virgin Active Health Clubs, joined Mitie as Chief Financial Officer and was appointed to the Board with immediate effect. Sandip Mahajan, who had held the role of Chief Financial Officer since February 2017, stepped down from the Board. Our single figure table includes details for Paul and Sandip in relation to their respective times in the role.

Full details of Paul's remuneration arrangements – which comply with the Company's existing remuneration policy – are provided in this report. In summary, they include: (i) a base salary of £430,000 which will not be increased in FY19; (ii) an annual bonus opportunity of 120% of salary; and (iii) regular annual LTIP awards of 150% of salary. Note that Paul's FY18 LTIP award was 75% of salary.

Sandip Mahajan ceased to be a Director on 13 November 2017 and is expected to remain an employee until November 2018. His July 2017 LTIP award will vest at the usual time, subject to the performance conditions, pro-rated for his period of employment.

Remuneration decisions and outcomes

Salary

With regard to fixed pay, it has been agreed that salaries for the Executive Directors will not be increased for FY19 and so will remain £900,000 for Phil Bentley (since appointment in November 2016) and £430,000 for Paul Woolf (since appointment in November 2017).

Voluntary waiver of FY18 bonus

FY18 bonus outcomes would have ordinarily resulted in pay-outs of 38% of the maximum (arising from operating profit, revenue, customer performance and strategic objectives). Notwithstanding this, both Phil Bentley and Paul Woolf expressed in advance their wish to voluntarily waive any FY18 bonus, prior to award.

Interaction with November 2016 LTIP award

Following his appointment, Phil Bentley received an LTIP award in November 2016. This award vests subject to the extent to which the annual bonus targets that apply for FY18, FY19 and FY20 are met and a bonus paid. In the event Phil earns a bonus in one of these years, 25% of the award vests, with 67% vesting if a bonus is earned in two of the years and full vesting if a bonus is earned in all three years. In any event, no vesting will actually occur until 2020.

In light of the voluntary waiver discussed above, for the purposes of performance assessment under the November 2016 LTIP award, it is deemed that the annual bonus targets that applied for FY18 have been met and therefore a bonus in one of the three years has been achieved to date.

Bonus opportunity for FY19

For FY19, Phil Bentley's maximum bonus opportunity will remain at 160% of salary and Paul Woolf's maximum bonus opportunity will remain at 120% of salary.

The Remuneration Committee

The members of the Remuneration Committee are all Non-Executive Directors. During the year ended 31 March 2018, the Committee met three times.

		Attendance
Chairman	Jack Boyer	3/3
Committee members	Larry Hirst	3/3
	Jennifer Duvalier[1]	1/2
	Roger Matthews[2]	1/1
	Mark Reckitt[3]	1/1

Notes:

1. Jennifer Duvalier was appointed to the Committee on 26 July 2017.
2. Roger Matthews resigned from the Board on 26 July 2017.
3. Mark Reckitt stood down from the Committee on 26 July 2017.

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

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

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

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

Corporate governance developments

The Committee is mindful of wider developments in corporate governance best practice. Mitie's gender pay gap disclosures are available on the government portal, as well as on the website. We are also monitoring the renewal of the UK Corporate Governance Code with interest, and our intention is to comply with the revised provisions when they are finalised, particularly with reference to pay ratios.

Conclusion

We will be seeking approval for the Directors' remuneration report (advisory vote) and the policy report (binding vote) at the 2018 AGM. I welcome your views and feedback on either item, which can be emailed to me at jack.boyer@mitie.com.

Jack Boyer
Chairman of the Remuneration Committee

Executive remuneration at a glance

Key principles of the policy

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

Reward should be aligned with the shareholder experience	The performance-related incentive arrangements are designed to align the interests of executives with those of shareholders and to promote the Group's long-term success
The majority of the package should be performance-related	At Executive Director and senior management levels, the majority of reward opportunity is provided through performance-related incentives linked to the Group's strategic goals and taking account of the Group's attitude to risk; reward under these incentives is linked to both individual and Group performance
The policy should be comprehensive and simple	The overall remuneration policy is designed to be comprehensive without becoming overcomplicated and to encourage executives to concentrate on profitable growth

Executive incentives and link to strategy

The following table sets out how the intended measures across the incentive plans for FY19 support the Group's strategy and KPIs:

Link to strategy	Sustained and renewed profit growth	Strong cash-generative business	Quality client base	Focus on people and culture	Customers at the heart of the business
Annual bonus	✓ 35% operating profit		✓ 35% organic revenue growth	✓ 10% employee engagement ✓ 10% individual objectives	✓ 10% Net Promoter Score
LTIP	✓ 50% adjusted EPS	✓ 50% cash conversion			

The table below highlights the key features of the new policy and our approach which aligns the Executive Directors' remuneration arrangements with the shareholder experience:

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

Our track record in taking a responsible and appropriate approach to executive pay (e.g. exercise of negative discretion)	Shareholding guidelines of 200% of salary in conjunction with enhanced malus and clawback provisions	Bonus deferral – 50% of the bonus into shares for at least two years	LTIP holding period of two years – five-year time horizon for executives

All employee incentive arrangements

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

Summary of the new policy and how we intend it to operate

This table summarises remuneration arrangements for Executive Directors (Phil Bentley as CEO and Paul Woolf as CFO) for FY18 under the current policy approved by shareholders at the 2015 AGM, alongside how we intend to apply the new policy in FY19, subject to shareholder approval at the 2018 AGM.

At a glance	FY18 operation under current policy	FY19 operation under new policy
Base salary	CEO: £900,000 CFO: £430,000	CEO: £900,000 CFO: £430,000
Maximum bonus opportunity	Policy maximum: 160% of salary for CEO and 135% for other Executive Directors FY18 operation: CEO: 160% of salary CFO: 120% of salary (pro-rata)	Policy maximum: 160% of salary for CEO and 135% for other Executive Directors FY19 operation: CEO: 160% of salary CFO: 120% of salary
Bonus deferral	Bonus delivered wholly in cash up to 100% of salary *with the remainder deferred into shares which vest* after two years	50% of bonus deferred into shares which vest after at *least two years – i.e. enhanced deferral provisions*
Bonus performance measures – mix	Current policy is for financial to be the majority (>50%) and strategic the remainder FY18 mix: 70% financial, 30% strategic	New policy is unchanged. FY19 mix: 70% financial, 30% strategic
Bonus performance measures – metrics	Financial: operating profit and revenue Strategic: as disclosed later in our Annual Report on Remuneration FY18 mix: 50% operating profit, 20% revenue, and 15% each on NPS and individual strategic objectives	Financial: organic revenue growth, operating profit Strategic: Net Promoter Score (NPS), employee engagement, individual FY19 mix: 35% organic revenue growth, 35% operating profit, and 10% each on NPS, employee engagement and individual strategic objectives
Maximum LTIP opportunity	Policy maximum: 200% of salary FY18 operation: CEO: 200% of salary CFO: 150% of salary (pro-rata)	Policy maximum: 200% of salary FY19 operation: CEO: 200% of salary CFO: 150% of salary
LTIP performance measures	FY18 mix (granted in July and November 2017): 30% cash conversion, 25% EPS, 25% strategic and 20% relative TSR	Simplification to two measures, adjusted EPS and cash conversion. Policy still to allow for flexibility on measures and weightings. FY19 mix: 50% adjusted EPS and 50% cash conversion
LTIP holding period of two years after vest	Practical operation of post-vesting holding period, but no specific period defined within policy FY18 operation: 50% released after three years, 25% after four years and 25% after five years	Enhancement of post-vesting holding period to two years and formal incorporation into policy FY19 operation: shares released after five years (three year vesting plus two year holding period)
Share ownership requirements	200% of salary	200% of salary
Malus and clawback provisions	Malus provisions in place	Strengthened malus provisions and introduction of clawback provisions

Summary of remuneration outcomes for the year ending 31 March 2018

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

Annual bonus in respect of FY18

Phil Bentley and Paul Woolf both voluntarily waived their annual bonus in respect of FY18. Notwithstanding this, the measures and targets are set out in the table below, together with a commentary on the amounts which would otherwise have been determined on a formulaic basis and an assessment of the strategic objectives, had the bonuses not already been waived.

The table below reflects the notional out-turn of 38.0%. As the financial performance ranges excluded the impact of IFRS 15, the formulaic out-turn has been assessed on FY18 results before the impact of IFRS 15:

Performance measure	Weighting	Performance range	Out-turn
Operating profit	50% of the award	£85.8m threshold £95.3m target £100.0m maximum	The out-turn was £77.1m resulting in a hypothetical outcome of 0% of the maximum for this element, being 0% of the maximum bonus opportunity.
Revenue	20% of the award	£2.00bn threshold £2.23bn target £2.33bn maximum	The out-turn was £2.199bn resulting in a hypothetical outcome of 65% of the maximum for this element, being 13.0% of the maximum bonus opportunity.
Customer Net Promoter Score	15% of the award	+1pts threshold +3pts target +5pts maximum	The out-turn was +17pts resulting in a hypothetical outcome of 100% of the maximum for this element, being 15% of the maximum bonus opportunity.
Strategic objectives	15% of the award	–	The Committee set strategic objectives relating to: customers; costs; financial; people; technology; governance; and processes as set out in the Annual Report on Remuneration. The Committee considered that the objectives had been substantially met and that 10% out of a possible 15% of the award would otherwise have been awarded to the CEO and CFO.

2015 LTIP awards vesting in 2018

Neither Phil Bentley nor Paul Woolf were granted 2015 LTIP awards, as these awards were made prior to their appointments. As such, they have no LTIP awards vesting in 2018.

Single figure for FY18

The table below reports a single figure of total remuneration for each of the Executive Directors and former Executive Director for the financial year ended 31 March 2018 and their comparative figures for the financial year ended 31 March 2017.

	Year	Salary	Benefits	Annual bonus	LTIP	Pension	Total
Phil Bentley	**2018**	**£900,000**	**£22,549**	**–**	**–**	**£180,000**	**£1,102,549**
	2017	£375,000	£29,073	–	–	£75,000	£479,073
Paul Woolf	**2018**	**£166,136**	**£686**	**–**	**–**	**£16,614**	**£183,436**
	2017	–	–	–	–	–	–
Former Director							
Sandip Mahajan	**2018**	**£197,576**	**£10,140**	**–**	**–**	**£39,515**	**£247,231**
	2017	£44,000	£2,063	–	–	£8,800	£54,863
Total remuneration	**2018**						**£1,533,216**
	2017						£533,936

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

The Company's remuneration policy

This report

We have presented this Directors' remuneration report in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report also describes how the Board has complied with the provisions set out in the September 2014 edition of the UK Corporate Governance Code relating to remuneration matters.

At the 2018 AGM two resolutions relating directly to this report will be proposed: a binding vote on the revised Directors' remuneration policy as set out in our policy report below and an advisory vote on the Annual Report on Remuneration.

The Independent Auditor has reported on certain parts of this report and stated whether, in his opinion, those parts of the report have been properly prepared in accordance with the Companies Act 2006. Those sections of the report that have been subject to audit are clearly indicated.

Directors' remuneration policy report

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 2018 AGM.

Following a review in which major shareholders were consulted, changes have been made to the policy approved by shareholders at the 2015 AGM, as detailed in the Statement from the Remuneration Committee Chairman above. These include the strengthening of bonus deferral provisions, introduction of clawback provisions and formal incorporation into the policy of an enhanced post-vesting holding period for LTIP awards. For the avoidance of doubt, there has been no increase in maximum incentive opportunities. Minor drafting changes have also been made to clarify the Committee's intentions for the operation of the policy.

The key principles of the policy

The remuneration policy promotes and embeds the Company's remuneration principles. The key principles of this policy are:

Shareholder aligned	The performance-related incentive arrangements are designed to align the interests of executives with those of shareholders and to promote the Group's long-term success
Performance-related	At Executive Director and senior management levels, the majority of reward opportunity is provided through performance-related incentives linked to the Group's strategic goals and taking account of the Group's attitude to risk Reward under these incentives is linked to both individual and Group performance
Comprehensive and simple	The overall remuneration policy is designed to be comprehensive without becoming overcomplicated and to encourage executives to concentrate on profitable growth

The policy

The key elements of the policy, to be approved at the 2018 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 is influenced by: • 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 FTSE 250 comparator organisations.	Base salary increases will be broadly 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, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Committee.	Benefits are set at a level which the Committee considers: • 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 (for example, 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

Purpose and link to strategy	Operation	Opportunity	Performance metrics
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 HMRC guidelines currently prevailing (where relevant), on the same basis as other eligible employees.	N/A	N/A
Pension To aid retention and provide competitive retirement benefits.	Executive Directors will be eligible to participate in the defined contribution pension scheme or to receive a cash allowance in lieu of a pension contribution.	The pension cash allowance for Executive Directors will be determined based on the Committee's assessment of competitive levels needed to attract and retain such individuals, but will be capped at 20% of salary.	N/A
Annual Bonus Plan 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 compulsorily deferred into shares which vest after a minimum of two years (normally subject to continued employment). Dividends are accrued on deferred shares and paid in cash. Malus and clawback provisions (as detailed below this table) will apply to bonus awards made after the 2018 AGM.	Maximum bonus opportunity is 160% of salary for the Chief Executive and up to 135% of salary for any other Executive Director.	Bonuses are based on stretching financial and strategic objectives as set at the beginning of the year and 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 additive. For the strategic element of the award, payment at threshold performance is zero. At the threshold performance level under the financial element, a bonus of no more than 60% of salary is payable.

The Company's remuneration policy continued

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Long Term Incentive Plan 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 be subject to an additional holding period of at least two years. Dividend equivalents are paid in cash on or after the date shares are received. Malus and clawback provisions (as detailed below this table) will apply to LTIP awards made after the 2018 AGM.	Awards may be made up to a maximum level of 200% of salary for any Executive Director.	Performance over at least three financial years is measured against stretching objectives set at the beginning of the performance period 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.
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 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.	N/A	N/A
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: • 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 chairmanship of 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: • 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 Annual Bonus Plan and LTIP may be operated if it comes to light within two years that information used to determine performance was materially inaccurate and resulted in a material overstatement of the 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 vested shares under bonus deferral or the LTIP in respect of awards made after the 2018 AGM.

Clawback provisions are such that:

- cash bonus amounts can be reclaimed for a period of up to two years after payment; and
- vested share awards under the deferred element of the Annual Bonus Plan and LTIP 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 Annual Bonus Plan and LTIP 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 both the LTIP and Annual Bonus Plan, 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.

In addition, for the avoidance of doubt, in approving this policy report, authority is given to the Company to honour any commitments entered into with current or former Directors under previous policies. Details of any payments to former Directors will be set out in the relevant report as required by reporting regulations.

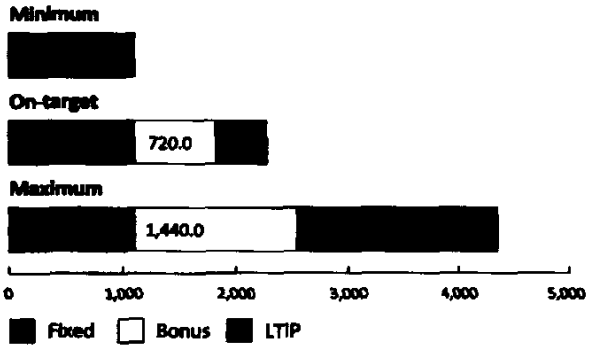
Remuneration scenarios for Executive Directors

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:

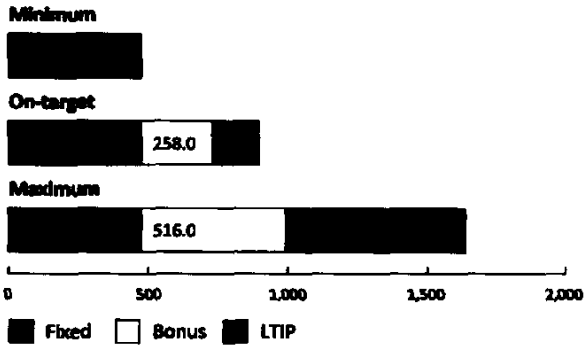
- minimum performance (below threshold) – fixed pay only, comprising salaries effective as at 1 April 2018 and the full year effect of ongoing benefits and cash allowances in lieu of pension contributions;
- on-target performance – fixed pay plus an on-target bonus and 25% of the maximum possible LTIP award vesting. On-target bonus for FY19 represents 50% of the maximum bonus; and
- maximum performance – fixed pay plus maximum bonus for FY19 of 160% of salary for the Chief Executive and 120% for the Chief Financial Officer (structured 70% financial targets and 30% strategic/other) and maximum LTIP awards (of 200% of salary for the Chief Executive and 150% for the Chief Financial Officer).

The scenarios do not include share price growth or dividend assumptions.

Phil Bentley, Chief Executive (£'000)



Paul Woolf, Chief Financial Officer (£'000)



Composition of package (%)	Fixed	Bonus	LTIP	Total
Minimum	100%	–	–	**100%**
On-target	48%	32%	20%	**100%**
Maximum	25%	33%	42%	**100%**

Composition of package (%)	Fixed	Bonus	LTIP	Total
Minimum	100%	–	–	**100%**
On-target	53%	29%	18%	**100%**
Maximum	29%	32%	39%	**100%**

Value of package (£'000)	Fixed	Bonus	LTIP	Total
Minimum	1,102.5	–	–	**1,102.5**
On-target	1,102.5	720.0	450.0	**2,272.5**
Maximum	1,102.5	1,440.0	1,800.0	**4,342.5**

Value of package (£'000)	Fixed	Bonus	LTIP	Total
Minimum	474.6	–	–	**474.6**
On-target	474.6	258.0	161.3	**893.9**
Maximum	474.6	516.0	645.0	**1,635.6**

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 is required to give 12 months' notice and Paul Woolf is required to give 6 months' notice.

For Executive Directors, if notice is served by either party, the Executive Director can continue to receive basic 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.

With respect to the current Chief Executive and Chief Financial Officer's contracts, the Company has the right to make a payment in lieu of notice equivalent in value up to 12 months' salary payable either in monthly instalments or as a lump sum. The Company will also pay for any benefit 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 AGM. There are no other provisions for compensation on termination of employment set out within the contracts of the Executive Directors.

For future 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
Paul Woolf	13 November 2017

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. The Executive Directors did not hold any non-executive positions at other companies during FY18.

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. The Non-Executive Directors are paid a basic fee with an additional fee for the Senior Independent Director and for chairing a Committee, 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, Annual Bonus Plan 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 AGM. The Non-Executive Directors are engaged for an initial term of three years which is terminable on either three or six 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
Larry Hirst[1]	Senior Independent Director	1 February 2010	3 years	3 months
Jack Boyer	Chairman of Remuneration Committee	1 June 2013	3 years	3 months
Mark Reckitt[2]	Chairman of Audit Committee	1 July 2015	3 years	3 months
Nivedita Krishnamurthy Bhagat		1 June 2017	3 years	3 months
Jennifer Duvalier		26 July 2017	3 years	3 months
Mary Reilly		1 September 2017	3 years	3 months
Philippa Couttie		15 November 2017	3 years	3 months
Roger Yates[1]	Senior Independent Director-elect	1 March 2018	3 years	3 months

Notes:

1. Larry Hirst is scheduled to retire from the Board at the 2018 AGM on 31 July 2018 and it is intended that Roger Yates will become Senior Independent Director at that date.
2. Mark Reckitt will stand down from the Board at the 2018 AGM after three years' service. Mary Reilly will succeed Mark as chair of the Audit Committee.

How the executive pay policy differs from that for other Mitie employees

The remuneration policy for the Executive Directors is 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. The LTIP is limited to the most senior employees. For employees below this level, variable pay may consist of share-based awards and annual bonus (both of which will be based on role), and UK based employees (and Irish based in the case of SAYE) have the opportunity to participate in the SAYE and SIP share schemes.

How employment conditions elsewhere in the Group are taken into account

The Remuneration 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 Irish based in the case of SAYE) can participate in the SAYE and SIP share schemes; and (ii) participation in the LTIP is limited to a selection of senior executives. However, consistent with general practice, the Committee does not consult with employees in preparing the policy or its implementation.

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.

Policy on loss of office

The rules of the Annual Bonus Plan and LTIP 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 annual bonus, 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 shall be forfeited, unless the Committee in its absolute discretion determines otherwise. Deferred shares will vest in full on the date of cessation for 'good leaver' reasons, otherwise the shares will lapse on cessation of employment.

Generally, any outstanding LTIP awards will lapse on cessation of employment, except in certain circumstances. Specifically, if the Executive ceases to be an employee or Director 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 will be treated as a 'good leaver' under the LTIP rules in which case awards will vest either on cessation or, for leavers within the first three years, the first normal vesting dates subject to the performance conditions and, if the Committee determines, a pro-rata reduction. A good leaver has 12 months to exercise their vested awards structured as options following the cessation of employment.

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 the similar level, with relocation expenses/arrangements provided if necessary. In the case of new Executive Directors, individuals will be given a choice of either participation in a defined contribution pension scheme or a cash allowance in lieu of pension.

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 CEO an aggregate maximum of 360% of salary – 160% annual bonus and up to 200% for LTIP, for the Chief Financial Officer an aggregate maximum of 335% of salary – 135% annual bonus and up to 200% for LTIP). 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 company), 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 (e.g. the likelihood of achieving those) and timing (e.g. where the award is in the vesting cycle). Buyout awards, if used, will be granted using 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 the Listing Rules (provision 9.4.2.). The Committee has placed a maximum limit on any such buyout awards which it may be necessary to make; these will not exceed the commercial value of the amount forfeited from the previous employer.

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.

Executive Director remuneration (subject to audit)

The table below reports a single figure of total remuneration for each of the Executive Directors and former Executive Director for the financial year ended 31 March 2018 and their comparative figures for the financial year ended 31 March 2017.

	Year	Salary	Benefits	Annual bonus	LTIP	Pension	Total
Phil Bentley	**2018**	**£900,000**	**£22,549**	–	–	**£180,000**	**£1,102,549**
	2017	£375,000	£29,073	–	–	£75,000	£479,073
Paul Woolf	**2018**	**£166,136**	**£686**	–	–	**£16,614**	**£183,436**
	2017	–	–	–	–	–	–
Former Director							
Sandip Mahajan	**2018**	**£197,576**	**£10,140**	–	–	**£39,515**	**£247,231**
	2017	£44,000	£2,063	–	–	£8,800	£54,863
Total remuneration	**2018**						**£1,533,216**
	2017						£533,936

Notes.

Paul Woolf joined the Company and Board as Chief Financial Officer on 13 November 2017. The information in the table above confirms his earnings as an Executive Director from this date.

Sandip Mahajan stepped down from the Board on 13 November 2017, having been appointed to the Board on 10 February 2017. The information in the table above confirms his earnings between these dates as an Executive Director.

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

Bonus payable in respect of the financial year includes any deferred element at face value at the date of award. Further information about how the level of the award for the year ended 31 March 2018 was determined is provided on pages 102 and 103.

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

Non-Executive Director remuneration (subject to audit)

The fees for the Non-Executive Directors for the financial year ended 31 March 2018 and their comparative figures for the financial year ended 31 March 2017 are set out below:

	2018[1] £'000	2017 £'000
Derek Mapp[2]	**201**	–
Roger Matthews[3]	**62**	185
Larry Hirst	**59**	59
Jack Boyer	**60**	60
Mark Reckitt	**60**	60
Nivedita Krishnamurthy Bhagat[4]	**43**	–
Jennifer Duvalier[5]	**35**	–
Mary Reilly[6]	**30**	–
Philippa Couttie[7]	**20**	–
Roger Yates[8]	**5**	–
Total	**575**	364

Notes:

1. All amounts were paid in cash and no other benefits were received in the year.
2. Derek Mapp joined the Board on 9 May 2017 as Chairman-elect and took over as Chairman and Chairman of the Nomination Committee at the AGM on 26 July 2017.
3. Roger Matthews stepped down as Chairman at the AGM on 26 July 2017.
4. Nivedita Krishnamurthy Bhagat joined the Board on 1 June 2017.
5. Jennifer Duvalier joined the Board at the AGM on 26 July 2017.
6. Mary Reilly joined the Board on 1 September 2017.
7. Philippa Couttie joined the Board on 15 November 2017.
8. Roger Yates joined the Board on 1 March 2018 as Senior Independent Director-elect.

Base salary and benefits

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

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

Commencing 18 January 2017, the annual base salary for Sandip Mahajan was £320,000.

A review of Non-Executive Director fees was undertaken by the Board in March 2018 which resulted in no change to fees.

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

Notes:

1. The core fees of £52,000 per annum paid to each Non-Executive Director (including the Chairman) will total £399,000 for the year ending 31 March 2019. Total fees including additional duties are expected to amount to £597,000 for the year ending 31 March 2019 (£575,000 actual for the year ended 31 March 2018).
2. 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 a chairman or is a member of other Committees. The fee shown for 2018 was the annual fee for Derek Mapp.
3. For Non-Executive Directors, individual fees comprise the core fee and additional supplemental fees for the Senior Independent Director and for chairing Committees where greater responsibility and time commitment are required.

Benefits are as described in the remuneration policy table. No changes are planned for the year ending 31 March 2019.

Annual Bonus Plan

Awards in respect of the year ended 31 March 2018 were considered under the Annual Bonus Plan. Phil Bentley was eligible for a maximum bonus opportunity of 160% of base salary. On joining the Company in November 2017, Paul Woolf became eligible for a pro-rata bonus for a maximum opportunity of 120% of base salary. Sandip Mahajan was originally eligible for a maximum bonus opportunity of 100% of base salary but following his stepping down as Chief Financial Officer in November 2017 is no longer eligible to receive a bonus under Mitie's Annual Bonus Plan for the year ended 31 March 2018. He may be eligible for an alternative discretionary bonus at a reduced level for his contribution to the Company since stepping down from his role as Chief Financial Officer.

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

Whilst Phil and Paul were eligible to receive a bonus, mindful of shareholders' experience over the year, they requested that they should not be considered for bonuses and this waiver was accepted by the Committee. However, for the purposes of the performance assessment under the November 2016 LTIP award made to Phil Bentley, it is deemed that a bonus has been achieved in respect of the year ended 31 March 2018 and therefore bonus in one of the three years has been achieved to date.

The table below therefore reflects the out-turn of 38.0% which would otherwise have been determined as the outcome had it not been for the bonus waiver. As the financial performance ranges excluded the impact of IFRS 15, the formulaic out-turn has been assessed on FY18 results before the impact of IFRS 15:

Performance measure	Weighting	Performance range	Out-turn
Operating profit	50% of the award	£85.8m threshold £95.3m target £100.0m maximum	The out-turn was £77.1m resulting in a hypothetical outcome of 0% of the maximum for this element, being 0% of the maximum bonus opportunity.
Revenue	20% of the award	£2.00bn threshold £2.23bn target £2.33bn maximum	The out-turn was £2.199bn resulting in a hypothetical outcome of 65% of the maximum for this element, being 13.0% of the maximum bonus opportunity.
Customer Net Promoter Score	15% of the award	+1pts threshold +3pts target +5pts maximum	The out-turn was +17pts resulting in a hypothetical outcome of 100% of the maximum for this element, being 15% of the maximum bonus opportunity.
Strategic objectives	15% of the award	–	The Committee set strategic objectives relating to: customers; costs; financial; people; technology; governance; and processes as set out below. The Committee considered that the objectives had been substantially met and that 10% out of a possible 15% of the award would otherwise have been awarded to the CEO and CFO.

The strategic objectives set for the CEO and CFO were as follows:

CEO

Strategic objectives	
Customers	Launch 'Beyond FM' strategy and win shareholder support for portfolio rationalisation; and complete lifetime value analysis by customer and agree segmentation/strategic account management approach.
Costs	Identify a £50m run rate on savings by leading the transformation of the Group's cost base.
Financial	Restore balance sheet debt/equity financing strength.
People	Rebuild new Executive Leadership Team; inculcate new team values and culture and replace Mitie earnout Model.
Technology	Launch technology solutions (i) within Mitie office footprint to showcase Mitie's credentials; (ii) to simplify Mitie's internal processes to improve customer service; and (iii) to build a 'Connected Workspace' capability.

CFO

Strategic objectives	
Governance	Create reputation for strong control environment and robust guardianship; and ensure capital structure is robust, sustainable and can underpin the wider strategy.
Processes	Establish 'Single Mitie Way' process models and implement them with high levels of compliance.
Costs	Identify a £12m run rate on savings by leading the transformation of the Group's Finance function.
People	Recruit and promote the best available finance talent; ensure they are highly engaged and demonstrate continuous improvement.
Technology	Establish a coherent finance technology/systems landscape that has a low cost of running and is robust.

The bonus structure and assessment reflecting the waiver 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	33.6	78.4	112.0	0	14.4	33.6	48.0	0	0	0	0
Paul Woolf[1]	25.2	58.8	84.0	0	10.8	25.2	36.0	0	0	0	0
Sandip Mahajan	21.0	49.0	70.0	0	9.0	21.0	30.0	0	0	0	0

Note:

1. Paul Woolf's salary percentages reflect his bonus opportunity before pro-rating.

The Annual Bonus Plan will be operated on similar terms for the year ending 31 March 2019. Phil Bentley's maximum bonus opportunity for FY19 will remain at 160% of base salary and Paul Woolf's at 120% of base salary. Awards will be payable by reference to performance against a blend of financial (70% of the bonus opportunity) and strategic targets (the remaining 30%). However, if none of the financial targets have been achieved, no bonus will be payable by reference only to the strategic targets. 50% of any bonus entitlement will be deferred. The targets are at present commercially sensitive and so are not disclosed in this report. However, as above, details of the targets will be disclosed in next year's report.

LTIP awards granted in 2017

Awards granted in 2017 were subject to the same structure as the LTIP awards made in July 2016. The awards will vest in 2020 depending on performance. The performance conditions applicable to the 2017 awards are as follows:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2020)
Earnings Per Share (EPS) growth	25% of the award	5% – 10% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 5% pa. If EPS growth is equal to 5% pa, 25% of the award will vest. If Mitie achieves 10% EPS growth pa, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis.
Relative Total Shareholder Return (TSR)	20% of the award	Outperformance against the Business Support Services subsector of the FTSE 350 Support Services index (the Benchmark)	Zero vesting if Mitie's TSR growth is less than the median of the Benchmark. If Mitie's TSR growth is equal to the median of the Benchmark, 25% of the award will vest and if it exceeds the Benchmark median TSR by 10% pa or more, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis. An underpin condition for underlying financial performance also applies.
Strategic objectives	25% of the award		Zero vesting if the strategic objectives are not met. Straight line vesting between zero and maximum based on Remuneration Committee assessment of performance against objectives.
Cash conversion	30% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At 75%, 25% of the award will vest. 70% of the award will vest if Mitie achieves 80%. Full vesting for this portion will occur if 85% pa is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.

The strategic objectives are linked to the Company's strategy and include objectives relating to: customers; costs; financial; people; and technology. Financial performance targets for the 2017 LTIP award were set before the Company adopted IFRS 15 with effect from 1 April 2017. To reflect the impact of IFRS 15, the Committee will consider adjusting EPS and cash conversion targets appropriately, ensuring that they are not materially easier or harder to satisfy than the original targets. Any amended targets determined by the Committee will be disclosed to shareholders in the next Directors' remuneration report.

What was granted in 2017 (subject to audit)

	Award	Type	Number of shares	Face value (£'000)	% of salary	Performance conditions	Performance period	% vesting at threshold
Phil Bentley	Performance LTIP Jul 17	Nil-cost options	669,393[1]	1,800.0	200%	Performance conditions are set out in the table above	Three financial years ending 31 March 2020	25%
Paul Woolf	Performance LTIP Nov 17	Nil-cost options	143,269[2]	322.5	75%			
Sandip Mahajan	Performance LTIP Jul 17	Nil-cost options	148,754[1]	400.0	125%			

Notes:

1. Number of shares was calculated based on the average closing share price for up to five business days preceding the date of grant giving a share price of 268.9p.
2. Number of shares was calculated based on the average closing share price for up to five business days preceding the date of grant giving a share price of 225.1p.

The performance conditions that are to apply to awards made in 2018 will be simplified to two measures: (i) EPS; and (ii) cash conversion, each accounting for 50% of the award. The grant of these awards to the Executive Directors will be made following the 2018 AGM. Target ranges for 2018 LTIP awards will be set by the Committee and disclosed in our stock exchange announcement detailing the grants. All Executive Director awards will be subject to a post-vesting holding period of two years.

Details of LTIP vesting in July 2018 (2015 award)

As disclosed in 2017's Annual Report on Remuneration, in accordance with the rules of the relevant LTIP, accelerated vesting applied to the 2015 (and 2016) LTIP grants for Ruby McGregor-Smith and Suzanne Baxter. The Committee determined that these awards should lapse in their entirety following exercise of negative discretion by the Committee. No current Executive Director has 2015 LTIP awards.

The Committee assessed the outcome of the 2015 LTIP awards (based on FY18 results before the impact of IFRS 15) granted to senior management under the plan in operation at the time against a basket of performance measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2018)
Earnings Per Share (EPS) growth	20% of the award	3% – 8% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 3% pa. If EPS growth is equal to 3% pa, 25% of the award will vest. If Mitie achieves 8% EPS growth pa, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis.
Relative Total Shareholder Return (TSR)	20% of the award	Outperformance against FTSE 350 Support Services index	Zero vesting if Mitie's TSR growth is less than the median of the index. If Mitie's TSR growth is equal to the median of the index, 25% of the award will vest and if it exceeds the index median TSR by 10% pa or more, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis. An underpin condition for underlying financial performance also applies.
Organic revenue growth	30% of the award	3% – 6% pa with a financial underpin based on the achievement of target margin of 5.5% pa	Zero vesting if organic revenue growth is less than 3% pa. If organic revenue growth is equal to 3% pa, 25% of the award will vest. If Mitie achieves 6% organic revenue growth pa, all the awards will vest. Between these two points, the proportion of awards vesting will be determined on a linear sliding scale basis. Entire portion of award is subject to Mitie achieving an average 5.5% margin in the performance period.
Cash conversion	30% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At 75%, 25% of the award will vest. 70% of the award will vest if Mitie achieves 80%. Full vesting for this portion will occur if 85% pa is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.

The Committee determined that the 2015 awards should lapse in their entirety following exercise of negative discretion by the Committee.

Loss of office payments (subject to audit)

On 13 November 2017, Sandip Mahajan ceased to be a Director of Mitie Group plc and took up the role of Chief Financial Transformation Officer. Sandip is expected to remain an employee until 12 November 2018. A summary of Sandip's departure terms was made available on the Company's website in the relevant Section 430(2B) Companies Act 2006 statement.

For the period to 12 November 2018, Sandip will receive his salary and contractual benefits. Sandip will not be eligible to receive a bonus under Mitie's Annual Bonus Plan for the year ended 31 March 2018 (which afforded him a maximum bonus opportunity of 100% of base salary). He may be eligible for an alternative discretionary bonus at a reduced level for his contribution to the Company since he stepped down as Chief Financial Officer. Options over 148,754 shares awarded under the LTIP will be pro-rated by reference to his period of total employment and vest subject to performance conditions and the rules of the LTIP. Sandip will not be eligible to receive further grants under Mitie's LTIP. Legal fees of up to £1,000, excluding VAT, will be paid directly to Sandip's legal advisors. If Sandip or the Company elects to terminate his employment before 12 November 2018, then he will receive salary and contractual benefits in lieu of notice to that date subject to mitigation in the event that Sandip takes up a remunerated executive position elsewhere prior to 12 November 2018. No other payments will be made.

Payments to past Directors (subject to audit)

In last year's report, the Remuneration Committee noted that, as a consequence of prior year adjustments to the accounts for the financial year ended 31 March 2016, it would determine what rights might be available to the Company to recover the bonus and other awards made to each of Ruby McGregor-Smith and Suzanne Baxter in respect of FY16. The matters which gave rise to the prior year adjustments are now the subject to the ongoing investigation by the Financial Conduct Authority (FCA), which the Company disclosed in its announcement on 29 August 2017. In that announcement, the Company reported that the FCA had commenced an investigation in connection with the timeliness of a profit warning announced by the Company on 19 September 2016 and the manner of preparation and content of the Company's financial information, position and results for the period ended 31 March 2016. The Company has been advised by its external lawyers that as any claim against Ruby McGregor-Smith and Suzanne Baxter would cover the same matters, facts and circumstances which are the subject of the FCA investigation, any formal steps to recover bonuses or other awards should be deferred until after the FCA have reached their findings. It is currently anticipated that the FCA will conclude its investigation during the course of FY19.

No payments have been made to past Directors other than as previously disclosed in last year's report. A total contribution of £76,000 and £70,000, excluding VAT, was paid to Ruby McGregor-Smith and Suzanne Baxter respectively in respect of legal and outplacement fees incurred in connection with their departures.

Change in CEO pay for the year compared to UK salaried employees

The table below sets out the change in remuneration of the Chief Executive and Mitie's UK salaried non-contract population, which is considered the most appropriate group for comparison purposes.

%	Salary	Benefits	Bonus
Chief Executive[1]	0.0%	-24.9%	0.0%
Average pay based on Mitie's UK salaried non-contract employees[2]	4.2%	11.3%[3]	2.2%

Notes:

1. Phil Bentley became Chief Executive from 12 December 2016. To facilitate a year-on-year comparison, the change in CEO percentage shown is the change in Phil Bentley's salary, benefits and bonus between FY17 and FY18 on an annualised basis.
2. Reflects the change in average annual pay for salaried non-contract UK employees employed throughout the two financial years ended 31 March 2018. Salaried non-contract employees are those who are employed directly by Mitie Group and whose roles are not dedicated to the provision of client services.
3. Includes car/car allowance, private medical benefit and private fuel.

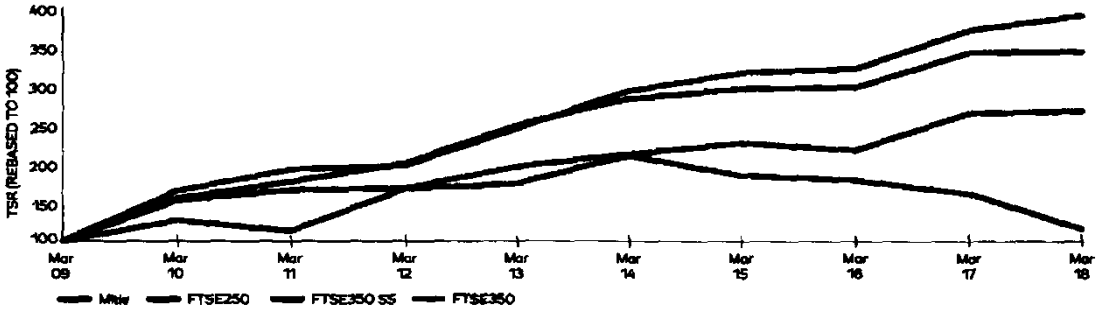
Relative spend on pay

The table below shows the total cost of remuneration in the Group, compared with the dividends distributed and share buybacks.

	Year ended 31 March 2018 £m	Year ended 31 March 2017 £m	Change
Aggregate employee remuneration	1,119	1,174	-4.7%
Equity dividends and share buybacks	5	62	-91.9%

Assessing pay and performance

The table below provides a summary of the Chief Executive's single figure remuneration over the past nine years, as well as the pay-out and vesting levels of variable pay plans in relation to the maximum opportunity. The chart below shows the historical TSR performance over the same period. These indices (FTSE 250, FTSE 350 Support Services and FTSE 350) have been chosen as they are widely recognised and Mitie has been a member of these indices during the period:

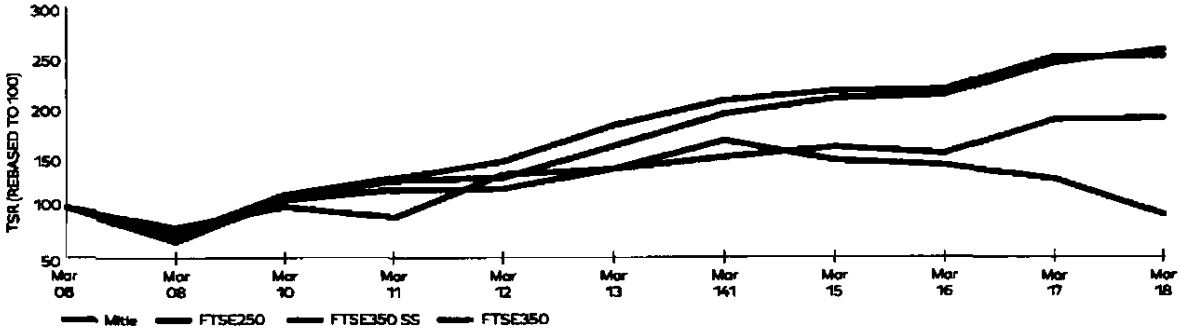


	2010	2011	2012	2013	2014	2015	2016	2017 Ruby McGregor-Smith[1]	2017 Phil Bentley[1]	2018
Single figure remuneration	£1,703,031	£2,324,443	£2,431,773	£2,105,131	£1,447,266	£1,525,824	£2,448,161	£530,628	£479,073	£1,102,549
Annual bonus element (actual as a % of max)	100%	100%	100%	85%	90%	50%	73%	0%	waived	waived
LTIP element (actual vesting as a % of max)	100%	100%	87.2%	57.2%	0%	25%	69.5%	0%	n/a	n/a

Note:

1. Ruby McGregor-Smith stepped down as Chief Executive on 12 December 2016. Phil Bentley joined the Board on 1 November 2016 and assumed the position of Chief Executive on 12 December 2016. The figures above include Phil Bentley's remuneration from 1 November 2016.

The reporting requirements state that the time period for the above TSR chart should be lengthened to ten years over time and we have therefore included a ten-year chart below:



Share ownership (subject to audit)

	Number of shares owned as at 31 March 2018[1]	Value of target holding	Target shareholding	Percentage of salary held as at 31 March 2018	Percentage of target achieved as at 31 March 2018	Compliance with share ownership guidelines
Phil Bentley[2]	1,852,656	£1,800,000	926,328	400%	200%	Achieved
Paul Woolf[3]	48,967	£860,000	400,037	24%	12%	Not achieved but compliant
Sandip Mahajan[4]	0	£640,000	297,702	0%	0%	Not achieved but compliant

Notes:

1. Includes shares owned by connected persons.
2. Value of target holding is 200% of base salary for Phil Bentley. In accordance with Phil Bentley's service contract, he acquired shares worth 400% of salary on 21 November 2016. His target shareholding is the value of his target holding divided by the share price of 194.3p on 21 November 2016.
3. In accordance with the Company's share ownership policy, Paul Woolf is required to build and maintain, through the retention of vested share options, a shareholding of 200% of base salary. His target shareholding is calculated using the average closing share price of 215.0p for the five business days prior to the start of the financial year ended 31 March 2018.
4. Value of target holding is 200% of base salary for Sandip Mahajan. His target shareholding is calculated using the average share price of 215.0p for the five business days prior to the start of the financial year ended 31 March 2018. Sandip resigned from the Board on 13 November 2017; his shareholding above is at that date.

Directors' outstanding share interests (subject to audit)

The following tables provide the outstanding share interests for the Executive Directors:

Directors' interests in nil-cost options granted under the Mitie Group plc 2015 Long Term Incentive Plan

	Year of grant	Options outstanding as at 31 March 2017	Granted in year[2]	Lapsed in year	Exercised in year	Options outstanding as at 31 March 2018[3]	Exercise price	Earliest normal exercise date[4]
Phil Bentley	Nov 2016[1]	879,077	–	–	–	**879,077**	Nil-cost	May 2020
	Jul 2017	–	669,393	–	–	**669,393**	Nil-cost	Jul 2020
Paul Woolf	Nov 2017	–	143,269	–	–	**143,269**	Nil-cost	Nov 2020
Sandip Mahajan[5]	Jul 2017	–	148,754	–	–	**148,754**	Nil-cost	Jul 2020

Notes:

1. The performance criteria applicable to the November 2016 award run to 31 March 2020 and are linked to the achievement of a bonus payment in the three financial years ending 31 March 2020. If Phil earns a bonus in one of these years 25% of the award vests, 67% vests if a bonus is earned in two of the years and 100% vests if a bonus is earned in all three years.
2. The performance criteria applicable to the 2017 awards are provided on page 104.
3. The market price of the Company's shares as at 31 March 2018 was 159.0p. The highest and lowest prices during the year were 297.2p and 148.6p respectively.
4. Awards are subject to an additional holding period.
5. Sandip Mahajan resigned from the Board on 13 November 2017; his outstanding share interests above are at that date.

Directors' share ownership

	Number of ordinary shares beneficially owned as at 31 March 2018 (or date of cessation if earlier)	Number of ordinary shares beneficially owned as at 31 March 2017 (or date of appointment if later)
Executive Directors		
Phil Bentley	**1,852,656**	1,852,656
Paul Woolf[1]	**48,967**	0
Sandip Mahajan[2]	**0**	0
Non-Executive Directors		
Derek Mapp[3]	**140,000**	0
Larry Hirst	**25,000**	25,000
Jack Boyer	**5,000**	5,000
Mark Reckitt	**4,000**	4,000
Nivedita Krishnamurthy Bhagat[4]	**0**	0
Jennifer Duvalier[5]	**18,469**	18,469
Mary Reilly[6]	**0**	0
Philippa Couttie[7]	**0**	0
Roger Yates[8]	**0**	0
Roger Matthews[9]	**100,000**	100,000

Notes:

1. Paul Woolf was appointed to the Board on 13 November 2017.
2. Sandip Mahajan resigned from the Board on 13 November 2017; his shareholding above is shown at that date and at 31 March 2017.
3. Derek Mapp was appointed to the Board on 9 May 2017.
4. Nivedita Krishnamurthy Bhagat was appointed to the Board on 1 June 2017.
5. Jennifer Duvalier was appointed to the Board at the AGM on 26 July 2017.
6. Mary Reilly was appointed to the Board on 1 September 2017.
7. Philippa Couttie was appointed to the Board on 15 November 2017.
8. Roger Yates was appointed to the Board on 1 March 2018.
9. Roger Matthews resigned from the Board on 26 July 2017; his shareholding above is shown at that date and at 31 March 2017.

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 2018

	Dilution
All share plans (maximum 10%)	6.5%
Discretionary share plans (maximum 5%)	3.2%

Shareholder voting

Mitie remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Executive Directors' remuneration, the Group seeks to understand the reasons for any such vote, and will detail here any actions in response to it.

A resolution to approve the Directors' remuneration policy as set out in the Company's Annual Report for the year ended 31 March 2015 was passed at the Company's 2015 AGM. The Company's revised remuneration policy as set out on pages 93 to 100 will be put to the Company's 2018 AGM. At the Company's 2017 AGM, a resolution was passed to approve the 2017 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	Votes withheld[1]
2015 Directors' remuneration policy – 2015 AGM	205.1m	14.0m	21.4m
	93.6%	6.4%	–
2017 Directors' remuneration report – 2017 AGM	246.3m	21.2m	9.7m
	92.1%	7.9%	–

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. FIT Remuneration Consultants (FIT) were appointed by the Committee in December 2013 to provide independent advice on executive remuneration. Following a retender process and the resignation of Deloitte LLP as Mitie's auditor, the Committee appointed Deloitte LLP as independent remuneration advisors in 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 £88,752, being £30,252 for FIT and £58,500 for Deloitte LLP (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 was objective and independent, given that no other services were provided to the Company.

The Directors present their annual report, together with the audited financial statements of the Group and the Company, for the year ended 31 March 2018.

The following information is incorporated into the Directors' report: other disclosures by reference:

- Strategic report on pages 1 to 57;
- The Chairman's introduction to corporate governance on pages 64 and 65;
- The Board report on pages 66 to 71;
- Audit Committee report on pages 72 to 83;
- Nomination Committee report on pages 84 and 87;
- Directors' remuneration report on pages 88 to 109;
- Directors' responsibilities statement on page 116; and
- Notes to the financial statements as detailed in this section.

For the purposes of compliance with paragraphs 4.1.5R(2) and 4.1.8R of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the strategic report and this Directors' report: other disclosures (including the sections of the Annual Report and Accounts incorporated by reference) comprise the management report.

Principal Group activities

The Company is the holding company of the Group. The principal activity of the Company is to provide management services to the Group. The Group's activities are focused on the provision of strategic outsourcing services. The detailed strategy for the Group can be found on page 15 of the Strategic report. Further details of the subsidiary undertakings of the Company are listed in Note 40 to the financial statements.

The Group operates in the UK, the Republic of Ireland, Guernsey, Jersey, Germany, France, Finland, Norway, Sweden, the Netherlands, Spain, Poland, Switzerland, Belgium, Nigeria, Kenya, Ghana and the UAE.

Shares and shareholders

Share capital and powers of shareholders

The Group is financed through both equity share capital and debt instruments. Details of the Company's share capital are given in Note 31 to the financial statements and the detail of its debt instruments is set out in Note 26 to the financial statements.

The Company has a single class of shares being 2.5p ordinary shares ('Ordinary Shares'). Ordinary Shares have no right to any fixed income and each Ordinary Share has the right to one vote per share at general meetings of the Company. Under the Company's Articles of Association (the 'Articles'), holders of Ordinary Shares are entitled to participate in any dividends pro-rata to their holding.

In accordance with the Articles, the Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the AGM. A final dividend may be declared by the shareholders in a general meeting by ordinary resolution, but such dividend cannot exceed the amount recommended by the Board.

The Articles can be amended in accordance with their provisions, the Companies Act 2006 and related legislation. A copy of the Articles is available at www.mitie.com/investors/corporate-governance.

Powers of the Company to issue or buy back its own shares

At the 2017 AGM, shareholders authorised:

- the Directors to allot Ordinary Shares up to an aggregate nominal amount of £3,001,210, representing one-third of the issued share capital (excluding treasury shares) as at 7 June 2017, and up to a further aggregate nominal amount of £3,001,210, in connection with an offer by way of a rights issue;
- the dis-application of pre-emption rights over allotted shares up to an aggregate nominal value equal to £450,181, equating to 5% of Mitie's issued share capital (excluding treasury shares) and 4.88% of the issued share capital including treasury shares, each as at 7 June 2017;
- the dis-application of pre-emption rights over allotted shares up to an aggregate nominal value of £450,181, equating to 5% of Mitie's issued share capital (excluding treasury shares) and 4.88% of the issued share capital including treasury shares, each as at 7 June 2017, in connection with the financing (or refinancing, if the authority is to be used within six months of the original transaction) of an acquisition or specified capital investment; and
- the Company to make market purchases of its own shares up to a total of 36,014,523 Ordinary Shares (representing 10% of the issued share capital as at 7 June 2017 (excluding treasury shares)).

These standard authorities will expire on 30 September 2018 or at the conclusion of the AGM in 2018, whichever is the earlier. Further details of these authorisations are available in the notes to the Notice of 2017 AGM and shareholders are referred to the Notice of 2018 AGM, which contains similar provisions in respect of the Company's share capital (available at www.mitie.com/investors/shareholder-information).

The Company acknowledges that, whilst the following resolutions were passed, a significant number of votes were received against each of them at the 2017 AGM as follows:

- directors' authority to allot (32.92%)
- disapplication of pre-emption rights (23.18%)
- additional authority to disapply pre-emption rights (20.25%).

Shareholder consultation was undertaken during the year, and the Company continues to engage with those shareholders who either withheld their vote, or voted against these resolutions, to improve understanding and, if possible, allay any such concerns for the future.

Further, at the 2018 AGM, the Directors intend to seek authority to allot shares up to an amount representing 10% of the issued share capital (excluding treasury shares) only.

During the year, the Directors utilised the above authorities to allot 4,593,089 Ordinary Shares to an aggregate nominal amount of £114,827 to minority shareholders in consideration for shares purchased in connection with Mitie Model Investments (further information is contained in Note 33 to the financial statements).

The Company chose not to undertake any market purchases of its own shares during the year.

Following the exercise of awards under the Mitie Group plc 2011 Save As You Earn Scheme and the Mitie Group plc 2001 and 2011 Executive Share Option Schemes 1,531,985 Ordinary Shares were distributed from treasury. The total number of Ordinary Shares held by the Company in treasury as at 31 March 2018 therefore reduced to 7,748,108 (representing 2.1% of the issued share capital of the Company as at 31 March 2018).

Significant interests in the Company's share capital

As at 31 March 2018, the Company had been notified of the following significant holdings of voting rights in its Ordinary Shares under the Disclosure Guidance and Transparency Rules:

	Number of Ordinary Shares	% of share capital at the date of notification
Silchester International Investors LLP	62,210,238	17.00%
Aggregate of Standard Life Aberdeen PLC	39,937,487	10.91%
FMR LLC	18,792,147	5.14%
Harris Associates L.P.	18,393,003	5.12%
Brandes Investment Partners LP	18,117,242	5.05%
Heronbridge	18,366,728	5.00%

Changes that have occurred between the end of the period under review and 5 June 2018, the latest practicable date before approval of the report, are as follows:

	Number of Ordinary Shares	% of share capital at the date of notification
FMR LLC	19,684,002	5.38%

Details of the Directors' interests in the Company's share capital are set out in the Directors' remuneration report on pages 107 and 108.

Restrictions on the trading of Mitie shares

Certain Ordinary Shares issued in consideration for the acquisition by the Company of shares held by minority shareholders in subsidiaries of the Group under the Mitie Model have contractual restrictions placed upon them. These restrictions prevent recipients from selling those Ordinary Shares and/or attach claw-back provisions, which typically apply for a maximum period of two years from allotment.

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.

The Directors are not aware of any agreements entered into by Company shareholders that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital.

The Group operates a Share Trading and Insider Dealing Procedure which provides a framework to identify persons who may have access to inside information relating to the Company and explains the rules applicable to them for dealing in Company shares. Individuals who may have access to such information are informed individually and required to read, understand and follow the procedure.

Employee share schemes and plans

Details of employee share schemes and long-term incentive plans are set out in Note 36 to the financial statements. Details of awards made during the year to, and held by, Executive Directors are set out in the Directors' remuneration report on pages 104 and 108.

Shareholder engagement

The Board is committed to an ongoing, proactive dialogue between the Company and its shareholders. A full programme, led by the Chief Executive Officer and Chief Financial Officer with support from the Investor Relations team, of formal and informal events, institutional investor meetings and presentations is held throughout the year in order to maintain regular dialogue. This programme 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 corporate governance issues.

The Board receives an investor relations report at each Board meeting detailing corporate news, share price performance, sell-side coverage, investor relations activity and major movements in the share register. The Board is also regularly updated and is provided with investor feedback, stockbroker updates and detailed analyst reports following the half-year and full-year results presentations. The Chairman is responsible for ensuring that the Board is made aware of the issues and concerns of the major shareholders.

The Chairman and Senior Independent Director are available for additional meetings with shareholders upon request. The Board encourages an ongoing dialogue between the Directors and investors and all Directors were present at the 2017 AGM.

Latest Group information, financial reports, corporate governance and sustainability matters, half-year and full-year results presentations, major shareholder information and all announcements are made available to shareholders via the Mitie website (www.mitie.com) which has a specific area dedicated to investor relations.

Significant agreements – change of control

There are a number of agreements with provisions that take effect, alter or terminate upon a change of control of the Company, such as bank facility agreements and other financial arrangements and employee share scheme rules. None of these are considered to be significant in terms of their likely impact on the normal course of business of the Group. The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs solely because of a change of control.

Directors

Board of Directors

The members of the Board, and their biographical details (including details of Committee chairmanships and other positions held), are set out on pages 60 to 63. To comply with the UK Corporate Governance Code (the Code), the Directors with the exception of Larry Hirst and Mark Rackitt will submit themselves for election or re-election at the AGM on 31 July 2018 and details are provided in the Notice of AGM which is available at www.mitie.com/investors/shareholder-services.

During the year, Non-Executive Director independence was considered by the Board. The Board determined that, as at 31 March 2018, all Non-Executive Directors were independent in mind and judgement and free from any material relationship that could interfere with their ability to discharge their duties effectively.

Director development

The Chairman meets with both the Executive and Non-Executive Directors to discuss specific director development and training needs. The annual Board evaluation also addresses these requirements and ensures that the appropriate level of knowledge, understanding and expertise is maintained on the Board.

Director appointments

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the Code, the Companies Act 2006 and related legislation.

Directors' conflicts of interest

The Board has a formal policy on the declaration and management of Directors' conflicts of interests, in accordance with the Articles, which has operated effectively during the year. Any potential situation or transactional conflict must be reported as soon as possible to the Chairman, the Chief Executive Officer and the Company Secretary. Where a potential conflict is authorised (under the statutory powers and powers granted under the Articles to the Board), such conflict is kept under ongoing review.

Director indemnities

The Group maintains directors' and officers' liability insurance, providing appropriate cover for any legal action brought against its directors and/or officers. The Articles extend the protection provided to directors in respect of any litigation against directors relating to their position as a director of the Company, and specifically provide that the Company may indemnify directors against any liability incurred in connection with any negligence, default, breach of duty or breach of trust in relation to the Company and that the Company may fund defence costs.

Accordingly, in line with best practice, deeds of indemnity have been executed indemnifying each of the Directors and the Company Secretary in respect of their positions as officers of the Company, in addition to the directors' and officers' insurance cover. The indemnities, which constitute a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006, remain in force for all current Directors and the Company Secretary.

Indemnities of the same, or similar form have also been executed indemnifying a number of directors of the Group's subsidiaries.

Individual Directors would still be liable to pay damages awarded to the Company in any action against them by the Company, to pay any criminal or regulatory fines imposed against them and to repay their defence costs (to the extent funded by the Company) if their defence was unsuccessful.

Executive Directors are permitted to accept appointments outside the Group provided permission is sought from the Chairman and the Chief Executive Officer and that the additional appointments do not interfere with the Director's ability to discharge his duties effectively. Neither Phil Bentley nor Paul Woolf held any non-executive positions at companies during FY 2018.

Executive Directors are entitled to retain fees earned from any external appointments. The commitments outside the Group of the Chairman and each Non-Executive Director are detailed on pages 60 to 63.

Statement of the Directors in respect of the Annual Report and Accounts

As required by 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 Company's position and performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including the following:

- the Annual Report and Accounts is drafted by senior management with overall co-ordination by the General Counsel and Company Secretary to ensure consistency across the relevant sections;
- a review is undertaken to assess whether the Annual Report and Accounts is fair, balanced and understandable using a set of pre-defined indicators (such as consistency with internally reported information, investor communications and relative performance in the industry);
- comprehensive reviews of drafts of the Annual Report and Accounts are undertaken by the Executive Directors and other senior management;
- an advanced draft is reviewed by the General Counsel and Company Secretary and external advisors; and
- the final draft is reviewed by the Audit Committee prior to consideration by the Board.

Employees and communications with employees

Details of Mitie's employment policies, consultation practices and how it communicates with its employees are included in the Sustainability and People sections of our website.

Disabled persons

Details of the Group's approach to employing, training and developing the careers of disabled people can be found in the Sustainability section of our website.

Future developments

The Strategic report sets out the Board's view on the future development of the Group.

Research and development

Given the nature of the Group's activities, it does not carry out any material research and development work.

Political donations

The Company included a resolution in its 2017 Notice of AGM in relation to the ability to make political donations. Although Mitie's long-standing policy of not making any political donations will continue, it is possible that certain routine activities (including charitable donations) undertaken by Mitie might unintentionally fall within the wide definition of payments constituting political donations and expenditure as set out in the Companies Act 2006. The resolution, which was duly passed, granted the Company the relevant statutory authority until the 2018 AGM subject to a total aggregate cap for Mitie and its subsidiary companies of £50,000.

Finance

Financial results and dividends

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 44 to 49.

The loss before tax from continuing operations for the financial year is £24.7m (2017: £58.2m loss).

The Directors declared an interim dividend of 1.33p per Ordinary Share (2017: 4.0p) with a total value of £4.8m (2017: £14.1m) which was paid to shareholders on 7 February 2018. The Directors recommend a final dividend of 2.67p per Ordinary Share with a total value of £9.8m (2017: £nil) based upon the number of shares in issue as at 5 June 2018. The final dividend for the year will be paid on 6 August 2018, subject to shareholder approval at the 2018 AGM, to shareholders on the register on 22 June 2018. The total dividends per Ordinary Share for the year ended 31 March 2018 is 4.0p (2017: 4.0p).

The Company operates a Dividend Re-Investment Plan (DRIP) which allows shareholders to build their holding by using the cash dividend to purchase additional ordinary shares in Mitie. Further details on the operation of the DRIP and how to apply can be found in the Shareholder information section and are available from Mitie's Registrar.

During the year, the trustees of the Company's Employee Benefit Trust waived dividends on Ordinary Shares held by the trust.

Financing liabilities

The Group's financial instruments include bank borrowing facilities, finance leases, overdrafts, US private placement loan notes and performance guarantees. Various derivatives 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 27 to the financial statements.

Disclosure of information under Listing Rule 9.8.4

The annual report is required to contain certain information under Listing Rule 9.8.4. Where this information has not been cross-referenced within the Group financial statements, it can be found in the following sections:

Details of long-term incentive schemes	• Directors' remuneration report on pages 88 to 109 and Note 36 to the financial statements
Director's voluntary waiver of emoluments	• Directors' remuneration report page 102
Shareholder waivers of dividends and future dividends	• Directors' report: other disclosures on this page

In respect of shareholder waivers of dividends and future dividends, in addition to the agreement by the trustees of the Mitie Group plc Employee Benefit Trust to waive dividends payable on the Group's shares it holds for satisfying awards under various Mitie Group plc share plans, in accordance with Section 726 of the Companies Act 2006 no dividends can be paid to the Company in respect of the shares it holds in treasury.

The remaining disclosures required by Listing Rule 9.8.4 are not applicable to the Company.

None of the shareholders is considered to be a Controlling Shareholder (as defined in Listing Rule 6.1.2.A).

Going concern

The Directors acknowledge the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014. The Directors have considered principal risks and uncertainties affecting the Group which are described on pages 50 to 57.

The Directors have considered the Group's financial position with reference to latest forecasts and the actual performance for the period. The Group benefits from a well-diversified portfolio of service offerings and has a broad, diverse customer base.

The Group currently operates well within the financial covenants associated with its committed funding lines. These include £191.5m of US Private Placement debt maturing in December 2019, December 2022 and December 2024. The Group also benefits from a committed multi-currency revolving credit facility of £275.0m, which will mature in July 2021. Together with the US Private Placements, this gives the Group total committed funding of £466.5m, of which £219.3m was undrawn at 31 March 2018.

The Group's US Private Placements and bank debt contain certain financial covenants. The primary ratios are net debt to EBITDA and EBITDA to net finance costs. These covenants are tested on a rolling 12-month basis as at the March and September reporting dates. At 31 March 2018, both covenant tests were passed. The Group is forecasting to remain within its banking covenants over the next twelve months and has stress-tested these calculations for reasonable possible adverse variances in trading and cash performance.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months and the foreseeable future. Accordingly, the Group continues to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements.

Viability statement

This statement is detailed in full on page 57.

In accordance with provision C.2.2 of the 2016 edition of the Code, the Directors have assessed the viability of the Group over a three-year period to 31 March 2021 taking into account the Group's current position and the potential impact of the principal risks set out in the Strategic report. Based on this assessment the Directors have a reasonable expectation that the Group is and will continue to be viable.

Disclosure of information to the auditors

Each of the Directors in office as of the date of approval of this Annual Report and Accounts confirms that:

- so far as he/she is aware, there is no relevant audit information (being information required by the Company's auditors in the preparation of their report) of which the Company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

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

Culture

Mitie has appointed a new executive management team and adopted a new strategy. As part of that strategy, a new 'Mitie Way' of doing business and 'One Mitie' unitary approach to working with our clients has been developed. The Mitie Way has many elements including purpose, vision, culture, values and branding. The vision has been defined and launched and seeks to instil One Mitie and Mitie Way approaches to everything we do at Mitie and for our clients. The new culture covers all aspects of the business, from 'who we are' to 'what we do' and 'how we do it' and incorporates the elements of Mitie's existing One Code which includes health and safety, sustainability, diversity and equality, bribery and corruption, conflicts of interest, and financial and non-financial accounting and reporting. The Mitie Way purpose and values are being rolled out across the organisation in 2018.

Greenhouse gas (GHG) emissions

Mitie is committed to reducing its carbon emissions and environmental impact; we believe that to achieve this effective reporting is key as it improves transparency and drives environmental performance.

The Group has continued to report total GHG emissions annually using the financial control approach. Mitie's methodology aligns with Defra's Environmental reporting guidelines and uses the government's GHG reporting conversion factors to quantify emissions.

Absolute emissions reductions have been achieved of 16.4% against our 2010 baseline and 6.7% against previous year.
Our organisational carbon intensity has also decreased by 34.7% against our 2010 baseline year and 5.4% against previous year.
Further information can be found below:

Absolute emissions

Emissions	2009/10 (Baseline)	2016/17	2017/18	% Change against baseline	% Change against previous year
Total Scope 1 (tCO_2e)*	**41,343**	**37,923**	**35,974**	**-13.0%**	**-5.1%**
Emissions from fuel combustion across fleet	40,277	37,128	35,272	-12.4%	-5.0%
Emissions from gas combustion at occupied buildings	1,066	795	702	-34.1%	-11.7%
Total Scope 2 (tCO_2e)	**3,490**	**2,248**	**1,524**	**-56.3%**	**-32.2%**
Emissions from the purchase of electricity across occupied buildings	3,490	2,248	1,524	-56.3%	-32.2%
Total Scope 1 & 2 (tCO_2e)	**44,833**	**40,171**	**37,948**	**-16.4%**	**-6.7%**

Intensity

Emissions ratio	2009/10	2016/17	2017/18	% Change against base year	% Change against previous year
tCO_2e/£m revenue (Scope 1&2)	**26.07**	**17.99**	**17.02**	**-34.7%**	**- 5.4%**

* Refrigerant data has been excluded due to difficulties obtaining accurate data on landlord managed sites, however, this data is not considered material.

90% of total scope emissions can be attributed to the fleet; over the last few years Mitie has focused on improving vehicle efficiency through the use of more efficient vehicles, the installation of telematics and the provision of driver training. Across its buildings the Group has also procured 100% renewable electricity tariffs and made a number of improvements such as the installation of LED lighting.

Further information on these calculations can be found in the GHG Methodology statement available on our website www.mitie.com.

Environmental data

Further details on the Group's environmental performance can be found in the table below:

	2009/10 (Baseline)	2016/17	2017/18	% Change against baseline	% Change against previous year
Electricity consumed across occupied buildings (kWh)	9,091,141	6,624,127	5,540,091	-39.1%	-16.4%
Gas consumed across occupied buildings (kWh)	7,980,537	5,493,067	4,949,461	-38.0%	-9.9%
Fuel used by fleet for business travel (kWh)	184,088,382	168,213,139	154,681,158	-16.0%	-8.0%
Total organisational energy consumption (kWh)	201,160,060	180,330,333	165,170,710	-17.9%	-8.4%
Water consumed across occupied buildings (m3)	29,306	45,214	40,012	36.5%	-11.5%
Total waste generated across occupied buildings (tonnes)	1,436	861	877	-38.9%	1.9%
Total waste to landfill (tonnes)	989	349	336	-66.1%	-3.9%
Total waste recycled (tonnes)	447	512	542	21.2%	5.9%
Recycling rate	31%	59%	62%	+30.7%	+2.3%

Current reporting period

01/04/2017 – 31/03/2018

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. Over the past year, Mitie has donated time and money, raised awareness and funds, and hosted a range of events for local people to participate in and enjoy.

AGM

Mitie's AGM will be held on 31 July 2018 at 11:30am at Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF.

By order of the Board

Peter Dickinson
Company Secretary

6 June 2018

Statement of Directors' responsibilities in respect of the Annual Report, the remuneration report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law and have elected to prepare the Parent 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 they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss for the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable 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 Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or Parent Company will continue in business;
- prepare a Directors' report, a strategic report and Directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the 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 Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Parent Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4.1

The Directors confirm to the best of their knowledge:

- the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the annual report includes a fair review of the development and performance of the business and the financial position of the Group and the Parent Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Phil Bentley
Chief Executive Officer
6 June 2018

Paul Woolf
Chief Financial Officer
6 June 2018

Independent auditor's report to the members of Mitie Group plc

Opinion

We have audited the financial statements of Mitie Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion except for the effects of the matters described in the Basis for qualified opinion paragraph 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 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for qualified opinion

The financial statements have been qualified on the basis that they do not agree with the requirement contained in IAS 1 to present a third balance sheet for the year ended 31 March 2016. Subsequently we have been unable to determine the financial impact of any line item reclassification adjustment that may have arisen from this re-presentation to the income statement for the year ended 31 March 2017. Notwithstanding the foregoing, as described within Note 1 to the basis of preparation for the financial statements, had these adjustments been presented in accordance with IAS 1, they would have had no impact on the reported net assets for the year ended 31 March 2016 or the reported loss for the year ended 31 March 2017.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Conclusions relating to principal risks, going concern and viability statement

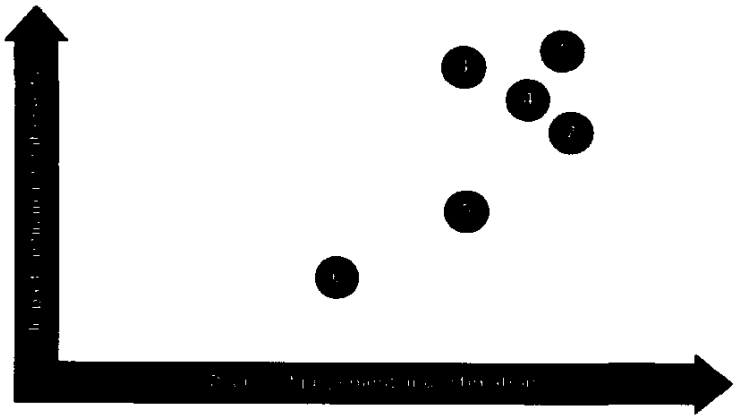
We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 50 to 56 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 70 in the annual report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 113 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 57 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Summary of audit approach

Key audit matters	The key audit matters for the current year and level of judgement are as below: 1. Transition to IFRS 15 *Revenue from contracts with customers* 2. Contractual disputes and provisions 3. Appropriateness of revenue and profit recognition 4. Recoverability of aged or disputed debtors and accrued income 5. Impairment of goodwill in the property management division 6. Presentation of 'other items' in the consolidated income statement

The level of judgement and impact on the financial statements is as follows:



Materiality	We based materiality on profit before other items at £3.4m
Scoping	The scope of Group audit incorporated all component divisions with limited exceptions where desktop review procedures were performed. Our audit testing covered 95% of Group revenue and 95% of Group total assets

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. These matters, which are detailed below, included 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.

Transition to IFRS 15 Revenue from contracts with customers

Matter identified	How we addressed the matter
As detailed in Note 1 to the Group financial statements the Group has early adopted IFRS 15 *Revenue from contracts with customers*. The adoption of IFRS 15 has resulted in significant changes to revenue recognition policies and the recognition of contract fulfilment assets such as mobilisation. The Group has elected to apply the cumulative adjustment approach and therefore the cumulative impact of the prior year restatements is reflected within opening reserves to the current year. The adoption of IFRS 15 requires significant judgement over the recognition of revenue and contract fulfilment assets. This requires interpretation of complex contractual terms including consideration of performance conditions. There is a risk that the adjustments to the opening reserves are misstated or incomplete and also that the disclosures made to the Group financial statements do not adequately explain the impact of the adoption of IFRS 15. As part of the work on transition to IFRS 15 the Group engaged third party experts to provide support to management. The Group also put in place a detailed control framework and quality control procedures, supported by the third party specialists and internal audit. The contracts were divided into four distinct categories based on size and complexity – the focus of the third party specialist was on the first two categories which contained the largest and highest risk contracts. The third category was reviewed by the divisional teams through the use of questionnaires designed to identify the key attributes that may result in an adjustment. The first three categories accounted for approximately 80% of the Group's revenue. The remaining category was subject to review based on identifying characteristics that would result in an adjustment to revenue recognition.	With support of our internal technical specialists we have addressed the matter as follows: Control environment - We reviewed the process undertaken, control environment and quality control procedures in place in respect of the process to adopt IFRS 15. We ensured the procedures were appropriately structured to obtain all necessary information and calculate the adjustments required. We also attended a number of IFRS 15 steering committee meetings. Work of experts - We assessed the work performed by the third party experts through reviewing their work and holding a number of meetings with them. Following the completion of these procedures, we considered the reliance we were able to place on their work as an expert. Testing - We substantively tested a sample of the contract reviews (including those where no adjustment was recorded) from each of the four categories, we corroborated the key points to contracts, held meetings with the necessary finance and contract management team members to challenge assumptions and judgements made. We tested a sample of the remaining contract fulfilment assets recorded on balance sheet after the IFRS 15 adjustments had been recorded to ensure completeness of adjustments and that appropriate audit evidence was in place to support the assets. Reliability of data – We tested the extraction of contract related data from original source used to derive the adjustment made to the opening reserves. Disclosures – We have reviewed the adequacy of the disclosures including completing the required audit work under previous revenue recognition standards to reflect the disclosure requirements of the cumulative approach. Annual report narrative – The use of the cumulative approach provides no directly comparative basis for assessment against prior year, we reviewed the annual report narrative in respect of performance for the year to ensure it is fair, balanced and understandable. Accounting policies – We reviewed the accounting policies established by the Group by reference to the requirements of IFRS 15. Discussion with Audit Committee – We discussed with the Audit Committee the judgements being applied and the representations being sought from the Board. We also attended a number of steering committee meetings which were attended by management and a member of the Audit Committee.
Observations: We are satisfied that the transitional adjustments to IFRS 15 are materially complete and accurate.	

Contractual disputes and provisions

Matter identified	How we addressed the matter
The Group is subject to certain contractual disputes as well as a material legal claim which are ongoing at the year-end and require specific consideration as to whether provisions or contingent liability disclosures are required. The Group is also subject to the Plumbers pension scheme, which is a complex multi-employer pension scheme. The trustees of the scheme are currently unable to calculate the liability that relates to the Group, including the impact of orphaned liabilities and also whether a Section 75 liability has been crystallised. The Group operates a number of low margin and previously identified onerous contracts; there is a risk that the provision for onerous contracts is not complete. There is a risk that provisions and contingent liability disclosures are not complete or accurate (see Notes 28, 34 and 37)	In respect of the contractual disputes and legal claim we have held discussions with in-house counsel and where necessary external legal counsel. We have read appropriate internal and external documentation to evaluate contractual claims and disputes, including reviewing management's material dispute register and the material judgements and estimate papers prepared by management. As part of our procedures we also assessed the controls over the preparation and completeness of the papers. In respect of the Plumbers pension scheme we have reviewed correspondence and publicly available information in respect of the Plumbers pension scheme and challenged management as to whether a provision is required and to the completeness of the disclosures given. In respect of potentially onerous contracts we inspected a sample of low margin and new large contracts to determine whether onerous contract provisions should be recorded – this included critically assessing the assumptions over future costs and project initiatives. For all matters we have reviewed the disclosures included in the financial statements to ensure that they are complete and are fair, balanced and understandable.

Observations: We are satisfied that the provisions recorded and disclosures made are complete and accurate.

Appropriateness of revenue and profit recognition

Matter identified	How we addressed the matter
Auditing standards require us to make a rebuttable presumption that the fraud risk from revenue is a significant risk. Management incentives, bonuses and market consensus increases the fraud risk. The risk is compounded by the adoption of IFRS 15 in the year – the impact of which in the current year is disclosed within Note 1. A significant proportion of the Group's revenue is derived from long term contracts. The contractual terms underpin the measurement and recognition of revenue and profit and the Group is therefore required to make operational and financial assumptions. Judgements include: • Interpretation of complex contract terms; • Mobilisation and pre contract costs capable of being capitalised; • Allocation of revenue to performance conditions; and • Combining of obligations where the services are related. The nature of the Group's activities also gives rise to significant amount of variable work which is recorded as accrued unbilled income with a corresponding profit recognition. Accrued unbilled income at the 31 March 2018 and totalled £129.3m. There is a risk that revenue may be recognised even though it is not probable that consideration will be collected which could be due to uncertainties over contractual terms and ongoing negotiations with customers.	We have tested the operating effectiveness of the key controls over the contract process including contract monitoring, billings and approvals, the general IT controls over certain of the systems used to generate the information and management's review and approval of the contract accounting applied. We have also completed the following audit procedures: • Reviewed the basis of revenue recognised against the requirements of IFRS 15 and challenged the key judgements made by management; • Obtained a sample of contracts to confirm that revenue had been appropriately recognised and for a sample of fixed revenue contracts recalculated the expected revenue for the year; • Tested a sample of contract related assets to supporting documentation; • Tested a sample of accrued income balances to supporting documentation which included assessing proof of works, customer acceptance, reviewing customer correspondence where necessary and ensuring cut-off had been appropriately applied. We also challenged management over the disclosures included in the financial statements and the clear distinction between billed and unbilled amount to ensure that they are complete and are fair, balanced and understandable.

Recoverability of aged or disputed debtors and accrued income

Matter identified	How we addressed the matter
Material amounts of the billed and unbilled work remain outstanding for more than three months as resolution of open issues remains ongoing on various contracts. The aged nature of these balances increases the risk of recoverability, particularly where there is disagreement or dispute. Trade debtors and accrued income are disclosed in Note 19 to the financial statements. Credit risk associated with trade debtors is disclosed in Note 28 to the financial statements. There is significant management judgement involved in assessing the recoverability of these balances, taking into consideration the Group's contractual rights, available evidence of work performed, as well as the status of ongoing commercial negotiations. This judgement is compounded by system limitations which require a manual ageing of unbilled accrued income balances, increasing the risk of error. In the current year the Group has recognised a bad debt provision of £17.3m in respect of aged and disputed billed balances which has been recorded in administrative expenses.	For a sample of aged balances at the year-end we have challenged the validity of the recorded debtors and accrued income as well as the completeness of the bad debt/accrued income provision by a number of methods including: • Confirming aged balances to post year-end cash receipts; • Obtaining external confirmation of the balances; • Reviewing client approval of works orders or contractual commitments; • Reviewing evidence of work performed and status of negotiations; • Manually testing the accuracy of aging of accrued income; • Completing analytical procedures • Reviewing customer correspondence; and • Reviewing in-house legal counsel reports. • Completed analytical procedures to consider consistency in the provisioning methodology compared to the prior year.

Observations: We are satisfied that the carrying value of trade receivables and accrued income is materially correct.

Presentation of 'other items' in the consolidated income statement

Matter identified	How we addressed the matter
Consistent with the prior year management have presented profit before other items in the consolidated statement of comprehensive income. The presentation is intended to show the financial results in a way that reflects the underlying profitability of the Group and therefore excludes the results from items such as restructuring, impairment and other costs and income considered exceptional in nature. A detailed breakdown of other items together with explanation is included in Note 4 to the financial statements. There is judgement in evaluating whether a transaction meets the definition described in the Group's accounting policy and whether its presentation is 'fair, balanced and understandable'. Failure to disclose clearly the nature and impact of material 'other item' earnings may distort the reader's view of the financial result in the year.	*We have assessed the design and implementation of relevant* controls over the financial statement review process by management and the Audit Committee. We have benchmarked the items included within other items by reference to: • Industry peer Group; • The guidance published by the Financial Reporting Council in their thematic review; and • The guidance included in the "Guidelines on Alternative Performance Measures", issued by the European Securities and Markets Authority (ESMA). *Having regard* to the benchmarking we have: • Understood the composition of other items identified by management; • Agreed a sample of items to supporting documentation; • Challenged management's rationale for the inclusion of certain items particularly around the areas of higher judgement such as restructuring and dual running costs; • Determined whether the costs recognised as 'other items' meet the criteria of the accounting policy and are consistent with the prior year; • Reviewed the income statement for any material credits that are considered to meet the Group policy of being classified as an other item; • Challenged the appropriateness of disclosure of these balances both in note 5 and in the remainder of the annual report; and • Consulted with our internal technical specialists.
Observations: We are satisfied that the other items are not materially misstated and that the disclosures given in Note 5 and the remainder of the annual report are fair, balanced and understandable.	

Impairment of goodwill in the property division

Matter identified	How we addressed the matter
In accordance with IAS 36 *Impairment of Assets* the Group is required to carry out an annual impairment test of the Group's goodwill which had a brought forward balance prior to impairments of £343.9m. Of this amount £70.2m is recorded in the property management division cash generating unit (CGU). The property management division has performed below budget in the current and prior year. Set against a backdrop of an increasingly challenging market place following a high profile corporate failure as well other challenges arising from the public sector the goodwill has been impaired by £34.6m to £35.6m – see Note 13 for more details. There is inherent uncertainty involved in forecasting the future cash flows of the division and calculating the net present value, including: • Profit margins; • Revenue growth; • The impact of changes in market conditions; • The uncertainty around final account settlements, commercial claims and pension provisions; and • The selection of an appropriate discount rate.	With the assistance of our valuation specialists, we have challenged the reasonableness of management's key judgements and our work included: • Evaluating management's historical forecasting accuracy; • Assessing one-off items which management has identified as impacting the current year and the risk of these items being pervasive in the business; • Benchmarking growth rates to applicable market data; • Challenging the discount rate applied; • Checking the accuracy and methodology of management's discounted cash flow model; • Challenging the forecast revenue and margin assumptions by reference to current performance, available market data and accuracy of prior year forecasting; • Reviewing the allocation of central costs; • Assessing whether the forecasts adopted in the impairment review were Board approved and are consistent with those used in the going concern and longer-term viability assessment; and • Completing sensitivity analysis and ensuring completeness of disclosures in the financial statements.

Observations: We are satisfied that the impairment is not materially misstated and that the disclosures adequately disclose the inherent risk and uncertainties.

The previous auditors report in respect of the financial statements for the year ended 31 March 2017 also included key audit matters that have been removed in the current year in respect of: effect of potential prior year restatements, healthcare division disposal and management override of controls. New and recurring risks when compared to the previous auditor's report are also identified above.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements to be £3.4m and for the parent company to be £2.6m. Performance materiality was calculated based on 65% of our materiality. We determined this percentage by reference to the number of components, the errors identified in the prior year and due to this being our first year as auditors. This compares to £3.8m materiality applied in the prior year by the previous auditor.

The materiality we applied in respect of the Group financial statements equates to 5% of profit before other items and tax. We consider this to the be most appropriate performance measure for the basis of determining materiality as it removes the impact of non-recurring items impacting the underlying profit of the Group. The adjustment removes the impact of "other items" detailed in Note 5 to the Group financial statements.

We set component materiality between £0.7m and £1.4m (2017 - £1.9m and £2.7m - as determined by the previous auditor) based on the overall size and respective risk of each component.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £170,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

As detailed elsewhere in the annual report we accepted appointment as statutory auditors in September 2017.

We were aware, as we entered the tender process, of the ongoing FRC regulatory issues relating the to Group, both in respect of the FRC's assessment of the 2016 financial statements (which concluded in November 2017) and the launch of an investigation by the FRC into the predecessor audit firm's audits in 2015 and 2016.

We were also aware of the independent balance sheet review commissioned by new management in the prior year, which resulted in significant prior year adjustments to the 2016 financial statements. During the course of our tender the FCA launched an investigation into the timeliness of profit warnings during 2015/16 which remains ongoing.

As part of our procedures in considering appointment, during the course of the tender we were provided access to relevant documentation in respect of the prior year audit and in particular we considered the independent balance sheet review. We also met with key management and certain members of the Board to understand both the business in the context of an audit and also to understand the changes being made to address financial reporting and control environment matters. Over fifty hours of individual meetings were held and attended by the lead and supporting audit partner, in addition to the time assessing information provided.

During the tender meetings held, in light of the high level of judgement required in respect of percentage of completion accounting and the well-publicised issues within the outsourcing sector relating to this area, we discussed with the business their intent to early adopt IFRS 15 Revenue from contract with customers.

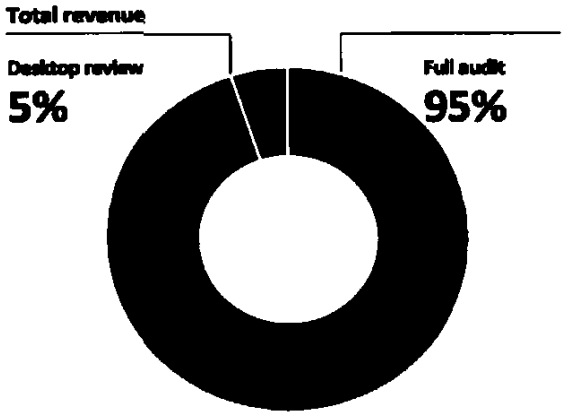
Following our appointment, the FCA announced in November 2017 that it had closed its review of the 2016 financial statements and as a result opened an investigation under the Accountancy Scheme into their preparation, and in January 2018 the FRC issued guidance to boards of companies in the support services sector in the light of the collapse of Carillion. As part of our appointment we were entitled to, and took up, the opportunity to review the previous auditor's files.

All of the above information was used as part of our risk assessment in setting our audit approach in this first year of our audit of the Group.

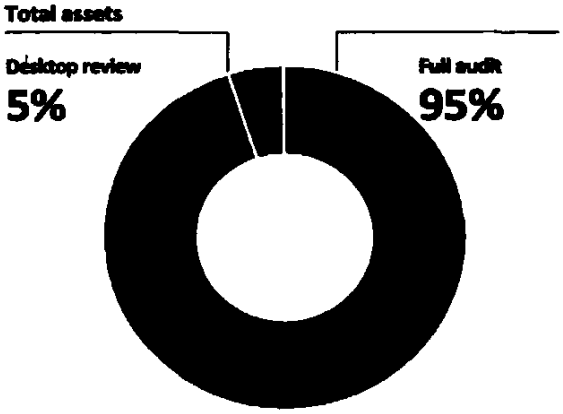
The Group operates through a number of legal entities which form reporting components – the reporting components are consistent with the segmental analysis as disclosed in Note 3 to the financial statements. Audits were performed over all components with the exception of certain non-significant parts of the components, including overseas entities, which were disaggregated and subject to desktop review procedures.

The audit procedures were carried out over 95% of Group revenue and 95% of Group total assets.

Total revenue



Total assets



The Group audit team set component materiality levels as detailed above with work on all components being performed by the Group auditors under the direction and supervision of the Group engagement partner. With the exception of the non-significant components the Group engagement partner visited all component locations and attended various telephone conference meetings through the planning, fieldwork and completion stages of the audit.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

Other than the matter identified in the Basis for qualified opinion section above, we have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 112 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 72 to 83 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 64 – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, other than the matter identified in the Basis for qualified opinion section above, we have not identified material misstatements in the strategic report or the Directors' report.

Other than the matter identified in the Basis for qualified opinion section above we have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 116, 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit Committee on 19 September 2017, we were appointed to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. This is the first year of our engagement.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scott McNaughton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
6 June 2018
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 2018

	Notes	2018 Before other items £m	2018 Other items[1] £m	2018 Total £m	Restated 2017[2] Before other items £m	Restated 2017[2] Other items[1] £m	Restated 2017[2] Total £m
Continuing operations							
Revenue	3	2,203.7	–	2,203.7	2,123.4	–	2,123.4
Cost of sales		(1,894.8)	–	(1,894.8)	(1,893.6)	–	(1,893.6)
Gross profit		308.9	–	308.9	229.8	–	229.8
Administrative expenses		(220.1)	(97.9)	(318.0)	(236.7)	(36.6)	(273.3)
Share of profit of joint ventures and associates	16	0.8	–	0.8	0.6	–	0.6
Operating (loss)/profit	3,6	89.6	(97.9)	(8.3)	(6.3)	(36.6)	(42.9)
Investment revenue	8	0.2	–	0.2	–	–	–
Finance costs	9	(16.6)	–	(16.6)	(15.3)	–	(15.3)
Net finance costs		(16.4)	–	(16.4)	(15.3)	–	(15.3)
(Loss)/profit before tax	3	73.2	(97.9)	(24.7)	(21.6)	(36.6)	(58.2)
Tax	10	(12.0)	10.7	(1.3)	3.3	4.1	7.4
(Loss)/profit from continuing operations after tax		61.2	(87.2)	(26.0)	(18.3)	(32.5)	(50.8)
Discontinued operations							
Loss from discontinued operations	5	–	–	–	(11.4)	(121.0)	(132.4)
(Loss)/profit for the year		61.2	(87.2)	(26.0)	(29.7)	(153.5)	(183.2)
Attributable to:							
Equity holders of the parent		60.1	(87.2)	(27.1)	(30.5)	(153.5)	(184.0)
Non-controlling interests		1.1	–	1.1	0.8	–	0.8
		61.2	(87.2)	(26.0)	(29.7)	(153.5)	(183.2)
(Loss)/earnings per share (EPS) attributable to equity shareholders of the parent							
From continuing operations:							
basic	12	16.8p		(7.6)p	(5.5)p		(14.7)p
diluted	12	16.8p		(7.6)p	(5.5)p		(14.7)p
From continuing and discontinued operations:							
Basic	12	16.8p		(7.6)p	(8.7)p		(52.4)p
Diluted	12	16.8p		(7.6)p	(8.7)p		(52.4)p

Notes:

1. Other items are as described in Note 4.
2. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

Consolidated statement of comprehensive income
For the year ended 31 March 2018

	Notes	2018 £m	Restated 2017[1] £m
Loss for the year		(26.0)	(183.2)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of net defined benefit pension liability	37	19.7	(35.4)
Income tax (charge)/credit relating to items not reclassified		(3.4)	5.5
		16.3	(29.9)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		0.1	1.3
Gains on hedge of a net investment taken to equity		0.4	0.1
Net gains/(losses) on cash flow hedges arising during the year		0.1	(4.8)
Income tax credit relating to items that may be reclassified		0.1	0.3
		0.7	(3.1)
Other comprehensive income/(expense) for the financial year		17.0	(33.0)
Total comprehensive expense for the financial year		(9.0)	(216.2)
Attributable to:			
Equity holders of the parent		(10.1)	(217.0)
Non-controlling interests		1.1	0.8

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

Consolidated balance sheet
As at 31 March 2018

	Notes	2018 £m	Restated 2017[1] £m
Non-current assets			
Goodwill	13	309.6	343.9
Other intangible assets	14	38.3	53.2
Property, plant and equipment	15	33.6	32.3
Interest in joint ventures and associates	16	0.8	0.6
Derivative financial instruments	27	6.1	–
Trade and other receivables	17	–	50.3
Contract assets[2]	20	1.8	–
Deferred tax assets	21	36.7	22.2
Total non-current assets		426.9	502.5
Current assets			
Inventories	22	6.9	6.8
Trade and other receivables	17	386.0	395.6
Contract assets[2]	20	0.4	–
Derivative financial instruments	27	–	35.8
Current tax assets		6.3	12.1
Cash and cash equivalents	23	59.8	129.1
Total current assets		459.4	579.4
Total assets		886.3	1,081.9
Current liabilities			
Trade and other payables	24	(496.8)	(574.5)
Deferred income	25	(46.2)	–
Financing liabilities	26	(0.8)	(310.8)
Provisions	28	(25.2)	(20.4)
Total current liabilities		(569.0)	(905.7)
Net current liabilities		(109.6)	(326.3)
Non-current liabilities			
Trade and other payables	24	–	(3.4)
Deferred income	25	(18.8)	–
Financing liabilities	26	(258.6)	(1.3)
Provisions	28	(6.3)	(6.4)
Retirement benefit liabilities	37	(56.8)	(74.2)
Deferred tax liabilities	21	(0.8)	(1.1)
Total non-current liabilities		(341.3)	(86.4)
Total liabilities		(910.3)	(992.1)
Net (liabilities)/assets		(24.0)	89.8

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. At 31 March 2018, contract assets comprises contract fulfilment costs capitalised in accordance with IFRS 15 and the Group's internal accounting policy.

Consolidated balance sheet continued
As at 31 March 2018

	Notes	2018 £m	Restated 2017[1] £m
Equity			
Share capital	31	9.3	9.2
Share premium account	32	130.6	130.6
Merger reserve	32	104.2	91.8
Own shares reserve	32	(43.4)	(42.2)
Other reserves	32	11.3	10.3
Hedging and translation reserve	32	(7.3)	(8.0)
Retained losses		(228.7)	(104.2)
Equity attributable to equity holders of the parent		(24.0)	87.5
Non-controlling interests		–	2.3
Total equity		(24.0)	89.8

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

The consolidated financial statements of Mitie Group plc, company registration number SC019230 were approved by the Board of Directors and authorised for issue on 6 June 2018. They were signed on its behalf by:

Phil Bentley
Chief Executive Officer

Paul Woolf
Chief Financial Officer

Consolidated statement of changes in equity
For the year ended 31 March 2018

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves[2] £m	Hedging and translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 April 2016	9.3	127.7	80.1	(48.8)	9.9	(4.6)	185.0	358.6	2.9	361.5
Loss for the year	–	–	–	–	–	–	(184.0)	(184.0)	0.8	(183.2)
Other comprehensive expense	–	–	–	–	–	(3.4)	(29.6)	(33.0)	–	(33.0)
Total comprehensive expense	–	–	–	–	–	(3.4)	(213.6)	(217.0)	0.8	(216.2)
Shares issued	0.1	2.9	11.7	–	–	–	–	14.7	–	14.7
Dividends paid	–	–	–	–	–	–	(37.4)	(37.4)	(0.1)	(37.5)
Share buybacks	(0.2)	–	–	(0.2)	0.4	–	(24.4)	(24.4)	–	(24.4)
Share-based payments	–	–	–	6.8	–	–	2.4	9.2	–	9.2
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	(16.2)	(16.2)	(1.3)	(17.5)
At 31 March 2017	9.2	130.6	91.8	(42.2)	10.3	(8.0)	(104.2)	87.5	2.3	89.8
Balance at 1 April 2017	9.2	130.6	91.8	(42.2)	10.3	(8.0)	(104.2)	87.5	2.3	89.8
Impact of change in accounting policy[1]	–	–	–	–	–	–	(108.2)	(108.2)	–	(108.2)
Adjusted balance at 1 April 2017	9.2	130.6	91.8	(42.2)	10.3	(8.0)	(212.4)	(20.7)	2.3	(18.4)
Loss for the year	–	–	–	–	–	–	(27.1)	(27.1)	1.1	(26.0)
Other comprehensive income	–	–	–	–	–	0.7	16.3	17.0	–	17.0
Total comprehensive expense	–	–	–	–	–	0.7	(10.8)	(10.1)	1.1	(9.0)
Dividends paid	–	–	–	–	–	–	(4.8)	(4.8)	–	(4.8)
Share-based payments	–	–	–	6.9	1.0	–	0.3	8.2	–	8.2
Acquisitions and other movements in non-controlling interests	0.1	–	12.4	(8.1)	–	–	(1.0)	3.4	(3.4)	–
At 31 March 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(228.7)	(24.0)	–	(24.0)

Notes:

1. *The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.*
2. Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve. See Note 32.

Consolidated statement of cash flows
For the year ended 31 March 2018

		Notes	2018 £m	Restated 2017 £m
Operating loss	– continuing operations		(8.3)	(42.9)
	– discontinued operations		–	(135.2)
Adjustments for:				
Share-based payments expense		36	4.6	6.2
Defined benefit pension charge		37	3.1	4.3
Past service cost and curtailments		37	1.9	–
Defined benefit pension contributions		37	(4.7)	(2.4)
Acquisition costs		4	–	1.2
Depreciation of property, plant and equipment		15	12.8	14.1
Amortisation of intangible assets		14	13.5	23.8
Share of profit of joint ventures and associates		16	(0.8)	(0.6)
Impairment of goodwill and intangible assets		13,14	45.0	109.2
Loss on disposal of businesses			0.2	30.4
(Gain)/loss on disposal of property, plant and equipment			(0.1)	1.0
Operating cash flows before movements in working capital			67.2	9.1
(Increase)/decrease in inventories			(0.1)	3.2
(Increase)/decrease in receivables			(43.2)	60.2
(Increase)/decrease in contract assets			(2.3)	–
Decrease in deferred income arising on contracts			(12.8)	–
(Decrease)/increase in payables			(21.2)	73.0
(Decrease)/increase in provisions			4.5	5.6
Cash (used in)/generated by operations		39	(7.9)	151.1
Income taxes received/(paid)			11.6	(15.3)
Interest paid			(13.5)	(12.7)
Acquisition costs		4	–	(0.3)
Net cash (outflow)/inflow from operating activities			(9.8)	122.8
Investing activities				
Interest received			0.2	0.1
Purchase of property, plant and equipment		15	(15.8)	(14.5)
Dividends received from joint ventures and associates			0.6	0.6
Purchase of other intangible assets		14	(9.0)	(12.4)
Disposals of property, plant and equipment			1.6	1.0
Disposal of subsidiaries, including cash disposed		5	(9.7)	(1.7)
Net cash outflow from investing activities			(32.1)	(26.9)

Consolidated statement of cash flows continued
For the year ended 31 March 2018

	Notes	2018 £m	Restated 2017 £m
Financing activities			
Repayments of obligations under finance leases		(1.5)	(1.6)
Proceeds on issue of share capital		–	0.1
Private placement notes repaid and associate hedges settled		(60.2)	–
Proceeds from new borrowings		38.3	1.7
Proceeds from re-issue of treasury shares	32	3.4	2.4
Purchase of non-controlling interests	33	(3.0)	(1.4)
Share buybacks	31	–	(24.4)
Equity dividends paid	11	(4.8)	(37.4)
Non-controlling interests dividends paid		–	(0.1)
Other financing items		–	0.4
Net cash outflow from financing activities		(27.8)	(60.3)
Net (decrease)/increase in cash and cash equivalents		(69.7)	35.6
Net cash and cash equivalents at beginning of the year		129.1	93.1
Effect of foreign exchange rate changes		0.4	0.4
Net cash and cash equivalents at end of the year	23	59.8	129.1

The above statement of consolidated cash flows includes cash flows from both continuing and discontinued operations. Further details of the cash flows relating to discontinued operations are shown in Note 5.

Reconciliation of net cash flow to movements in net debt	Notes	2018 £m	2017 £m
Cash drivers			
Net (decrease)/increase in cash and cash equivalents		(69.7)	35.6
Increase in bank loans		(38.3)	(1.7)
Movement in private placement notes and associated hedges		60.2	–
Decrease in finance leases		1.5	1.2
Non-cash drivers			
Non-cash movement in bank loans		(0.7)	–
Non-cash movement in private placement notes and associated hedges		0.3	(4.4)
Effect of foreign exchange rate changes		0.4	0.4
(Increase)/decrease in net debt during the year		(46.3)	31.1
Opening net debt		(147.2)	(178.3)
Closing net debt	30	(193.5)	(147.2)

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

The Group's financial statements for the year ended 31 March 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union and therefore the Group's financial statements comply with Article 4 of the EU IAS Regulation.

The Group's financial statements have been prepared on the historical cost basis, except for certain financial instruments which are required to be measured at fair value.

Whilst the Property Management business was previously classified as a discontinued operation in the FY2018 Half Year Report, there are no active sales processes at year end and hence it is no longer classified as a discontinued operation.

Prior year restatement

The prior year comparatives have been restated due to an accounting error in respect of an under accrual of costs with a corresponding increase in accrued income and revenue. The impact on the prior year balance sheet is an increase in accruals and accrued income of £14.6m and a decrease in revenue and cost of sales of £2.9m within the income statement. The Directors recognise that the under accrual of costs and understatement of accrued income may also be apparent in the 2016 balance sheet. However as disclosed in the 2017 accounts, an extensive review was undertaken, which led to both prior year adjustments to 2016 and material adjustments being recognised in 2017 arising from changes to accounting estimates.

In addition, as a result of the 2016 financial statements being subject to judgements and estimates made by the then Directors at that time, the current Directors consider it is not appropriate or meaningful to attempt to quantify or represent any errors, and as a result the balance sheet for the year ended 31 March 2016 has not been represented. Notwithstanding this, management note that any error of the nature identified, were it present in the year ended 31 March 2016, would not have any impact on closing net assets for that year nor would it have any impact on the reported loss for the year ended 31 March 2017.

Going concern

As outlined in the Directors' Report, the Directors have concluded that whilst the Group is in a net current liability position at year end, it has adequate financial resources to continue in operation for the foreseeable future and can prepare its financial statements on a going concern basis. The Directors have considered the future prospects and performance of the Group including: the future business plans of the Group; the potential impact of acquisition activity and possible changes to the composition of the Group; the projected future cash flows of the Group; the availability of core and ancillary financing facilities and compliance with related covenants; the projected drawn positions and headroom available on the core committed financing facilities; and those matters reviewed in connection with the Viability Statement.

The Directors have also reviewed and considered the disclosures on the matter of going concern and viability in the Annual Report and Accounts and have considered them to be appropriate.

1. Basis of preparation and significant accounting policies continued

Accounting standards that are newly effective in the current year

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2017 except for the following amendments, which were effective for the first time in the current year but had no impact on the results or financial position of the Group:

- Amendments to IAS 12 'Income taxes'- clarification of requirements on recognition of deferred tax assets for unrealised losses on debt instrument financial assets measured at fair value;
- Amendments to IAS 7 'Cash flow statements' – disclosure initiative; and
- Amendments resulting from annual improvements to IFRSs 2014-2016 cycle.

The Group has early adopted IFRS 15 'Revenue from contracts with customers'. The impacts of adopting the new accounting standard are detailed below.

Accounting standards that are not yet mandatory and have not been applied by the Group

The following standards and interpretations have been issued but are not yet mandatorily effective (and in some cases have not yet been adopted by the EU) and have not been applied by the Group:

- IFRS 9 'Financial instruments';
- IFRS 16 'Leases';
- IFRS 17 'Insurance contracts';
- Amendments to IFRS 2 'Share-based payment' – classification and measurement of share-based payment transactions;
- IFRIC 22 'Foreign currency transactions and advance consideration';
- IFRIC 23 'Uncertainty over income tax treatments';
- Amendments to IFRS 9 'Prepayment features with negative compensation';
- Amendments to IAS 28 'Long-term interests in associates and joint ventures'; and
- Annual improvements to IFRS's 2015-2017 cycle.

The Directors have considered the impact of IFRS 9 and IFRS 16 as noted below. The Directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

IFRS 9 'Financial instruments' is effective for the Group starting 1 April 2018 and replaces the current requirements of IAS 39 'Financial instruments: recognition and measurement'. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new expected loss model for the impairment of financial assets, revisions to the hedge accounting model, and amendments to disclosures. The changes are generally to be applied retrospectively. Given the nature of the financial assets and liabilities currently held by the Group and its hedging arrangements, the changes are not expected to have a significant impact on the financial statements.

IFRS 16 'Leases' will be effective for the Group starting 1 April 2019 and will replace the current requirements IAS 17 'Leases'. An asset for the right to use the leased item and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in the income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the existing accounting for finance leases, but substantively different to the existing accounting for operating leases under which no lease asset or lease liability is recognised and rentals payable are charged to the income statement on a straight-line basis. Following the early adoption of IFRS 15, the Group is currently considering the adoption date for IFRS 16 and is continuing its assessment of the impact that the application of the standard will have on the Group's financial statements. It remains too early to fully determine the impact on the Group's financial statements as this will be influenced by the composition of the lease portfolio and the relevant discount rates at the date of adoption. Details of future commitments under the Group's current operating leases are set out in Note 35. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

1. Basis of preparation and significant accounting policies continued

Early adoption of IFRS 15

The Group decided to early adopt IFRS 15 'Revenue from contracts with customers', with a date of initial application of 1 April 2017. As a result, the Group has changed its accounting policies and updated its internal processes and controls relating to revenue recognition.

The Group has applied IFRS 15 using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 April 2017, calculated only for those contracts that were not completed as at 1 April 2017. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 'Revenue' and IAS 11 'Construction contracts'.

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.

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Set out below is the revenue recognition policy under IFRS 15 and the five-step model together with the impact of adopting the standard.

Revenue recognition policy under IFRS 15

The Group operates contracts with a varying degree of complexity across its service lines so accordingly, a range of methods are 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.

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 a contract under IFRS 15 unless it specifies 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.

1. Basis of preparation and significant accounting policies continued

Duration of contract

The Group frequently enters into contracts with customers which contain extension periods at the end of the initial term, automatic annual renewals, and/or termination for convenience and break clauses that could impact the actual duration of the contract. As the term of the contract impacts the period over which amortisation of contract assets and revenue from performance obligations may be recognised, the Group applies judgement to assess the impact that such clauses have in determining the relevant contract term. In forming this judgement, management considers certain influencing factors including the amount of discount provided, the presence of significant termination penalties in the contract, and the relationship, experience and performance of contract delivery with the customer and/or the wider industry, in understanding the likelihood of extension or termination of the contract.

Contract modifications

The Group's contracts are frequently amended for changes to customer requirements such as change orders and variations. A contract modification takes place when the amendment creates new enforceable rights and obligations or changes the existing price or scope (or both) of the contract, and the modification has been approved. Contract modifications can be approved in writing, by oral agreement, or implied by customary business practices.

If the parties to the contract have not approved a contract modification, revenue is recognised in accordance with the existing contractual terms. If a change in scope has been approved but the corresponding change in price is still being negotiated, the Group estimates the change to the total transaction price.

Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct good or service. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Step 2 – Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Group to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers such as in the Group's integrated facilities management contracts, the Group applies judgement to consider whether those promised goods and 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 and services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Group treats the series as a single performance obligation.

Step 3 – Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which the Group expects to be entitled and has rights under the current 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.

1. Basis of preparation and significant accounting policies continued

Step 4 – Allocate the transaction price to the performance obligations in the contract

The Group allocates the total transaction price to the identified performance obligations based on their relative stand-alone selling prices. This is predominantly based on an observable price or a cost plus margin arrangement.

Step 5 – Recognise revenue when or as the entity satisfies its performance obligations

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Group applies the relevant output or input revenue recognition method for measuring progress that faithfully depicts the Group's performance in transferring control of the goods and 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 and services transferred to date relative to the remaining goods and 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 IFRS15, 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 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 good or service 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.

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 client to identify and implement cost saving initiatives across the life of the contract.

The Group considers the majority of services provided within integrated facilities management contracts meet the definition of a series of distinct goods and services that are substantially the same and have the same pattern of transfer over time. The series constitutes services provided in distinct time increments (e.g. monthly or quarterly) and therefore the 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, or at milestone periods, and therefore revenue will be recognised in line with the associated transfer of control or milestone dates.

Repeat service-based contracts (single and bundled contracts)

The 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.

Sales of goods are recognised when goods are delivered and control has passed to the customer.

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.

1. Basis of preparation and significant accounting policies continued

Contract assets

Pre-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, sub-contrators);
ii. the Group is building an asset that belongs to the customer 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 according to 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 profit or loss 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 or disposal.

The Group is required to determine the recoverability of contract related assets at each reporting date. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price which includes estimates around variable consideration. An impairment is recognised immediately where such losses are forecast.

Accrued income and deferred income

The Group's customer contracts include a diverse range of payment schedules which are often agreed at the inception of long-term contracts under which it receives payments throughout the term of the arrangement. Payments for goods and services transferred at a point in time may be at the delivery date, in arrears or part payment in advance.

Where revenue recognised at the period end date is more than amounts invoiced, the Group records accrued income for the difference. Where revenue recognised at the period end date is less than amounts invoiced, the Group recognises deferred income for the difference.

Certain arrangements with customers include a contractual obligation to make redundancies for which the Group is reimbursed for the costs incurred. Revenue is not recognised on these transactions. Instead, the Group expenses all redundancy costs in the period they are incurred and any reimbursement credit is matched against the associated cost included in the income statement up to the value of the redundancy cost incurred. Any cash payments received from the customer in excess of the reimbursement cost of redundancy are deferred over the contract term and unwound in line with the other services being delivered.

Where price step-downs are required in a contract and output is not decreasing, revenue is deferred from initial years to subsequent years 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.

The following disclosures show the impact of the adoption of IFRS 15 on the Group's primary financial statements.

1. Basis of preparation and significant accounting policies continued

Consolidated balance sheet
As at 31 March 2018

	As reported £m	IFRS 15 adjustments £m A	B	C	D	E	F	G	Balances without adoption of IFRS 15 £m	Restated 2017[1,2] £m
Non-current assets										
Goodwill	309.6	–	–	–	–	–	–	–	309.6	343.9
Other intangible assets	38.3	–	–	–	1.0	–	–	–	39.3	53.2
Property, plant and equipment	33.6	–	–	–	0.2	–	–	–	33.8	32.3
Interest in joint ventures and associates	0.8	–	–	–	–	–	–	–	0.8	0.6
Derivative financial instruments	6.1	–	–	–	–	–	–	–	6.1	–
Trade and other receivables	–	18.2	8.6	–	–	–	–	–	26.8	50.3
Contract assets	1.8	–	–	–	(1.8)	–	–	–	–	–
Deferred tax assets	36.7	–	–	–	–	–	–	(19.0)	17.7	22.2
Total non-current assets	426.9	18.2	8.6	–	(0.6)	–	–	(19.0)	434.1	502.5
Current assets										
Inventories	6.9	–	–	–	–	–	–	–	6.9	6.8
Trade and other receivables	386.0	20.0	11.9	(0.2)	–	31.1	–	–	448.8	395.6
Contract assets	0.4	–	–	–	(0.4)	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–	–	35.8
Current tax assets	6.3	–	–	–	–	–	–	(2.8)	3.5	12.1
Cash and cash equivalents	59.8	–	–	–	–	–	–	–	59.8	129.1
Total current assets	459.4	20.0	11.9	(0.2)	(0.4)	31.1	–	(2.8)	519.0	579.4
Total assets	886.3	38.2	20.5	(0.2)	(1.0)	31.1	–	(21.8)	953.1	1,081.9
Current liabilities										
Trade and other payables	(496.8)	(0.7)	–	(38.0)	–	–	0.7	–	(534.8)	(574.5)
Deferred income	(46.2)	–	–	46.2	–	–	–	–	–	–
Financing liabilities	(0.8)	–	–	–	–	–	–	–	(0.8)	(310.8)
Provisions	(25.2)	–	–	–	–	–	–	–	(25.2)	(20.4)
Total current liabilities	(569.0)	(0.7)	–	8.2	–	–	0.7	–	(560.8)	(905.7)
Net current liabilities	(109.6)	19.3	11.9	8.0	(0.4)	31.1	0.7	(2.8)	(41.8)	(326.3)
Non-current liabilities										
Trade and other payables	–	–	–	–	–	–	–	–	–	(3.4)
Deferred income	(18.8)	–	–	18.8	–	–	–	–	–	–
Financing liabilities	(258.6)	–	–	–	–	–	–	–	(258.6)	(1.3)
Provisions	(6.3)	–	–	–	–	–	–	–	(6.3)	(6.4)
Retirement benefit liabilities	(56.8)	–	–	–	–	–	–	–	(56.8)	(74.2)
Deferred tax liabilities	(0.8)	–	–	–	–	–	–	–	(0.8)	(1.1)
Total non-current liabilities	(341.3)	–	–	18.8	–	–	–	–	(322.5)	(86.4)
Total liabilities	(910.3)	(0.7)	–	27.0	–	–	0.7	–	(883.3)	(992.1)
Net (liabilities)/assets	(24.0)	37.5	20.5	26.8	(1.0)	31.1	0.7	(21.8)	69.8	89.8

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.
2. The Group has restated 2017 income statement and balance sheet as per Note 1, page 134.

1. Basis of preparation and significant accounting policies continued

Consolidated income statement
For the year ended 31 March 2018

	As reported £m	IFRS 15 adjustments £m A	B	C	D	E	F	G	Balances without adoption of IFRS 15 £m	Restated 2017[1,2] £m
Continuing operations										
Revenue	2,203.7	(7.6)	0.6	(3.1)	–	6.1	(0.6)	–	**2,199.1**	2,123.4
Cost of sales	(1,894.8)	–	(8.6)	(0.5)	(1.0)	(1.5)	(0.2)	–	**(1,906.6)**	(1,893.6)
Administrative expenses	(220.1)	–	3.6	0.3	–	–	–	–	**(216.2)**	(236.7)
Share of profit of joint venture and associates	0.8	–	–	–	–	–	–	–	**0.8**	0.6
Operating profit/(loss) before other items	89.6	(7.6)	(4.4)	(3.3)	(1.0)	4.6	(0.8)	–	**77.1**	(6.3)
Other items	(97.9)	(5.1)	–	–	–	–	–	–	**(103.0)**	(36.6)
Operating profit/(loss) after other items	(8.3)	(12.7)	(4.4)	(3.3)	(1.0)	4.6	(0.8)	–	**(25.9)**	(42.9)
Net finance costs	(16.4)	–	–	–	–	–	–	–	**(16.4)**	(15.3)
Tax	(1.3)	–	–	–	–	–	–	3.2	**1.9**	7.4
Total from continuing operations	(26.0)	(12.7)	(4.4)	(3.3)	(1.0)	4.6	(0.8)	3.2	**(40.4)**	(50.8)
Total from discontinued operations	–	–	–	–	–	–	–	–	**–**	(132.4)
Loss for the year	(26.0)	(12.7)	(4.4)	(3.3)	(1.0)	4.6	(0.8)	3.2	**(40.4)**	(183.2)

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.
2. The Group has restated 2017 income statement and balance sheet as per Note 1, page 134.

The following table details the impact on net assets as at 1 April 2017 and on the revenue and loss for the year recognised for the year ended 31 March 2018, as a result of the adoption of IFRS 15:

	Net assets £m	Revenue £m	Loss for the year £m
Balances without adoption of IFRS 15	89.8	2,199.1	(40.4)
IFRS 15 adjustments:			
A – POC accounting	(50.2)	7.6	12.7
B – Mobilisation assets	(24.9)	(0.6)	4.4
C – Design and development and other upfront fees	(30.1)	3.1	3.3
D – Contract assets	–	–	1.0
E – Work in progress	(26.5)	(6.1)	(4.6)
F – Contracted discounts including extension discounts	(1.5)	0.6	0.8
G – Tax	25.0	–	(3.2)
As reported total	(18.4)	2,203.7	(26.0)

Adjustment A – POC accounting

IFRS 15 introduces the concept of performance obligations which are the contractual promises by an entity to transfer goods or services to a customer. Under IFRS 15, revenue is recognised on a contract specific basis and in line with the satisfaction of performance obligations. This is a change from the Group's previous accounting policy and the use of a percentage of completion model to measure the proportion of contract costs incurred for work performed to date compared to the total estimated contract costs. Percentage of completion accounting does not provide an appropriate representation of the satisfaction of performance obligations on these long-term complex contracts and consequently, is no longer applied.

The impact of this is a decrease in reserves of £50.2m to derecognise the percentage of completion asset held as accrued income on long-term complex contracts at 1 April 2017 and a £12.7m credit to the loss for the year ended 31 March 2018 comprising £7.6m to reverse the unwind of the asset movement, and £5.1m to reverse a percentage of completion asset write-off included within other items. The reversal of the asset write-off follows the net impact of a write-off of £6.6m in relation to the loss of two contracts which was offset by a £1.5m credit to reinstate a previously written off asset. These balances, which were presented in Other items, would not have been recognised under IFRS 15 as percentage of completion accounting would not have been applied.

1. Basis of preparation and significant accounting policies continued

Adjustment B – Mobilisation assets

IFRS 15 specifies that certain costs to fulfil a contract are to be capitalised as contract assets if relevant criteria are met. The Group has determined that the existing mobilisation asset, whilst appropriate under the previous accounting standard, does not meet the more stringent criteria under IFRS 15.

The Group has therefore derecognised the asset (including £3.9m recognised in prepayments within trade and other receivables) as at 1 April 2017 leading to a decrease in reserves of £24.9m.

The adjustment to the loss for the year ended 31 March 2018 is a credit of £4.4m to reverse additions and write back amortisation on the mobilisation balance written off.

Adjustment C – Design and development and other upfront fees

On certain contracts, the Group receives upfront, non-refundable payments from the customer to cover significant costs incurred by the Group during the initial phase of the contract. Under IFRS 15, costs incurred from these transition and mobilisation activities, which are more than administrative in nature, are assessed to determine whether they form a separate performance obligation. Where such costs do not form a separate performance obligation under the contract, any upfront payments received from the customer are allocated to the performance obligations of the contract, deferred and recognised over the life of the other services.

The Group has determined that £30.1m of revenue previously recognised should be presented as deferred income at 1 April 2017 leading to a decrease in reserves by the same amount. The adjustment to the loss for the year ended 31 March 2018 is a £3.3m credit following the rephasing of upfront payments.

Following the adoption of IFRS 15, the Group has presented deferred income from contracts with customers separately on the balance sheet. The balance of pre-IFRS 15 current deferred income amounting to £46.2m has been reclassified as a result.

Adjustment D – Contract assets

IFRS 15 specifies that certain costs to fulfil a contract are to be capitalised as contract assets if relevant criteria are met. The Group capitalised a balance of £1.2m during the year ended 31 March 2018 (comprising £1.0m and £0.2m that would otherwise have been recorded in other intangible assets and property, plant and equipment respectively) that related to resources to allow it to deliver services under its contracts for which control had passed to the customer on installation. This amount has been recognised on the balance sheet as an addition to contract assets under IFRS 15.

During the year ended 31 March 2018, the Group capitalised costs of £1.0m that were previously expensed and which relate to assets to be used to deliver future contract outcomes.

Adjustment E – Work in progress

Under IFRS 15, revenue is only recognised when control has passed to a customer and it can be reliably measured. Income which was previously recognised under IAS 11 and IAS 18 has been remeasured against the more stringent criteria in IFRS 15, resulting in an amount being derecognised where it cannot be reliably measured.

The Group has therefore derecognised the asset held on balance sheet within accrued income leading to a reduction in reserves of £26.5m at 1 April 2017. The impact to the loss for the year ended 31 March 2018 is a debit of £4.6m.

Adjustment F – Contracted discounts including extension discounts

Where a contract provides the option for a customer to obtain an extension period at a significant discount, this may lead to a separate performance obligation where a material right exists. If a separate performance obligation exists then there would be an allocation of the transaction price from the original contract through the option period. A balance is therefore adjusted in reserves and recognised in deferred income with the unwind recognised over the extension period (or immediately if the option expires).

The Group has recorded a reduction of £1.5m in reserves at 1 April 2017 to reflect the material right with the balance recognised in deferred income, which will be unwound as future services are delivered. The impact to the loss for the year ended 31 March 2018 is a credit of £0.8m.

Adjustment G – Tax

Due to the changes in the pattern and timing of revenue recognition under IFRS 15, an additional deferred income liability is recognised on the balance sheet from 1 April 2017, via a charge to the opening balance of equity at 1 April 2017. Further, certain assets previously held in accrued income and recognised through the income statement in earlier periods have been derecognised from 1 April 2017, again via a charge to the opening balance of equity at 1 April 2017.

A tax deduction is available at 1 April 2017 for the one-off transitional adjustments recognised in opening equity. This tax deduction gives rise to tax losses at 1 April 2017, creating a deductible temporary difference for which a deferred tax asset of £25.0m is recognised at 1 April 2017, leading to an increase in reserves by the same amount. The tax impact of the IFRS 15 adjustments on the loss for the year ended 31 March 2018 is a charge of £3.2m, of which £1.0m arises on the adjustment to other items.

1. Basis of preparation and significant accounting policies continued

b) Significant accounting policies

The significant accounting policies adopted in the preparation of the Group's IFRS financial information are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Mitie Group plc and all its subsidiaries. The parent company has applied FRS 101 'Reduced disclosure framework' in the preparation of its individual financial statements. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The results, assets and liabilities of joint ventures and associates are accounted for under the equity method of accounting. Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring the accounting policies used into line with those used by the Group.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full.

Interests of non-controlling interest shareholders are measured at the non-controlling interest's proportion of the net fair value of the assets and liabilities recognised. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

In the financial statements the Group has elected to provide some further disclosures and performance measures, reported as 'before other items', in order to present its financial results in a way that demonstrates the performance of continuing operations excluding the results from restructuring and acquisition related costs, and the amortisation or write-off of acquired intangible assets and goodwill. Results before other items is a non-statutory measure.

'Other items' are defined as items of income or expenditure which, in the opinion of the Directors, are material or unusual in nature or of such significance that they require separate disclosure on the face of the income statement in accordance with IAS 1 'Presentation of financial statements'. 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 to the financial statements.

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 204 and 205. These APMs are measures which disclose the adjusted performance of the Group without the adoption of IFRS 15 and excluding specific items which are regarded as non-recurring. The Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance as the Group has applied IFRS 15 in the 2018 financial statements using the cumulative effect method through an adjustment to the opening balance of equity as at 1 April 2017 and has not restated the comparative information for the 2017 financial year. In addition there were a number of significant restatements recorded in the 2017 financial statements.

Foreign currency

The financial statements of each of the Group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

1. Basis of preparation and significant accounting policies continued

On consolidation, the assets and liabilities of the Group's foreign operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing at the balance sheet date. Income and expenses are translated into sterling at average exchange rates for the period. Exchange differences arising are recognised directly in equity in the Group's hedging and translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs are recognised in the income statement in the period in which they are incurred, with the finance charges relating to the direct cost of debt issue spread over the period to redemption using the effective interest method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities; or when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed. The acquiree identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately 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 accordance with IAS 39, either in the income statement or as a change to other comprehensive income. 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.

1. Basis of preparation and significant accounting policies continued

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 IAS 39, when applicable, of an investment in an associate or a joint venture.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and 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.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost less expected residual value of the assets over their estimated useful lives and is calculated on a straight-line basis as follows:

Freehold buildings and long leasehold property	50 years
Leasehold improvements	period of the lease
Plant and vehicles	3–10 years

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

1. Basis of preparation and significant accounting policies continued

Intangible assets

Intangible assets identified in a business acquisition are capitalised at fair value as at the date of acquisition.

Customer relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. These currently range from four to eight years.

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.

Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives which currently range from three to ten years. Software and development costs includes internally generated intangible assets and are amortised over their useful lives of between five and ten years, once they have 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.

Joint ventures and associates

The Group has an interest in joint ventures which are entities in which the Group has joint control. The Group also has an interest in associates which are entities in which the Group has significant influence.

The Group accounts for its interest in joint ventures and associates using the equity method. Under the equity method the Group's share of the post-tax result of joint ventures and associates is reported as a single line item in the consolidated income statement. The Group's interest in joint ventures and associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs represent materials, direct labour and overheads incurred in bringing the inventories to their present condition and location. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and estimated selling costs. Provision is made for obsolete, slow moving or defective items where appropriate.

Financial instruments

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

Assets that are assessed not to be individually impaired are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the Group's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

Financial assets comprise loans and receivables and are measured at initial recognition at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised where there is objective evidence that the asset is impaired. Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The Group uses a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Group's relationship banks. The trade receivables are sold without recourse to the Group, and therefore the trade receivable balance is derecognised.

Financial liabilities comprise trade payables, financing liabilities, bank and other borrowings, and deferred contingent consideration. These are measured at initial recognition at fair value and subsequently at amortised cost with the exception of derivative financial instruments which are measured at fair value, and deferred contingent consideration which is measured at the Directors' best estimate of the likely future obligation. Bank and other borrowings are stated at the amount of the net proceeds after deduction of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

1. Basis of preparation and significant accounting policies continued

Included within the Group's trade creditors balance are amounts relating to payments due to UK suppliers who make use of bank provided supply chain finance arrangements to allow supplier early payment. Amounts are settled in accordance with each suppliers' normal payments terms and payments continue to be classified within cash generated by operations. The Group does not receive any additional guarantees and does not pay any interest in relation to these amounts.

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

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, including cross-currency interest rate swaps and forward foreign exchange contracts, to manage the Group's exposure to financial risks associated with interest rates and foreign exchange. Derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value, determined by reference to market rates, at each balance sheet date and included as financial assets or liabilities as appropriate. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

The Group may designate certain hedging instruments including derivatives as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

Hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

Cash flow hedges

Hedges are classified as cash flow hedges when they hedge the exposure to changes in cash flows that are attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity within the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

1. Basis of preparation and significant accounting policies continued

Hedges of net investments in foreign operations

Hedges are classified as net investment hedges when they hedge the foreign currency exposure to changes in the Group's share in the net assets of a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in equity are reclassified to the income statement in the same way as exchange differences relating to the foreign operation as described above.

Leasing

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Any lease incentives are amortised on a straight-line basis over the non-cancellable period for which the Group has contracted to lease the asset, together with any further terms for which the Group has the option to continue to lease the asset if, at the inception of the lease, it is judged to be reasonably certain that the Group will exercise the option.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

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 bedirectly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers except where this is impracticable, where contract revenue is used as a proxy to activity. The provision is calculated as the lower of the termination costs payable for an early exit and the expected net cost to fulfil the Group's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms.

Share-based payments

The Group operates a number of executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes model, Monte Carlo model or the share price at grant date, and the corresponding expense is recognised on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense. Restricted shares are issued attached with a condition that the relevant recipient continues their employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

1. Basis of preparation and significant accounting policies continued

Own shares

Own shares relate to shares gifted to the Employee Trust by the Company. The cash cost of own shares creates an own shares reserve. When options issued by the Employee Trust are exercised the own shares reserve is reduced and a gain or loss is recognised in reserves based on proceeds less weighted-average cost of shares initially purchased now exercised.

Included in the own shares reserve are restricted shares which are issued as part of acquisitions made by the group. The restricted shares are issued attached with a condition that the relevant recipient continues their employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

Retirement benefit costs

The Group operates a number of defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

In addition, the Group operates and participates in a number of defined benefit schemes. In respect of the schemes in which the Group participates, the Group accounts for its legal and constructive obligations over the period of its participation which is for a fixed period only.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses on obligations, the return on scheme assets (excluding interest) and the effect of the asset ceiling (if applicable) are recognised in full in the period in which they occur. They are recognised in the statement of comprehensive income.

Current service cost and past service cost (including curtailments) are recognised in the income statement, in either administrative expenses or other items, whilst the net interest cost is recognised in finance costs.

The retirement benefit liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

The Group participates in four multi-employer 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. The size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. Consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

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.

1. Basis of preparation and significant accounting policies continued

Revenue under IAS 11 and IAS 18 in relation to prior year

Revenue represents income recognised in respect of services provided during the period (stated net of sales taxes) and is earned predominantly within the United Kingdom. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. When revenue is recognised but has not yet been billed accrued income arises. Deferred income arises when the Group has billed clients in advance of recognising revenue.

All bid costs are expensed through the income statement up to the point where contract award or full recovery of the costs is virtually certain. The confirmation of the preferred bidder for a contract by a client is the point at which the award of a contract is considered to be virtually certain.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance sheet date. Revenue from time and material contracts is recognised at the contractual rates as labour hours and tasks are delivered and direct expenses incurred. In other cases, the Group distinguishes between the following types of contract:

Revenue recognition: repeat service-based contracts (single and bundled contracts)

Revenue is recognised on a straight-line basis unless this is not an accurate reflection of the work performed. Where a straight-line basis is not appropriate, for example if specific works on contracts represent a significant element of the whole, revenue is recognised based on the percentage of completion method, based on the proportion of costs incurred at the balance sheet date relative to the total estimated cost of completing the contracted work.

Costs incurred, after the confirmation of preferred bidder, that are specific 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 mobilisation costs. These costs are included within trade and other receivables on the balance sheet provided that the costs relate directly to the contract, are separately identifiable, can be measured reliably and that the future net cash inflows from the contract are estimated to be no less than the amounts capitalised.

Such costs may be incurred when a contract is awarded, or when there is a subsequent change in the scope of contracted services. The mobilisation costs are amortised over the contracted period (including any contracted extension periods), generally on a straight-line basis, or on a basis to reflect the profile of work to be performed over the contracted period if the straight-line basis is not considered to be appropriate for the specific contract to which the costs relate. If the contract becomes loss making, any unamortised costs are written off and the expected loss is provided for immediately.

Revenue recognition: long-term complex contracts

The Group has a number of long-term contracts for the provision of complex project-based services, predominantly integrated facilities management contracts. These are contracts which are transformational in nature and usually five years in initial duration.

In this context, transformational means that the cost to the client over the life of the contract is reduced as a result of significant transformations in service provision. Typically, these contracts are priced to average the annual charge to the client over the contract period and involve the provision of multiple service lines, with a single management team providing an integrated service.

Where the outcome of such complex project-based contracts can be measured reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is measured by the proportion of contract costs incurred for work performed to date compared to the total estimated contract costs using the percentage of completion methodology.

Contract costs used to determine the stage of completion are recognised in the income statement as expenses in the period in which they are incurred and include transition costs, which are similar in nature to mobilisation costs under repeat service-based contracts. Transition costs are expenses incurred in the performance of transitioning services provided after confirmation of preferred bidder and before commencement of full services under the contract target operating model; no profit margin is recognised for these transition costs.

Contract costs also include transition costs arising when there is a subsequent change in the scope of contracted services and include budgeted cost savings. Where the outcome of a complex project-based contract cannot be estimated reliably, contract revenue is recognised to the extent that it is probable that contract costs will be recovered. Full provision is made for all known or anticipated losses on each contract immediately as losses are forecast. In a number of long-term complex contracts, the achievement of certain key performance indicators (KPIs) is a significant milestone which enables revenue to be recognised. KPIs are generally measured contemporaneously with the performance of the service, rather than being measured over a long period or retrospectively.

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.

The judgements and estimates which have the most significant effect on the reported result for the period and upon the carrying value of assets and liabilities of the Group as at 31 March 2018 are described below.

Revenue recognition

The Group's revenue recognition policies, which are set out under IFRS 15 in Note 1(a) for the financial year ended 31 March 2018 and under IAS 18 and IAS 11 in Note 1(b) in respect of prior years, are central to how the Group measures the work it has performed in each financial year.

The Group's current policy under IFRS 15

Due to the size and complexity of the Group's contracts, management is required to form a number of key judgements and assumptions in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise (refer to Note 1(a)). 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.

In addition, for certain contracts, key assumptions are made:

i. concerning contract extensions and amendments which, for example, directly impact the phasing of upfront payments from customers which are recognised in deferred income and unwound over the expected contract term; or
ii. where options are granted to customers leading to the recognition of a material right.

These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

The Group's prior year policy under IAS 18 and IAS 11

The revenue recognised for certain long-term complex project-based services was based on the stage of completion of the contract activity. This was measured by comparing the proportion of costs incurred, which include transition costs reflecting costs incurred in the performance of transitioning services, against the estimated whole-life contract costs. This required significant judgements to be made in forecasting the outcomes of the long-term contracts.

Particular judgement was required in evaluating the operational and financial business plans for these contracts to forecast the expected whole-life contract billings, costs and margin and to assess the recoverability of any resulting accrued income through the life of the contract. In forming the judgement around expected whole-life contract billings, account was taken of potential deductions from and increments to revenue arising from the application of performance related measures under contracts.

This required management to apply judgements and estimates that drew on the knowledge and experience of the Group's project managers and delivery teams together with the Group's commercial and finance professionals. Whilst there may have been a broad range of possible outcomes based on the relevant circumstances of the individual contract, the Group had controls in place whereby all significant contracts were reviewed on a monthly basis and reforecast quarterly.

The amounts recognised as revenue, profit and contract assets were sensitive to changes in assumptions, for example:

- Revenue measurement – in line with the Group's revenue recognition policy for long-term complex contracts, revenue was recognised on these contracts to the extent that the outcome of the project could be reliably measured. For long-term complex contracts this required judgements to be made on which elements of the contract could be accurately forecast. These contracts would usually comprise fixed revenue streams, variable works and project works. Project works were not included as part of a long-term complex contract on the basis that these amounts were discretionary and consequently could not be reliably forecast. Therefore, these projects were accounted for separately. The revenue streams that could be reliably forecast comprised the fixed elements (for example for ongoing cleaning and security services) and variable works.
- Contract profitability and costs to complete – long-term complex contracts are transformational in nature and there is a commitment to work in partnership with the client from the outset of the contract to drive significant cost savings and efficiencies throughout the life of the contract. During the mobilisation of a contract a target operating model is developed. This target operating model shows how the services that are part of the contract will be delivered during the contract and is subject to a continuous review/improvement process throughout the duration of the contract. The target operating model, cost saving initiatives identified and revenue pipeline were combined into a financial plan for the individual contract. Only cost saving initiatives that were considered to be reasonably certain in terms of timing and scale were included in the plan. Management's ability to accurately forecast the costs to complete the contract involved judgements around cost savings to be achieved over time, anticipated profitability of the contract, as well as contract specific performance KPIs. Where a contract was anticipated to make a loss, these judgements were also relevant in determining whether or not an onerous contract provision was required and how this was to be measured.

2. Critical accounting judgements and key sources of estimation uncertainty continued

- Renegotiation of terms – the Group often entered into renegotiations of existing contract terms such as the timing or the specifications of the services to be delivered. Depending on the outcome of such negotiations, the timing and amount of revenue recognised may have been different.
- Recoverability of contract related assets – linked to the profitability of contracts above, management was also required to determine the recoverability of contract related assets, accrued income and accounts receivable. Judgement was required in determining whether or not the future economic benefits from contracts were sufficient to recover these contract assets.

Profit before other items

'Other items' are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item should be classified as 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 £87.2m (2017: £153.5m) were charged to the income statement for the year ended 31 March 2018. An analysis of the amounts included in other items is detailed in Note 4.

Key sources of estimation uncertainty

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units (CGUs) to which the goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates to calculate the present values of those cash flows.

The carrying value of goodwill at 31 March 2018 was £309.6m (2017: £343.9m); see Note 13. A sensitivity analysis has been performed and the Board has concluded, with the exception of the Property Management CGU, that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill.

Due to a deterioration in market conditions which is expected to impact the performance of the Property Management CGU further sensitivity testing was performed. On the basis of this review the Board concluded that a further impairment of £34.6m was required and this has been recorded during the year as outlined in Note 13. The impacts of changes in key assumptions underpinning the assessment of the carrying value of the Property Management goodwill are set out in Note 13.

Recoverability of aged debtors and accrued income

The Group has material amounts of billed and unbilled work outstanding at year end as outlined in Note 17 . Where balances become aged or subject to dispute the risk of recoverability increases. As a consequence there is significant management judgement involved in assessing the recoverability of these balances which involves consideration of Group contractual rights, work performed as well as the status of ongoing commercial negotiations. In the current year the Group has recognised a valuation allowance of £17.3m (2017: £16.2m) in respect of aged and disputed balances.

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 2018 of £31.5m (2017: £26.8m). Further details are included in Note 28.

Measurement of defined benefit pension obligations

The net pension liability at 31 March 2018 was £56.8m (2017: £74.2m).

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 37 for further detail 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 a potential exposure to Section 75 employer debts in respect of the Plumbing Scheme. Due to the inherent uncertainty regarding the amount of any liability this has been disclosed as a contingent liability, see Note 34 and Note 37.

3. Business segment information

The Group manages its business on a service division basis. At 31 March 2018, the Group has the following seven strategic divisions which are its reportable segments and the information, as reported, is consistent with information presented to the Board. Revenue, operating profit before other items and operating profit margin before other items are the primary measures of performance that are reported to and reviewed by the Board, who is the Group's chief operating decision maker.

The information presented for the year ended 31 March 2017 has been restated to reflect changes in management reporting, implemented in 2018, of certain business unit activities transferring between Engineering Services, Security, Professional Services and Cleaning & Environmental Services and the splitting of Public Services into Care & Custody and Property Management.

	2018			Restated 2017[1,4]		
	Revenue £m	Operating profit/(loss) before other items[2] £m	Operating margin before other items[2] %	Revenue £m	Operating profit/(loss) before other items[2] £m	Operating margin before other items[2] %
Engineering Services	840.7	45.8	5.4	789.1	(4.5)	(0.6)
Security	432.0	27.5	6.4	403.7	17.8	4.4
Professional Services	90.2	6.5	7.2	96.6	6.7	6.9
Cleaning & Environmental Services	406.4	21.5	5.3	395.6	6.5	1.6
Care & Custody	59.9	1.9	3.2	46.4	2.2	4.7
Catering	137.1	5.6	4.1	134.3	4.7	3.5
Property Management	237.4	7.3	3.1	257.7	(4.5)	(1.7)
Corporate centre	–	(26.5)	–	–	(35.2)	–
Total from continuing operations	2,203.7	89.6	4.1	2,123.4	(6.3)	(0.3)
Healthcare	–	–	–	59.2	(12.0)	(20.3)
Total from discontinued operations	–	–	–	59.2	(12.0)	(20.3)
Total	2,203.7	89.6	4.1	2,182.6	(18.3)	(0.8)

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.
3. No single customer accounted for more than 10% of external revenue in 2018 or 2017.
4. The Group has restated 2017 income statement and balance sheet as per Note 1, page 134.

A reconciliation of segment operating profit/(loss) before other items to total loss before tax is provided below:

	2018 £m	2017[1] £m
Operating profit/(loss) before other items	89.6	(6.3)
Other items[2]	(97.9)	(36.6)
Net finance costs	(16.4)	(15.3)
Total from continuing operations	(24.7)	(58.2)
Operating loss before other items	–	(12.0)
Other items[2]	–	(123.2)
Total from discontinued operations	–	(135.2)
Loss before tax	(24.7)	(193.4)

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.

IFRS 8 requires that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker and consequently no segment assets are disclosed.

3. Business segment information continued

Geographical segments

	2018			Restated 2017[1]		
	Revenue £m	Operating profit before other items[2] £m	Operating margin before other items[2] %	Revenue £m	Operating (loss) before other items[2] £m	Operating margin before other items[2] %
United Kingdom	2,093.7	89.3	4.3	2,015.2	(4.8)	(0.2)
Other countries	110.0	0.3	0.3	108.2	(1.5)	(1.4)
Continuing operations	2,203.7	89.6	4.1	2,123.4	(6.3)	(0.3)
United Kingdom	–	–	–	59.2	(12.0)	(20.3)
Other countries	–	–	–	–	–	–
Discontinued operations	–	–	–	59.2	(12.0)	(20.3)
Total	2,203.7	89.6	4.0	2,182.6	(18.3)	(0.8)

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.

Disaggregated revenue

The Group disaggregates revenue from contracts with customers by sector (government and non-government) and by contract duration (contracts with a duration from inception of less than two years, and contracts with a duration from inception of more than two years). The Group believes this best depicts how the nature, timing and amount of revenue and cash flows are affected by economic factors. The following table includes a reconciliation of disaggregated revenue with the Group's reportable segments.

						2018[1]
	Sector[2]			Contract duration for timing of revenue recognition		
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Engineering Services	330.6	510.1	840.7	87.6	753.1	840.7
Security	83.9	348.1	432.0	55.7	376.3	432.0
Professional Services	8.0	82.2	90.2	6.1	84.1	90.2
Cleaning & Environmental Services	89.8	316.6	406.4	–	406.4	406.4
Care & Custody	59.9	–	59.9	–	59.9	59.9
Catering	4.6	132.5	137.1	1.6	135.5	137.1
Property Management	194.4	43.0	237.4	144.2	93.2	237.4
Continuing operations	771.2	1,432.5	2,203.7	295.2	1,908.5	2,203.7

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and is therefore not presented as part of this analysis. See Note 1.
2. Sector is defined by the end customer on any contract e.g. If the Group is a sub-contractor to a construction company for the building of a public hospital, 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 fixed work contracted with customers and excludes the impact of any anticipated contract extensions, and new contracts with customers.

	Less than 1 year £m	More than 1 year £m	Total secured revenue £m
Engineering Services	383.3	1,680.9	2,064.2
Security	300.1	340.7	640.8
Professional Services	21.8	53.7	75.5
Cleaning & Environmental Services	279.0	382.3	661.3
Care & Custody	100.8	569.3	670.1
Catering	8.2	26.5	34.7
Property Management	107.7	241.0	348.7
Total	1,200.9	3,294.4	4,495.3

4. Other items

Other items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The Group separately reports the impairment of goodwill, the cost of restructuring programmes, acquisition and disposal costs including the write-off and amortisation of acquisition related intangible assets, the results of and costs associated with disposals, and other exceptional items and their related tax effect as Other items:

					2018
Continuing operations	Impairment of goodwill £m	Restructure costs £m	Acquisition & disposal related costs £m	Other exceptional items £m	Total £m
Administrative expenses	(34.6)	(47.3)	(8.4)	(7.6)	(97.9)
Other items before tax	(34.6)	(47.3)	(8.4)	(7.6)	(97.9)
Tax	–	8.8	0.4	1.5	10.7
Other items after tax	(34.6)	(38.5)	(8.0)	(6.1)	(87.2)

					2017
Continuing operations	Impairment of goodwill £m	Restructure costs £m	Acquisition & disposal related costs £m	Healthcare disposal £m	Total £m
Administrative expenses	(15.0)	(14.9)	(6.7)	–	(36.6)
Other items before tax	(15.0)	(14.9)	(6.7)	–	(36.6)
Tax	–	3.0	1.1	–	4.1
Other items after tax	(15.0)	(11.9)	(5.6)	–	(32.5)
Discontinued operations					
Other items after tax	(81.1)	(0.3)	(9.2)	(30.4)	(121.0)
Total	(96.1)	(12.2)	(14.8)	(30.4)	(153.5)

4. Other items continued

Impairment of goodwill

Management has assessed the recoverability of the goodwill allocated to the Property Management CGU and has recognised an impairment charge of £34.6m (2017: £15.0m). See Note 13 for further details.

Impairment of goodwill from discontinued operations relates to the impairment of the remaining carrying value of goodwill for the Healthcare CGU of £nil (2017: £81.1m).

Restructure costs

The restructure costs relate to costs of organisational change associated with the Group's Project Helix transformation programme including the transition costs associated with the outsourcing of certain back-office transactional processes.

These costs are analysed below:

	2018 Total[1] £m	Continuing operations £m	Discontinued operations £m	2017 Total £m
Redundancy payments (including those in respect of Project Helix transformation activities[2])	(4.8)	(9.2)	(0.3)	(9.5)
Cost of change team[3]	(5.5)	(3.4)	–	(3.4)
Expenditure and provisions in respect of property closure[4]	(4.8)	(2.3)	(0.1)	(2.4)
Expenditure in respect of Project Helix transformation activities[5]	(21.8)	–	–	–
Impairment of intangible assets[6]	(10.4)	–	–	–
Restructuring costs	(47.3)	(14.9)	(0.4)	(15.3)
Taxation	8.8	3.0	0.1	3.1
Restructuring costs net of taxation	(38.5)	(11.9)	(0.3)	(12.2)

Notes:

1. Includes £34.7m in respect of the Project Helix transformation activities.
2. Costs in respect of roles made redundant as a result of the Project Helix transformation and other projects to restructure the Group's activities.
3. Incremental costs of teams involved in the design and execution of Project Helix transformation activities.
4. Costs in respect of property dilapidations, lease termination, and asset impairments crystalised following decisions to vacate certain of the Group's properties as part of the overall Project Helix transformation.
5. Expenditure in respect of Project Helix transformation projects includes £0.6m of recruitment costs in respect of achieving the new target operating model, £8.2m related to dual running and knowledge transfer costs as part of the transfer of the transactional back-office activities to a third-party provider and £13.0m of professional fees in respect of advice and consultancy activities associated with the design and execution of the Project Helix transformation activities.
6. Impairment of intangible assets relate to systems and processes which are redundant due to the changes to the Group's strategy including the outsourcing of transactional back-office activities. See Note 14.

Acquisition and disposal related costs

Acquisition and disposal related costs from continuing operations include the impairment and amortisation charge for acquisition related intangibles £2.6m (2017: £5.5m), the charge for restricted shares issued per Note 33 of £3.4m (2017: £nil), the accrual of contingent consideration that is required to be treated as remuneration £nil (2017: £0.9m), other acquisition costs £nil (2017: £0.3m), costs of £2.2m (2017: £nil) relating to the aborted disposal of the Property Management business, and £0.2m (2017: £30.4m – included within discontinued operations) related to the disposal of the Healthcare divison.

Acquisition related costs from discontinued operations relate to the impairment and amortisation of acquisition related intangibles of £nil (2017: £9.2m).

4. Other items continued

Other exceptional items

Other exceptional items are analysed below:

	2018 £m	2017 £m
Contract termination receipt[1]	2.0	–
Settlement of contractual dispute[2]	(3.3)	–
Pension scheme past service costs (including curtailments)[3]	(1.9)	–
Regulatory investigation[4]	(2.3)	–
IFRS 15 adoption project[5]	(0.8)	–
Property dilapidations[6]	(1.3)	–
Other exceptional items	(7.6)	–
Taxation	1.5	–
Other exceptional items net of taxation	(6.1)	–

Notes:

1. The loss of two major contracts in the year ended 31 March 2018 resulted in a one-off receipt of termination payments amounting to £2.0m. These amounts are disclosed separately due to the size of the payments received and the fact that the loss of contracts of this size is an unusual event for the Group.
2. The settlement of a long standing contractual dispute for which a provision of £0.7m was made in the year ended 31 March 2017, which will result in a cash outflow of £4m during the year ending 31 March 2019. This amount is disclosed separately due to the size of the settlement and the fact that the contract ended several years ago and so has not contributed to the results in either the current or prior year. In the Interim Financial Statements for the six months ended 30 September 2017 this amount was not separately disclosed as Other items within the "Loss from discontinued operations". Following the decision not to proceed with the disposal of the Property Management division the results of this activity have been reclassified as continuing operations and consequently separate disclosure of this amount as Other Items is considered appropriate to enable understanding of the continuing results of the Group.
3. As a result of the closure of the Mitie Group Plc Pension Scheme to future accrual, a past service cost (including curtailments) of £1.9m has been incurred. See Note 37 for further details.
4. Legal and professional costs of £2.3m have been incurred in respect of the now closed FRC investigation into the Company's treatment of healthcare goodwill and accrued income in the Company's audited accounts for the year ended 31 March 2016, the ongoing FCA investigation in connection with the timeliness of a profit warning announced by the Company on 19 September 2016, the manner of preparation and content of the Company's financial information, position and results for the period ended 31 March 2016, and regarding the Company's own investigation into the same matters, facts and circumstances which are subject to FCA and FRC investigation.
5. Professional fees and interim staff costs of £0.8m have been incurred in respect of the project to adopt IFRS 15 'Revenue from contracts with customers'.
6. As part of the rationalisation of the Group's property portfolio a review of the potential liabilities for leasehold property dilapidation costs has been carried out. This review has resulted in a one-off £1.3m charge.

Healthcare disposal

During the year ended 31 March 2017 the Group decided to withdraw from the domiciliary healthcare market and completed the sale of the Healthcare division on 28 February 2017. See Note 5 for further details.

5. Discontinued operations and disposal of subsidiaries

There were no disposals in the financial year ended 31 March 2018.

In the financial year ended 31 March 2017 the Board took the decision to withdraw from the domiciliary healthcare market. The sale of the Healthcare division completed on 28 February 2017. The disposal resulted in the control of Enara Group Limited (Enara) and Complete Care Holdings Limited (Complete Care) passing to Apposite Capital LLP (Apposite) for £2. In addition, the Group agreed to contribute £9.5m towards the trading losses of the business and the turnaround plan which was paid in full in the financial year ended 31 March 2018. A further £0.2m was incurred in financial year ended 31 March 2018.

The trading results of the Healthcare business were classified as discontinued operations in the year of disposal as defined by IFRS 5 'Non-current assets held for sale and discontinued operations'.

The net assets of Healthcare at the date of disposal were as follows:

	2017 £m
Non-current assets	
Other intangible assets	1.5
Property, plant and equipment	1.1
Deferred tax assets	0.4
Total non-current assets	3.0
Current assets	
Trade and other receivables	14.7
Cash and cash equivalents	1.7
Total current assets	16.4
Total assets	19.4
Current liabilities	
Trade and other payables	(5.3)
Financing liabilities	(0.1)
Current tax liabilities	(0.4)
Total current liabilities	(5.8)
Net assets	13.6
Deferred contribution payable to purchaser	9.5
Other costs of disposal	7.3
Total consideration	–
Loss on disposal	(30.4)

Net cash outflow arising on disposal:

	2017 £m
Consideration on disposal	–
Cash and cash equivalents disposed of	1.7
	1.7

5. Discontinued operations and disposal of subsidiaries continued

The results of the Healthcare discontinued operations in the year ended 31 March 2017 are presented below:

	2017 £m
Revenue	59.2
Cost of sales	(48.8)
Gross profit	10.4
Administrative expenses	(22.4)
Operating loss before other items	(12.0)
Other items	(123.2)
Operating loss before tax	(135.2)
Tax	2.8
Loss from discontinued operations for the year	(132.4)

Of the £2.8m of tax credits included in the above results, £2.2m relates to other items.

The effect of discontinued operations on segment results in 2017 is disclosed in Note 3.

Cash flows from discontinued operations included in the consolidated cash flow statement for the year ended 31 March 2017 are as follows:

	2017 £m
Net cash flows from operating activities (after tax)	(8.8)
Net cash flows from investing activities	(0.4)
Net cash flows from financing activities	–
	(9.2)

6. Operating profit/(loss)

Operating profit has been arrived at after charging:

Continuing and discontinued operations	2018 £m	2017[1] £m
Depreciation of property, plant and equipment (Note 15)	12.8	14.1
Amortisation of other intangible assets (Note 14)	13.5	23.8
Impairment of goodwill (Note 13)	34.6	96.1
Impairment of acquisition related intangible assets (Note 14)	–	10.1
Impairment of other intangible assets (Note 14)	10.4	3.0
Loss on disposal of property, plant and equipment	–	1.0
Loss on disposal of subsidiary (Note 5)	–	30.4
Impairment loss recognised on trade receivables (Note 17)	2.3	13.9
Write-downs of inventories recognised as an expense	–	1.4
Impairment loss recognised on accrued income	0.3	4.5
Operating lease rentals	25.1	32.1

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

6. Operating profit/(loss) continued

A detailed analysis of auditor's remuneration is provided below:

	2018 £'000	2017 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts – BDO LLP	40	–
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation – BDO LLP	1,161	–
Fees payable to the Company's auditor for the audit of the Company's annual accounts – Deloitte LLP	–	40
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation – Deloitte LLP	87	1,037
Total audit fees	**1,288**	**1,077**
Other audit related services to the Group – BDO LLP	93	–
Other audit related services to the Group – Deloitte LLP	–	70
Tax services – BDO LLP	6	–
Tax services – Deloitte LLP	–	85
Other services – Deloitte LLP	–	15
Total non-audit fees	**99**	**170**
Total	**1,387**	**1,247**

7. Staff costs

Number of people	2018	2017
The average number of people employed during the financial year was:		
Engineering Services	8,176	8,545
Security	14,804	13,441
Professional Services	672	333
Cleaning & Environmental Services	22,099	24,454
Care & Custody	1,051	897
Catering	2,505	2,692
Property Management	2,322	2,458
Corporate Centre	37	43
Healthcare	–	3,416
Total Group	**51,666**	**56,279**

The number of people employed at 31 March was:

	2018	2017
Total Group	**48,978**	**52,798**

Aggregate remuneration comprised:	2018 £m	2017 £m
Wages and salaries	1,020.7	1,068.9
Social security costs	77.1	82.2
Other pension costs	17.0	16.7
Share-based payments (Note 36)	1.2	6.2
Share-based payments acquisition related costs (Notes 4 and 36)	3.4	–
Total	**1,119.4**	**1,174.0**

7. Staff costs continued

Details of directors' remuneration is provided below:

	2018 £m	2017 £m
Directors' emoluments	2.1	3.2
Share-based payments	0.6	1.3
Total	2.7	4.5

None of the directors accrued benefits under the defined benefit scheme, or were members of the defined contribution schemes for the years ended 31 March 2018 and 31 March 2017.

The total amount payable to the highest paid director in respect of emoluments was £1.1m (2017: £0.5m).

8. Investment revenue

	2018 £m	2017 £m
Interest on bank deposits	0.2	–

9. Finance costs

Continuing operations	2018 £m	2017 £m
Interest on bank facilities	3.2	3.1
Interest on private placement loan notes	9.1	9.6
Bank fees	2.0	1.0
Interest on obligations under finance leases	–	0.2
Unwinding of discounts on provisions	0.2	–
Loss arising on fair value hedges	0.1	0.1
Net interest on defined benefit pension scheme assets and liabilities	2.0	1.3
Total	16.6	15.3

10. Tax

Continuing and discontinued operations	2018 £m	2017[1] £m
Current tax	(5.6)	(0.9)
Deferred tax (Note 21)	6.9	(9.3)
Tax charge/(credit) for the year	1.3	(10.2)
Continuing operations	1.3	(7.4)
Discontinued operations (Note 5)	–	(2.8)
Tax charge/(credit) for the year	1.3	(10.2)

10. Tax continued

Corporation tax is calculated at 19% (2017: 20%) of the estimated taxable profit for the year. A reconciliation of the tax charge to the elements of loss before tax per the consolidated income statement elements is as follows:

	2018			2017[1]		
Continuing and discontinued operations	Before other items £m	Other items £m	Total £m	Before other items £m	Other items £m	Total £m
(Loss)/profit before tax	73.2	(97.9)	(24.7)	(33.6)	(159.8)	(193.4)
Tax at UK rate of 19% (2017: 20%)	13.9	(18.6)	(4.7)	(6.7)	(32.0)	(38.7)
Reconciling tax charges for:						
Non-tax deductible charges	0.5	1.1	1.6	0.4	0.3	0.7
Share-based payments	(0.1)	–	(0.1)	0.8	–	0.8
Loss on disposal of business	–	–	–	–	6.1	6.1
Impairment of goodwill	–	6.6	6.6	–	19.2	19.2
Overseas tax rates	(0.3)	–	(0.3)	0.1	–	0.1
Impact of change in statutory tax rates	0.1	0.2	0.3	1.2	0.1	1.3
Prior year adjustments	(2.1)	–	(2.1)	0.3	–	0.3
Tax charge/(credit) for the year	12.0	(10.7)	1.3	(3.9)	(6.3)	(10.2)
Effective tax rate for the year	16.4%	10.9%	(5.3)%	11.5%	3.9%	5.3%

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

In addition to the amounts charged to the consolidated income statement, tax relating to retirement benefit costs amounting to a £3.4m charge (2017: £5.5m credit) has been taken directly to the statement of comprehensive income together with a £0.1m credit relating to share-based payments and hedged items (2017: £0.3m credit).

The effective tax rate on profit before other items is generally higher than the statutory tax rate due to entertaining costs, commercial property depreciation and share-based payment charges not being wholly tax deductible and tax losses incurred overseas. However, as losses were incurred in 2018 and 2017 the effective rate is lower than the statutory tax rate due to permanent differences such as those described above. In addition the 2018 figure was impacted by prior year adjustments, whilst the 2017 figure was impacted by a change in tax rates.

The UK corporation tax rate reduced from 20% to 19% from 1 April 2017 and will reduce to 17% from 1 April 2020. This will reduce the Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 31 March 2018 have been adjusted to reflect these changes. A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation.

11. Dividends

	2018 £m	2017 £m
Amounts recognised as distributions in the year:		
Final dividend for the year ended 31 March 2017 of nil (2016: 6.7p) per share	–	23.3
Interim dividend for the year ended 31 March 2018 of 1.33p (2017: 4.0p) per share	4.8	14.1
Amounts paid in 2018 and 2017	4.8	37.4
Proposed final dividend for the year ended 31 March 2018 of 2.67p (2017: nil) per share	9.8	–

12. Earnings per share

Basic and diluted earnings per share have been calculated in accordance with IAS 33 'Earnings per share'.

The calculation of the basic and diluted EPS is based on the following data:

From continuing operations	2018 £m	2017[1] £m
Net profit/(loss) before other items attributable to equity holders of the parent	60.1	(19.1)
Other items net of tax	(87.2)	(32.5)
Net loss attributable to equity holders of the parent	(27.1)	(51.6)

From continuing and discontinued operations	2018 £m	2017[1] £m
Net profit/(loss) before other items attributable to equity holders of the parent	60.1	(30.5)
Other items net of tax	(87.2)	(153.5)
Net loss attributable to equity holders of the parent	(27.1)	(184.0)

Number of shares	2018 million	2017 million
Weighted average number of ordinary shares for the purpose of basic EPS	357.9	351.0
Effect of dilutive potential ordinary shares: share options	1.9	3.7
Weighted average number of ordinary shares for the purpose of diluted EPS	359.8	354.7

	2018 p	2017[1] p
From continuing operations:		
Basic earnings/(loss) before other items per share[2]	16.8	(5.5)
Basic loss per share	(7.6)	(14.7)
Diluted earnings/(loss) before other items per share[2,3]	16.8	(5.5)
Diluted loss per share	(7.6)	(14.7)
From continuing and discontinued operations:		
Basic earnings/(loss) before other items per share[2]	16.8	(8.7)
Basic loss per share	(7.6)	(52.4)
Diluted earnings/(loss) before other items per share[2,3]	16.8	(8.7)
Diluted loss per share	(7.6)	(52.4)

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.
3. Prior year diluted loss per share has been restated to exclude the effects of anti-dilutive potential ordinary shares.

The weighted average number of ordinary shares in issue during the year excludes those accounted for in the own shares reserve (see Note 32).

The dilutive potential ordinary shares relate to instruments that could potentially dilute basic earnings per share in the future, such as share options. The loss for the year means that the identified potentially dilutive shares are anti-dilutive for the purposes of calculating diluted earnings per share.

13. Goodwill

	£m
Cost	
At 1 April 2016	465.5
Change in consideration C&C Health	(0.1)
Disposal of subsidiary	(107.1)
Impact of foreign exchange	0.6
At 1 April 2017	358.9
Impact of foreign exchange	0.3
At 31 March 2018	**359.2**
Accumulated impairment losses	
At 1 April 2016	26.0
Impairment of healthcare goodwill	81.1
Impairment of property goodwill	15.0
Disposal of subsidiary	(107.1)
At 1 April 2017	15.0
Impairment of property goodwill	34.6
At 31 March 2018	**49.6**
Carrying amount	
At 31 March 2018	**309.6**
At 31 March 2017	343.9
At 1 April 2016	439.5

Impairment of Mitie Property Management goodwill

Taking into account the current and forecast market conditions of the Property Management business, the Group has further impaired the Property Management goodwill by £34.6m in the 2018 financial year.

Further detail on the impairment, including sensitivity analysis is presented below.

Impairment of Healthcare goodwill

In 2017 the Group undertook an impairment review of the goodwill and intangible assets associated with the Healthcare business. This reassessment of the estimate of the recoverable amount of the Healthcare cash-generating unit (CGU) resulted in impairment of the remaining carrying value of goodwill and acquisition related intangible assets for the Healthcare CGU in the 2017 financial year.

13. Goodwill continued

Goodwill impairment testing

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

Goodwill has been allocated to CGUs, which align with the business segments, as this is how goodwill is monitored by the Group internally. The goodwill allocated to the Public Services CGU, which consisted of the Property Management and Care & Custody activities in the prior year, related only to Property Management and has been assigned as such in the table below. 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 %	Post-tax discount rate %	Goodwill 2018 £m	Goodwill 2017 £m
Engineering Services	9.8	8.2	107.8	107.5
Security	9.8	8.2	101.7	101.7
Professional Services	11.0	9.2	15.7	15.7
Cleaning & Environmental Services	9.8	8.2	33.1	33.1
Catering	10.4	8.7	15.7	15.7
Property Management	13.0	10.6	35.6	70.2
Total			**309.6**	**343.9**

Key assumptions

The recoverable amounts for each CGU are determined by the value in use which is derived from discounted cash flow calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the forecast period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The long-term growth rates are based on forecast inflation. Changes in revenue and direct costs are based on past performance and expectations of future changes in the market, operating model, and cost base.

Growth rates and terminal values

For all CGUs excluding Property Management the Group prepares cash flow forecasts derived from the most recent budgets for the year ending 31 March 2019 which have been approved by the Board, extrapolated for four future years by an expected growth rate of 1% and a terminal value using a long-term growth assumption of 1.75%.

The assumptions for Property Management are set out below.

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 7.7% at 31 March 2018 (2017: 7.3%), and is adjusted for the risks specific to the business being assessed and the market in which the CGU operates. All CGUs have the same access to the Group's treasury functions and borrowing lines to fund their operations.

13. Goodwill continued

Sensitivity analysis

A sensitivity analysis has been performed and the Directors have concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of any of the Group's CGUs with the exception of the Property Management CGU which is described below. In particular a 1% increase in the discount rate or a 1% decrease in the terminal value growth rate would not result in any change to the impairment conclusions in any of the CGUs.

Review of the carrying value of goodwill for the Property Management CGU

During the 2018 financial year the Group was engaged in a process to sell the Property Management CGU, by the half-year this process was sufficiently well advanced for the division to be reported as a discontinued operation. Subsequently, due to market conditions, this process was terminated on 5 December 2017 and consequently the division was reclassified as a continuing operation. As noted in the Operating review the Property Management business has had a difficult year with market conditions, particularly in social housing, leading to a reduction in revenue and continued pressure on operating margins.

In this context the Directors have taken a conservative approach to forecasting the future performance of Property Management, with an assumption of no growth in revenue during the period to 31 March 2023, and an improvement in margins of only 25bps compared to the budget for the year ending 31 March 2019 over the period to 31 March 2023. An improvement in market conditions is anticipated after 31 March 2023, with growth in the terminal value period being in line with inflation at 1.75%.

Having considered this scenario alongside a range of other scenarios, the Directors concluded that a further impairment of £34.6m should be made against the Property Management goodwill, resulting in a goodwill carrying value of £35.6m at 31 March 2018.

The impairment testing described above in respect of the Property Management CGU is dependent upon the accuracy of the assumptions made in respect of future performance, the discount rate, and the growth during the terminal value period.

The table below shows how the impairment test would be impacted, all other factors being equal, by:

- an increase or decrease in the discount rate of 100bps;
- a change in market conditions such that year on year revenue growth increases or decreases by 100bps between 31 March 2020 and 31 March 2023;
- a change in projected profitability such that EBIT margin as a percentage of revenue increases or decreases by 100bps between 31 March 2020 and 31 March 2023;
- an increase or decrease of 100bps in the growth rate in the terminal value period.

	Increase/(decrease in impairment	
	Increase of 100bps £m	Decrease of 100bps £m
Discount rate	(5.1)	6.5
Year on year revenue growth FY20 to FY23	1.7	(1.7)
EBIT as a percentage of revenue FY20 to FY23	14.4	(14.4)
Terminal value growth rate	4.7	(3.7)

14. Other intangible assets

	Acquisition related				
	Customer relationships £m	Other £m	Total acquisition related £m	Software and development expenditure £m	Total £m
Cost					
At 1 April 2016	88.4	10.9	99.3	73.1	172.4
Additions	–	–	–	12.4	12.4
Disposal of subsidiary	–	–	–	(2.9)	(2.9)
Reclassifications from property, plant and equipment (Note 15)	–	–	–	14.5	14.5
Impact of foreign exchange	–	–	–	0.2	0.2
At 1 April 2017	88.4	10.9	99.3	97.3	196.6
Additions	–	–	–	9.0	9.0
At 31 March 2018	88.4	10.9	99.3	106.3	205.6
Amortisation					
At 1 April 2016	66.9	9.2	76.1	31.7	107.8
Charge for the year	6.4	0.4	6.8	17.0	23.8
Impairment of software and development expenditure	–	–	–	3.0	3.0
Impairment of acquisition related intangible assets	10.1	–	10.1	–	10.1
Disposal of subsidiary	–	–	–	(1.4)	(1.4)
Impact of foreign exchange	–	–	–	0.1	0.1
At 1 April 2017	83.4	9.6	93.0	50.4	143.4
Charge for the year	2.2	0.4	2.6	10.9	13.5
Impairment of software and development expenditure	–	–	–	10.4	10.4
At 31 March 2018	85.6	10.0	95.6	71.7	167.3
Carrying amount					
At 31 March 2018	2.8	0.9	3.7	34.6	38.3
At 31 March 2017	5.0	1.3	6.3	46.9	53.2
At 1 April 2016	21.5	1.7	23.2	41.4	64.6

Customer relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. These currently range from four to eight years. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives which currently range from three to ten years. Software and development costs are amortised over their useful lives of between five and ten years, once they have been brought into use.

During the 2018 financial year the Group has undertaken a reassessment of the useful economic life of software and development expenditure related intangible assets. As a result of the establishment of a new central database and the outsourcing of finance transactional processes, the decision was taken to impair software and development assets that will no longer be in use going forward. An impairment of £10.4m was recognised within restructure costs in other items in the financial year (see Note 4).

Following the decision to withdraw from the domiciliary healthcare market, the customer relationships relating to the healthcare business were impairment tested and an impairment of £10.1m was recognised within acquisition and disposal related costs in other items in the 2017 financial year (see Note 4).

Reclassifications from property, plant and equipment in 2017 relate to completed software and development expenditure which was held in plant and vehicles whilst being developed.

15. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and vehicles £m	Total £m
Cost				
At 1 April 2016	1.6	18.8	102.0	122.4
Additions	–	0.3	14.4	14.7
Reclassifications to other intangible assets (Note 14)	–	–	(14.5)	(14.5)
Disposals	(0.3)	(2.3)	(25.3)	(27.9)
Disposal of subsidiaries	–	(0.1)	(5.3)	(5.4)
Impact of foreign exchange	–	0.1	0.2	0.3
At 1 April 2017	1.3	16.8	71.5	89.6
Additions	0.2	4.9	10.7	15.8
Reclassifications within property, plant and equipment	–	0.2	(0.2)	–
Disposals	(1.2)	(0.8)	(2.4)	(4.4)
Impact of foreign exchange	–	–	–	–
At 31 March 2018	0.3	21.1	79.6	101.0
Accumulated depreciation and impairment				
At 1 April 2016	0.5	9.8	62.8	73.1
Charge for the year	–	1.5	12.6	14.1
Disposals	(0.1)	(0.7)	(25.1)	(25.9)
Disposal of subsidiaries	–	–	(4.3)	(4.3)
Impact of foreign exchange	–	–	0.3	0.3
At 1 April 2017	0.4	10.6	46.3	57.3
Charge for the year	–	1.7	11.1	12.8
Reclassifications within property, plant and equipment	–	0.2	(0.2)	–
Disposals	(0.3)	(0.3)	(2.1)	(2.7)
Impact of foreign exchange	–	–	–	–
At 31 March 2018	0.1	12.2	55.1	67.4
Carrying amount				
At 31 March 2018	0.2	8.9	24.5	33.6
At 31 March 2017	0.9	6.2	25.2	32.3
At 1 April 2016	1.1	9.0	39.2	49.3

The net book value of plant and vehicles held under finance leases included above was £0.7m (2017: £2.8m).

16. Interest in joint ventures and associates

The Group has a 30% interest in an associate, Pyramid Plus South LLP, a limited liability partnership registered in the United Kingdom. The Group's interest in the associate is accounted for in the consolidated financial statements using the equity method.

The summarised financial information set out below for the year ended 31 March 2018 has been taken from unaudited management accounts of the associate.

	2018 £m	2017 £m
Revenue	12.2	12.3
Operating profit	2.6	1.9
Group's share of profit of associate	**0.8**	0.6

	2018 £m	2017 £m
Current assets	3.8	2.7
Current liabilities	(1.2)	(0.7)
Net assets	2.6	2.0
Group's share of interest in associate	**0.8**	0.6

During the 2018 financial year the Group received dividends from Pyramid Plus South LLP of £0.6m (2017: £0.6m).

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.

17. Trade and other receivables

	2018 £m	Restated 2017[1,5] £m
Amounts receivable for the sale of services	222.3	201.8
Provision for doubtful debts	(17.3)	(16.2)
Trade receivables[2]	205.0	185.6
Accrued income[3]	131.4	142.5
Accrued income on long-term complex contracts (Note 18)	–	50.2
Amounts recoverable on construction contracts	–	0.1
Mobilisation costs (Note 19)	–	21.0
Prepayments	21.3	22.7
Other debtors	28.3	23.8
Total	386.0	445.9
Included in current assets	386.0	395.6
Included in non-current assets[4]	–	50.3
Total	386.0	445.9

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. As in the prior year, the Group has made use of a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Group's relationship banks. The Group reduced the amount of invoice discounting from £110.7m as at 31 March 2017 to £76.3m as at 31 March 2018. As these trade receivables are sold without recourse the Group has derecognised them, and so they are not included in trade receivables.
3. Accrued income relates to revenue recognised, but unbilled at the year end.
4. Non-current trade and other receivables comprise accrued income on long-term complex contracts of £nil (2017: £40.8m) and mobilisation costs of £nil (2017: £9.5m) which are further analysed in Notes 18 and 19 respectively.
5. The Group has restated 2017 income statement and balance sheet as per Note 1, page 134.

17. Trade and other receivables continued

Ageing of trade receivables:

	2018 £m	2017[1] £m
Neither impaired nor past due	163.6	159.4
Not impaired and less than three months overdue	37.4	26.8
Not impaired and more than three months overdue	21.3	15.4
Impaired receivables	–	0.2
Provision for doubtful debts	(17.3)	(16.2)
Total	**205.0**	**185.6**

Movement in the provision for doubtful debts:

	2018 £m	2017 £m
At 1 April	16.2	4.6
Impairment losses recognised	2.3	13.9
Amounts written off as uncollectable	(1.2)	(0.8)
Disposal of business	–	(1.5)
At 31 March	**17.3**	**16.2**

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

The average credit period taken on sales of services was 28 days (restated 2017: 26 days).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

18. Accrued income on long-term complex contracts

	2018 £m	2017[1] £m
At 1 April	50.2	70.6
Impact of change to IFRS 15[2]	(50.2)	–
Amounts recognised in the income statement	–	(20.4)
At 31 March	**–**	**50.2**
Included in current assets	–	9.4
Included in non-current assets[3]	–	40.8
Total	**–**	**50.2**

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Following the adoption of IFRS 15, the Group no longer accounts for long-term contracts using the percentage of completion method of accounting applied previously under IAS 11, and has therefore derecognised the asset. See Note 1.
3. At 31 March 2017, £21.2m of the accrued income on long-term complex contracts was attributable to transition costs.

19. Mobilisation costs

	2018 £m	2017[1] £m
At 1 April	21.0	28.6
Impact of change to IFRS 15[2]	(21.0)	–
Additions	–	12.4
Amounts recognised in the income statement	–	(20.0)
At 31 March	–	21.0
Included in current assets	–	11.5
Included in non-current assets	–	9.5
Total	–	21.0

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Mobilisation costs that did not meet IFRS 15 criteria were derecognised as part of the adoption of the new standard. See Note 1.
3. Under IFRS 15, mobilisation costs are included as contract assets where they meet the criteria to capitalise. See Note 20.

20. Contract assets

	2018 £m
At 1 April	–
Additions	2.3
Amortised in the year	(0.1)
At 31 March	2.2
Included in current assets	0.4
Included in non-current assets	1.8
Total	2.2

Contract assets comprises contract fulfilment costs amounting to £2.2m have been recognised at 31 March 2018. 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.

To determine whether future economic benefits from contracts are sufficient to recover the contract assets, management has performed an assessment of the costs to complete the contract. In comparing the carrying amount of the asset to the remaining amount of consideration expected to be received less the costs to provide services under the relevant contract, management has determined no impairment is required at 31 March 2018.

21. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period:

	Losses £m	Accelerated tax depreciation £m	Retirement benefit liabilities £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	Total £m
At 1 April 2016	–	1.4	6.4	(4.4)	1.3	1.3	6.0
(Charge)/credit to income	0.8	5.1	0.7	3.3	(0.3)	(0.3)	9.3
(Charge)/credit to equity and the statement of comprehensive income	–	–	5.5	–	(0.3)	0.6	5.8
At 1 April 2017	0.8	6.5	12.6	(1.1)	0.7	1.6	21.1
Impact of change to IFRS 15	25.0	–	–	–	–	–	25.0
(Charge)/credit to income	(7.0)	(0.3)	0.3	0.3	(0.1)	(0.1)	(6.9)
(Charge)/credit to equity and the statement of comprehensive income	–	–	(3.4)	–	0.1	–	(3.3)
At 31 March 2018	18.8	6.2	9.5	(0.8)	0.7	1.5	35.9

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:

	2018 £m	2017 £m
Deferred tax assets	36.7	22.2
Deferred tax liabilities	(0.8)	(1.1)
Net deferred tax asset	35.9	21.1

The Group has unutilised income tax losses of £94.9m (2017: £14.2m) that are available for offset against future profits. In addition, the Group has £0.8m (2017: £0.8m) of capital losses.

A deferred tax asset has been recognised in respect of certain unutilised losses and allowances to the extent that it is probable that taxable profits will be generated in the future and be available for utilisation. Deferred tax has been calculated using the corporation tax rates disclosed in Note 10.

22. Inventories

	2018 £m	2017 £m
Materials	6.9	6.8

23. Cash and cash equivalents

	2018 £m	2017 £m
Cash and cash equivalents	59.8	129.1

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of the assets approximates their fair value.

Included in cash and cash equivalents are deposits totalling £0.4m (2017: £0.6m) held by the Group's insurance subsidiary, which are not readily available for the general purposes of the Group.

24. Trade and other payables

	2018 £m	Restated 2017[1,3] £m
Payments received on account	0.2	1.8
Trade creditors	191.3	244.7
Other taxes and social security	79.9	84.3
Other creditors	29.2	24.5
Accruals	196.2	171.6
Deferred income[2]	–	47.6
Total	**496.8**	**574.5**
Included in current liabilities	496.8	574.5
Included in non-current liabilities	–	3.4
Total	**496.8**	**577.9**

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Following the adoption of IFRS 15, the Group has presented deferred income from contracts with customers separately on the balance sheet and is therefore analysed in Note 25.
3. The Group has restated 2017 income statement and balance sheet as per Note 1, page 134.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 59 days (restated 2017: 72 days).

Included within the Group's trade creditors balance is £45.1m (2017: £39.5m) relating to payments due to UK suppliers which make use of bank provided supply chain finance arrangements. During the year ended 31 March 2018 these arrangements were used by c.200 suppliers, with a maximum facility available of £50.0m. The Group settles these amounts in accordance with each suppliers' agreed payment terms.

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

25. Deferred income from contracts with customers

	2018[1] £m
Included in current liabilities	(46.2)
Included in non-current liabilities	(18.8)
Total	**(65.0)**

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

26. Financing liabilities

	2018 £m	2017 £m
Bank loans – under committed facilities	54.3	15.3
Private placement notes	203.8	294.0
Obligations under finance leases (Note 29)	1.3	2.8
Total	259.4	312.1
Included in current liabilities	0.8	310.8
Included in non-current liabilities	258.6	1.3
Total	259.4	312.1

The £275m bank facility and the private placement notes are unsecured but have financial and non-financial covenants and obligations commonly associated with these arrangements. Subsequent to the prior year end the Group's lenders agreed an amendment to the covenant calculation definitions. In accordance with the requirements of IAS 1, it was necessary to classify the drawn amounts on the funding arrangements as current rather than non-current liabilities as at 31 March 2017. The final maturity dates of all facilities remained unchanged. The Group was in compliance with these covenants as at 31 March 2018 and hence all amounts are classified in line with repayment dates.

Included in current financing liabilities are £0.8m (2017: £1.5m) of obligations under finance leases (see Note 29).

With the exception of derivative financial instruments, all financing liabilities are held at amortised cost. Derivative financial instruments are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through profit or loss unless they are designated as hedges for which hedge accounting can be applied (see Note 27).

At 31 March 2018, the Group had available £219.3m (2017: £257.9m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facilities have an expiry date of July 2021. The loans carry interest rates which are currently determined at 1.3% over the applicable LIBOR.

Details of the Group's contingent liabilities are provided in Note 34.

The weighted average interest rates paid during the year on the overdrafts and loans outstanding were as follows:

	2018 %	2017 %
Overdrafts	2.0	2.1
Bank loans	1.5	1.2
Private placement notes	3.9	3.8

Private placement notes

Following the issue on 16 December 2010 of US$96.0m and £40.0m of private placement (PP) notes in the United States Private Placement market, on 13 December 2012, the Group issued a further US$153.0m and £55.0m of PP notes. 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 the PP notes are as shown below. US$96m of these PP notes were settled in December 2017 upon maturity, along with the associated swaps.

Tranche	Maturity date	Amount	Interest terms	Swap interest
7 year	16 December 2017	US$48.0m	US$ fixed at 3.38%	£ fixed at 3.88%
7 year	16 December 2017	US$48.0m	US$ fixed at 3.39%	£ LIBOR +1.26%
9 year	16 December 2019	£40.0m	£ fixed at 4.38%	n/a
10 year	16 December 2022	US$76.0m	US$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	US$77.0m	US$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	£25.0m	£ fixed at 3.87%	n/a
12 year	16 December 2024	£30.0m	£ fixed at 4.0%	n/a

27. Financial instruments

Classification

The Group's principal financial assets are cash and cash equivalents, trade receivables and derivative financial instruments. With the exception of derivative financial instruments, all financial assets are classified as loans and receivables.

The Group's principal financial liabilities are trade payables and financing liabilities. With the exception of derivative financial instruments and deferred contingent consideration, all financial liabilities are held at amortised cost.

Derivative financial instruments are measured initially at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through the income statement unless they are designated as hedges for which hedge accounting can be applied.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense) for each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

Risk management objectives

The Group's treasury department monitors and manages the financial risks relating to the operations of the Group. These risks include those arising from interest rates, foreign currencies, liquidity, credit and capital management. The Group seeks to minimise the effects of these risks by using effective control measures and, where appropriate, derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by Group policies and reviewed regularly. Group policy is to not trade in financial instruments. The risk management policies remain unchanged from the previous year.

Interest rate risk

The Group's activities expose it to the financial risks of interest rates. The Group's treasury function reviews its risk management strategy on a regular basis and will appropriately enter into derivative financial instruments in order to manage interest rate risk.

Interest rate sensitivity

The interest rate sensitivity has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. All financial liabilities, other than financing liabilities, are interest free.

If underlying interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2018 and reserves would decrease/increase by £0.7m (2017: £0.8m).

Foreign currency risk

The Group has limited exposure to transactional foreign currency risk from trading transactions in currencies other than the functional currency of individual group entities and some exposure to translational foreign currency risk from the translation of its foreign operations. The Group considers the need to hedge its exposures as appropriate and will enter into forward foreign exchange contracts to mitigate any significant risks.

In addition, the Group has fully hedged the US dollar exposure on its private placement notes into sterling using cross-currency interest rate swaps (see Hedging activities below).

At 31 March 2018 £9.3m (2017: £6.9m) of cash and cash equivalents were held in foreign currencies. Included in bank loans were £15.7m (2017: £17.1m) of loans denominated in foreign currency.

27. Financial instruments continued

Liquidity risk

The Group monitors its liquidity risk using a cash flow projection model which considers the maturity of the Group's assets and liabilities and the projected cash flows from operations. Bank loans under committed facilities, which allow for appropriate headroom in the Group's daily cash movements, are then arranged. Details of the Group's bank facilities can be found in Note 26.

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 2018	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	191.3	–	–	191.3
Other creditors	29.2	–	–	29.2
Financing liabilities	65.6	198.9	31.5	296.0
Financial liabilities*	**286.1**	**198.9**	**31.5**	**516.5**

* Financing liabilities maturity profile is exclusive of the £6.1m derivative asset which would naturally offset the settlement value of maturing private placement notes.

Financial liabilities at 31 March 2017	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	244.7	–	–	244.7
Other creditors	24.5	–	–	24.5
Financing liabilities	106.2	70.2	181.2	357.6
Deferred contingent consideration	0.3	–	–	0.3
Financial liabilities*	**375.7**	**70.2**	**181.2**	**627.1**

* Financing liabilities maturity profile is exclusive of the £35.8m derivative asset which would naturally offset the settlement value of maturing private placement notes.

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 amounts presented in the balance sheet in relation to the Group's trade receivables are net of provisions for doubtful debts.

The Group's credit risk is primarily attributable to its trade receivables. 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.

In determining the recoverability of a trade receivable, the Group considers the credit quality of the counterparty. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Directors believe that there is no further provision required in excess of the provision for doubtful debts at the balance sheet date.

The maximum exposure to credit risk in relation to trade receivables at the balance sheet date is the fair value of trade receivables. 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.

Capital management risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the Group consists of net debt per Note 30 and equity per the consolidated statement of changes in equity.

The Group's capital structure is reviewed regularly. In 2013, the Board approved a share purchase policy to maintain share numbers at a broadly consistent level year on year with the aim of ensuring that the interests of shareholders are not diluted by the issue of shares that support the Group's various share schemes, nor by the issue of shares as consideration for earn outs under the Mitie model. During the year ended 31 March 2017, the Group bought back 9.1m shares at a cost of £24.4m and subsequently cancelled these shares. The Group has ceased its practice of buying back shares to offset shares issued under the Mitie Model or future LTIP arrangements and nil shares were bought back in the year ended 31 March 2018. Further details are provided in Notes 31 and 32.

The Group is not subject to externally imposed regulatory capital requirements with the exception of those applicable to the Group's captive insurance subsidiary, which is monitored on a regular basis.

27. Financial instruments continued

Hedging activities

Cash flow hedges

The Group holds a number of cross-currency interest rate swaps designated as cash flow hedges on US$153.0m of PP notes. Biannual fixed interest cash flows denominated in US dollars arising over the periods to December 2022 from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. All cash flow hedges were assessed as being highly effective as at 31 March 2018.

Fair value hedges

As at 31 March 2017 the Group held a number of cross-currency interest rate swaps designated as fair value hedges on US$48.0m of PP notes. Fixed interest cash flows denominated in US$ from the US Private Placement market were exchanged for floating interest cash flows denominated in sterling. These fair value hedges were assessed as being highly effective as at 31 March 2017 and up until their maturity date in December 2017.

Hedge of net investment in foreign operations

Included in bank loans at 31 March 2018 was a borrowing of €9.5m (2017: €9.5m) which has been designated as a hedge of the net investment in the Republic of Ireland business of Dalkia FM, and is being used to hedge the Group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of the borrowing are transferred to equity to offset gains or losses on the translation of the net investment.

Derivative financial instruments

The carrying values of derivative financial instruments at the balance sheet date were as follows:

	Assets 2018 £m	Assets 2017 £m
Cross-currency interest rate swaps designated as cash flow hedges	6.1	27.0
Cross-currency interest rate swaps designated as fair value hedges	–	8.8
Derivative financial instruments hedging private placement notes	6.1	35.8
Included in current assets	–	35.8
Included in non-current assets	6.1	–
Total	6.1	35.8

Derivative financial instruments are measured at fair value. 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.

During the year ended 31 March 2018, a number of cashflow hedges were settled and all fair value hedges were settled.

27. Financial instruments continued

Financial instruments fair value disclosure

Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from other observable inputs for the asset or liability; and
- Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

The Directors consider that the derivative financial instruments fall into Level 2. There were no transfers between levels during the year. All contracts are gross settled.

28. Provisions

	Legal costs £m	Healthcare provision £m	Restructuring £m	Deferred contingent consideration £m	Insurance reserve £m	Contract specific costs £m	Dilapidations £m	Total £m
At 1 April 2017	2.0	6.0	–	0.3	12.5	6.0	–	26.8
Impact of change in accounting policy	–	–	–	–	–	(0.2)	–	(0.2)
Amounts recognised in the balance sheet	–	–	–	–	–	–	3.4	3.4
Amounts recognised in the income statement	3.2	–	1.2	–	4.0	(1.3)	–	7.1
Utilised within captive insurance subsidiary	–	–	–	–	(0.1)	–	–	(0.1)
Unwinding of discount	–	–	–	–	–	–	0.2	0.2
Utilised in the period	(1.1)	(1.1)	–	(0.3)	(1.1)	(2.1)	–	(5.7)
At 31 March 2018	4.1	4.9	1.2	–	15.3	2.4	3.6	31.5
Included in current liabilities	4.1	4.9	1.2	–	9.0	2.4	3.6	25.2
Included in non-current liabilities	–	–	–	–	6.3	–	–	6.3
Total	4.1	4.9	1.2	–	15.3	2.4	3.6	31.5

The provisions balance includes the following items:

The legal costs provision relates to professional fees payable and the potential cost of settlement of outstanding claims against the Group.

The Healthcare provision relates to the anticipated costs of separation of the Healthcare business from the Group, that are anticipated to crystallise during the year ending 31 March 2019. See Note 5 for more detail on this disposal.

The restructuring provision relates to costs of organisational change associated with the Group's Project Helix transformation programme including the transition costs associated with the outsourcing of certain back-office transactional processes.

The insurance reserve provides for the self-insured element of fleet and liability claims that will typically settle over three to five years. This includes a provision for claims that are expected but have not yet been reported.

Contract specific cost provisions relate to various obligations arising in the ordinary course of providing services in line with commercial contracts.

The provision for dilapidations relates to the legal obligation for a leased property 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.

29. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts payable under finance leases:				
Within one year	0.8	1.7	0.8	1.5
In the second to fifth years inclusive	0.5	1.2	0.5	1.3
	1.3	2.9	1.3	2.8
Less: future finance charges	–	(0.1)	–	–
Present value of lease obligations	1.3	2.8	1.3	2.8
Less: amount due for settlement within 12 months	(0.8)	(1.5)	(0.8)	(1.5)
Amount due for settlement after 12 months	0.5	1.3	0.5	1.3

The average remaining lease term is 20 months (2017: 22 months). For the year ended 31 March 2018, the average effective borrowing rate was 1.4% (2017: 1.8%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are protected by the lessors' rights over the leased assets.

30. Analysis of net debt

	2018 £m	2017 £m
Cash and cash equivalents (Note 23)	59.8	129.1
Bank loans (Note 26)	(54.3)	(15.3)
Private placement notes (Note 26)	(208.8)	(294.0)
Derivative financial instruments hedging private placement notes (Note 27)	6.1	35.8
Net debt before obligations under finance leases	(192.2)	(144.4)
Obligations under finance leases (Note 29)	(1.3)	(2.8)
Net debt	(193.5)	(147.2)

Net debt excludes amounts in respect of customer invoice discounting referred to in Note 17 and amounts in respect of Supply Chain Financing referred to in Note 24.

31. Share capital

Ordinary shares of 2.5p	Number million	£m
Allotted and fully paid		
At 1 April 2016	372.1	9.3
Share buybacks	(9.1)	(0.2)
Issued for acquisitions	6.0	0.1
Issued under share option schemes	0.1	–
At 1 April 2017	369.1	9.2
Issued for acquisitions	4.6	0.1
At 31 March 2018	**373.7**	**9.3**

During the year nil shares were purchased (2017: 9.1m ordinary shares of 2.5p were purchased at a cost of £24.4m and subsequently cancelled).

During the year 4.6m (2017: 6.0m) ordinary shares of 2.5p were allotted in respect of the acquisition of non-controlling interests at an issue price between 266.3p and 278.8p (2017: 244.4p) giving rise to share premium of £nil (2017: £2.9m) and merger reserve of £12.4m (2017: £11.7m).

During the year nil ordinary shares were allotted in respect of share option schemes (2017: 0.1m ordinary shares were allotted at 2.5p at a price between 201.0p and 260.2p giving rise to share premium of £0.1m).

32. Reserves

Share premium account

The share premium account represents the premium arising on the issue of equity shares (see Note 31).

Merger reserve

The merger reserve represents amounts relating to premiums arising on shares issued subject to the provisions of Section 612 of the Companies Act 2006.

The merger reserve increased by £12.4m (2017: £11.7m) in the year ended 31 March 2018 as a result of the issue of 4.6m (2017: 6.0m) ordinary shares of 2.5p for the acquisition of non-controlling interests.

Own shares reserve

The Group uses shares held in the Employee Benefit Trust to satisfy conditional awards under the Group's LTIP, CSP and DBP share schemes and shares held in the SIP Trust to provide matching shares under the SIP scheme. During the year the trust distributed 0.7m (2017: 1.4m) shares at a cost of £1.6m (2017: £3.4m) to satisfy awards under those schemes.

The Company uses Treasury shares to satisfy share options under the Group's ESOS and SAYE share schemes. Proceeds from the issue of 1.5m (2017: 1.2m) Treasury shares to satisfy options under the Group's share schemes in the year were £3.4m (2017: £2.4m) at a cost of £4.3m (2017: £3.4m). The loss of £0.9m has been recognised in retained earnings.

The other movements in the own shares reserve comprise £8.1m (2017: £nil) to recognise the restricted shares issued as part of the acquisition of non-controlling interests per Note 33 of which £1.0m (2017: £nil) has been released against the share-based payments reserve when restrictions expired during the year.

The own shares reserve at 31 March 2018 represents the cost of 13.0m (2017: 15.2m) ordinary shares in Mitie Group plc, with a weighted average of 13.8m (2017: 16.5m) shares during the year, as well as the £7.1m value of the remaining restricted shares issued as consideration to acquire minority interests that is required to be treated as remuneration.

Other reserves

Other reserves are comprised of the share-based payments reserve of £10.4m (2017: £9.4m), the revaluation reserve of £(0.2)m (2017: £(0.2)m), the capital redemption reserve of £0.9m (2017: £0.9m) and other reserves of £0.2m (2017: £0.2m).

The share-based payments reserve represents credits in respect of the vesting period of equity-settled share-based payment transactions (see Note 36) and credits in respect of the vesting period of restricted shares issued as part of the acquisition of non-controlling interests per Note 33.

32. Reserves continued

Hedging and translation reserve

The hedging and translation reserve of £(7.3)m (2017: £(8.0)m) includes balances in respect of the Group's cash flow hedges (see Note 27) and translation reserves of £(0.5)m (2017: £(0.6)m). A net cash flow hedge credit during the year of £0.1m (2017: £4.8m charge) 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 credit of £0.6m during the year.

33. Acquisitions

Current year acquisitions – purchase of non-controlling interests

On 19 July 2017, the Company purchased the minority 49% shareholding in Source Eight Limited. The consideration paid was £4.0m, satisfied with £3.0m in cash and £1.0m in unrestricted shares. A further £5.1m of shares were issued which were subject to sale restrictions related to continuing employment. Regarding shares issued, 2,196,708 ordinary shares were issued, with a nominal value of 2.5p per share in Mitie Group plc (Mitie shares) at a fair value of 278.8p, of which 1,838,028 Mitie shares were subject to sale restrictions related to continuing employment.

In addition, on 20 October 2017 the Company purchased the remaining minority shareholdings in five Mite Model companies. The consideration paid was £3.4m, satisfied through the issue of unrestricted shares. A further £3.0m of shares were issued which were subject to sale restrictions related to continuing employment. Regarding shares issued, 2,396,381 Mitie shares were issued at a fair value of 266.3p, of which 1,139,697 Mitie shares were subject to sale restrictions related to continuing employment. The shareholdings purchased, primarily held by certain of the employees and senior management of the relevant subsidiary companies, are detailed below:

- Mitie Care and Custody Limited (MCCL) – 6.86% of the issued share capital, comprising 42,505 B ordinary shares of £0.01 each, for a consideration of £0.4m satisfied by the issue of 169,328 Mitie shares;
- Mitie Events & Leisure Services Limited (MELSL) – 24.08% of the issued share capital, comprising 205,000 B ordinary shares of £0.01 each, for a consideration of £0.4m satisfied by the issue of 144,555 Mitie shares;
- Mitie Facilities Management Limited (Ireland) (MFML) – 5.63% of the issued share capital, comprising 146,000 B ordinary shares of €0.01 each, for a consideration of £0.2m satisfied by the issue of 72,228 Mitie shares;
- Mitie Catering Services Limited (MCSL) – 18.55% of the issued share capital, comprising 333,677 D ordinary shares of £0.01 each, for a consideration of £2.9m satisfied by the issue of 1,072,416 Mitie shares; and
- Mitie Waste & Environmental Services Limited (MWESL) – 27.71% of the issued share capital, comprising 332,500 B ordinary shares of £0.01 each, for a consideration of £2.5m satisfied by the issue of 937,854 Mitie shares;

The above acquisitions have been completed based on transfer of consideration of the fair value of the shareholdings of the respective entities. As part of the above transactions Mitie Group issued unrestricted and restricted shares. The restricted shares are attached with a condition that the relevant recipient continues in employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

As a result of the acquisitions outlined above Mitie Group owns 100% of the issued share capital of all of the above entities.

Prior year acquisitions – purchase of non-controlling interests

On 24 August 2016, the Company purchased employee minority shareholdings in three of its successful 'Mitie Model' businesses: Mitie Business Services UK Limited (MBSUKL), Mitie Technical Facilities Management Limited (MTFML), and Mitie Care and Custody Limited (MCCL) in accordance with the respective articles of association and shareholders' agreements of those companies.

The total maximum consideration for all three purchases amounted to £16.1m. This was satisfied with £1.4m in cash and as to the remaining £14.7m by the issue of 6,015,255 Mitie shares valued at 244.38 p per share. This was the average of the closing middle market price for the five banking days immediately preceding 26 July 2016. Earlier in that financial year ended 31 March 2017, the Company purchased its own shares in the market to offset this share issue. The purchased shares were cancelled following their acquisition.

33. Acquisitions continued

As a result of these acquisitions the Group owned 100% of the issued share capital of MBSUKL and MTFML, and 93.14% of the issued share capital of MCCL. The shareholdings purchased, primarily held by certain of the employees and senior management of the relevant subsidiary companies, are detailed below:

- MBSUKL – 27.29% of the issued share capital, comprising 116,000 B ordinary shares of £0.01 each, for a consideration of £0.8m. The consideration was satisfied by £0.1m in cash and £0.7m by the issue of 275,428 Mitie shares;
- MTFML – 8.93% of the issued share capital, comprising 952,000 B ordinary shares of £0.01 each, for a consideration of £12.1m. The consideration was satisfied by £1.0m in cash and £11.1m by the issue of 4,563,029 Mitie shares; and
- MCCL – 27.42% of the issued share capital, comprising 170,022 B ordinary shares of £0.01 each, for a consideration of £3.2m. The consideration was satisfied by £0.3m in cash and £2.9m by the issue of 1,176,798 Mitie shares.

34. Contingent liabilities

Contractual disputes, guarantees and indemnities

The Company and various of its subsidiaries are, from time to time, party to contractual disputes that arise in the ordinary course of business. There is an ongoing contractual dispute with a client of Mitie's Property Management business which is potentially of a material nature (although formal legal proceedings have not been commenced). Discussions are ongoing between the Company and the counterparty to determine both liability and potential quantum. The Directors do not anticipate that the outcome of this dispute will have a material adverse effect on the Group's financial position, other than as already provided for in the accounts. In appropriate cases, a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction, due to the uncertainty of the actual costs and liabilities that may be incurred. The Directors will continue to monitor events as matters progress.

In addition, the Company and its subsidiaries have provided guarantees and indemnities in respect of performance, issued by financial institutions on its behalf, amounting to £21.7m (2017: £23.8m) in the ordinary course of business. These are not expected to result in any material financial loss.

Multi-employer pension schemes

The Group participates in several industry multi-employer defined benefit schemes, including the Plumbing & Mechanical Services (UK) Industry "Pension Scheme" (Plumbing Scheme). The total contributions to these schemes for the financial year ending 31 March 2019 are anticipated to be £0.1m. The size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. Consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

When the Group (or a subsidiary of the Group) exits such schemes (typically by ceasing to have any active employees in the scheme), pension legislation may require the Group to fund the Group's share of the total amount of net liabilities with a one-off cash payment (a Section 75 debt under the Pensions Act 1995).

On 27 March 2018, the trustee of the Plumbing Scheme provided participating employers with a summary of the draft actuarial valuation of the Plumbing Scheme as at 5 April 2017. That summary detailed the results of the valuation on three measures:

- technical provisions - the amount of money the Plumbing Scheme needs to meet all its obligations and pay benefits in respect of past service as they fall due, based on the scheme assets and the economic position as at 5 April 2017. This measure showed a surplus of £45m on liabilities of £1.885bn;
- Pension Protection Fund (PPF) - the amount used to set the Plumbing Scheme's PPF levies. The benefits under this basis are lower than the scheme's own benefits and the assumptions are prescribed by the Pension Regulator. This measure showed a deficit of £412m on liabilities of £2.342bn; and
- solvency – this is an estimate of the cost of insuring all of the Plumbing Scheme's benefits as at 5 April 2017 with an insurer and is the basis required for Section 75 debt calculations. This measure showed a deficit of £658m on liabilities of £2.588bn.

The trustee of the Plumbing Scheme has recently conducted an employer consultation regarding the allocation of Section 75 debts including orphan liabilities (i.e. liabilities in respect of Plumbing Scheme members whose employers or former employers are no longer members of the Plumbing Scheme or are insolvent). This is the second employer consultation carried out by the Plumbing Scheme in respect of the allocation of Section 75 debts. The trustee has stated that it is unlikely that any Section 75 debt notices will be issued before early 2019, as the Plumbing Scheme's actuary cannot be instructed in this regard until the calculation methodology has been agreed.

Given these uncertainties it has not been possible to estimate the Group's potential exposure to Section 75 employer debts in respect of the Plumbing Scheme within a reasonable range and so the issue is disclosed as a contingent liability as set out in Note 37.

34. Contingent liabilities continued

Employment claims

There are currently two enquiries being carried out by HMRC in respect of the Group's compliance with the National Minimum Wage: both enquiries are at an early stage. At this time due to the nature and complexity of assessing compliance, it is not possible to estimate the potential exposure. In common with other UK businesses with a large number of employees operating near the minimum wage, the Group is at risk of potential deficiency in respect of current and past employees. Work is ongoing to enhance the Group's payroll systems and processes to reduce the risk of non-compliance in future.

In addition to specific enquiries in respect of compliance with the National Minimum Wage, the Company and its subsidiaries are, from time to time, party to employment disputes, claims, and other potential liabilities which arise in the ordinary course of business. The Directors do not anticipate that any of the current matters will give rise to settlements, either individually or in aggregate, which will have a material adverse effect on the Group's financial position.

Financial Conduct Authority

On 29 August 2017 the Company announced that the Financial Conduct Authority (FCA) had informed the Company of its investigation in connection with i) the timeliness of a profit warning announced by the Company on 19 September 2016, and ii) the manner of preparation and content of the Company's financial information, position and results for the period ended 31 March 2016.

The Company continues to fully co-operate with the FCA during their ongoing investigation. At this time, the Directors have not received any notification from the FCA that they will exercise their regulatory enforcement powers against the Company. Accordingly, the Directors are unable to determine whether the investigation will lead to the imposition of any fine or other penalties against the Company.

35. Operating lease commitments

At the balance sheet date, the Group had total outstanding aggregate commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £m	2017 £m
Within one year	23.7	24.7
In the second to fifth years inclusive	39.2	30.6
After five years	13.2	7.6
Total	**76.1**	**62.9**

Operating lease payments represent rentals payable by the Group for certain of its office properties and hire of vehicles and other equipment. These leases have average durations ranging from three to ten years. No arrangements have been entered into for contingent rental payments.

Operating lease commitments have increased during the year, mainly due to new leases entered into as part of the rationalisation of the Group's property portfolio.

36. Share-based payments

The Company has six equity-settled share schemes. The Group has also awarded performance-related bonuses for Executive Directors which are deferred in conditional shares under the Mitie Group plc 2010 Deferred Bonus Plan (DBP) and are accounted for as a share-based payment charge.

Discretionary share plans:

The Mitie Group plc Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2007. The conditional awards of shares or rights to acquire shares (the awards) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is three years, although for awards granted in 2015 and subsequently some are subject to a holding period of up to a further two years. If the awards remain unexercised after a period of twelve months from the date of vesting the awards expire. The awards may be forfeited if the employee leaves the Group. Before the awards can be exercised, performance conditions must be satisfied which are based on movements in a range of market and non-market measures over a three-year period.

The Mitie Group plc 2001 Executive Share Option scheme (ESOS)

The ESOS exercise price is equal to the average market value of the shares over the five-day period immediately preceding the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group.

36. Share-based payments continued

The Mitie Group plc 2011 Executive Share Option scheme (ESOS)

The ESOS exercise price is equal to the average market value of the shares on the business day preceding grant or, if the Remuneration Committee decides, the average market value of shares over a number of preceding business days (not to exceed 20). The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group. Before options can be exercised, a performance condition must be satisfied; the performance condition is linked to the percentage growth in earnings per share over a three-year period.

The Conditional Share Plan (CSP)

The CSP was introduced in 2014. The conditional awards of shares or the rights to acquire shares (the award) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is determined at the discretion of the Remuneration Committee and is generally two or three years. If the awards remain unexercised after a period of ten years from the date of grant the awards expire. The awards may be forfeited if the employee leaves the Group.

Non-discretionary share plans:

The Mitie Group plc 2011 SAYE scheme

The SAYE scheme is open to eligible UK resident employees. The exercise price is not less than 80% of the market value of the shares determined using either: the share price preceding the date on which invitations to participate in the scheme are issued or an average share price over five days preceding the invitation date. The vesting period is three years. If the options remain unexercised after a period of six months from the date of vesting, the options expire. Options may be forfeited if the employee leaves the Group.

The Share Incentive Plan (SIP)

The SIP was introduced in 2011 and is open to all eligible UK resident employees. Under the scheme, eligible employees are invited to invest in partnership shares which are purchased in the market on their behalf and held in a separate UK trust. One conditional matching share is awarded for every ten partnership shares purchased and has a holding period of three years. Matching shares are funded by way of market purchases.

Restricted Shares

In addition, in certain cases restricted shares are issued to individuals. The restricted shares are attached with a condition that the relevant recipient continues their employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

Details of the awards and share options outstanding during the year are as follows:

	2018	2017		2018		2017
	Number of conditional share awards (million)	Number of conditional share awards (million)	Number of share options (million)	Weighted average exercise price (p)	Number of share options (million)	Weighted average exercise price (p)
Outstanding at 1 April	9.0	8.3	11.9	258	13.1	262
Granted during the year	4.3	4.6	2.7	229	2.9	221
Forfeited during the year	(4.5)	(2.5)	(4.9)	267	(2.9)	258
Exercised during the year	(0.7)	(1.4)	(1.5)	239	(1.2)	210
Outstanding at 31 March	8.1	9.0	8.2	247	11.9	258
Exercisable at the end of the year			3.2	240	3.5	213

36. Share-based payments continued

The Group recognised the following expenses related to share-based payments:

	2018 £m	2017 £m
Discretionary share plans	0.2	4.8
Non-discretionary share plans	1.0	1.4
Share-based payments acquisition related costs	3.4	–
	4.6	6.2

The movement on the share-based payments reserve, which is part of other reserves, relates to the charge to the income statement for the year of £4.6m (2017: £6.2m). This comprises of i) £3.4m in respect of the vesting period of restricted shares issued as part of the acquisition of minority interests per Note 33 and ii) £1.2m of equity-settled share-based payment transactions. The share-based payments charge for the year is net of income statement credits of £2.9m relating to changes in assumptions relating to the likelihood of options vesting.

In addition, there has been i) a release of £1.0m against the own shares reserve on the expiry of restrictions attached to restricted shares issued and ii) a release of £2.7m to retained earnings regarding shares options that were previously exercised, lapsed, forfeited or cancelled.

The weighted average share price at the date of exercise for awards and share options exercised during the year was 252p (2017: 234p). The conditional share awards and share options outstanding at 31 March 2018 had exercise prices (other than nil in the case of the LTIP, CSP, DBP and the matching shares under the SIP) ranging from 201p – 254p (2017: 201p – 319p) and a weighted average remaining contractual life of 3.6 years (2017: 4.0 years). In the year ended 31 March 2018, options were granted in respect of the SAYE, LTIP, CSP and SIP. The aggregate of the estimated fair values of the options granted on those dates was £10.6m (2017: £11.1m).

The fair value of options is measured by use of the Black-Scholes and Monte Carlo models.

The inputs into the Black-Scholes model are as follows:

	2018	2017
Share price (p)	258 – 318	276 – 318
Exercise price (p)	0 – 260	0 – 319
Expected volatility (%)	23 – 29	23 – 30
Expected life (years)	3 – 4	3 – 4
Risk-free rate (%)	(0.3) – 1.1	0.13 – 1.1
Expected dividends (%)	1.6 – 4.7	3.5 – 4.7

The inputs into the Monte Carlo model are as follows:

	2018	2017
Share price (p)	180 – 267	247 – 319
Average correlation with TSR benchmark (%)	23 – 27	26 – 35
Expected volatility (%)	34 – 37	18 – 23
Expected life (years)	3	3
Risk-free rate (%)	0.22 – 0.68	0.16 – 1.29

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon historical data and has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

37. Retirement benefit schemes

The Group has a number of pension arrangements for employees:

- Defined contribution schemes for the majority of its employees; and
- Defined benefit schemes which include a group scheme and other smaller schemes.

The Group operates a number of defined contribution pension schemes for qualifying employees. The Group has a defined benefit pension scheme called the Mitie Group plc Pension Scheme (Group scheme) where Mitie Group plc is the principal employer. The Group participates in a number of other defined benefit schemes (Other schemes) in respect of certain employees who joined the Group under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) or through the acquisition of subsidiary companies.

Defined contribution schemes

A defined contribution scheme is a pension scheme under which the Group pays contributions to an independently administered fund; such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once these contributions have been paid. Members' benefits are determined by the amount of contributions paid, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to take at retirement. As a result, actuarial risk (that pension will be lower than expected) and investment risk (that the assets invested in do not perform in line with expectations) are borne by the employee.

The Group's contributions are recognised as an employee benefit expense when they are due.

The Group operates three separate schemes: a stakeholder defined contribution plan, which is closed to new members; a self-invested personal pension plan, which is closed to new members; and a group personal pension (GPP) plan. Employer contributions are payable to each on a matched basis requiring employee contributions to be paid. Employees have the option to pay their share via a salary sacrifice arrangement. The scheme used to satisfy auto-enrolment compliance is a master trust, The People's Pension.

During the year, the Group made a total contribution to the defined contribution schemes of £9.0m (2017: £8.9m) and contributions to the auto-enrolment scheme of £4.3m (2017: £4.3m), which are included in the income statement charge. The Group expects to make contributions of a similar amount in the coming year.

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 has now been closed as of 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 2017 and is pending approval.

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.

37. Retirement benefit schemes continued

Other defined benefit schemes

Grouped together under Other schemes are a number of schemes to which the Group makes contributions under Admitted Body status to clients' (generally local government or government entities) defined benefit schemes in respect of certain employees who transferred to Mitie under TUPE. The valuations of the Other schemes are updated by an actuary at each balance sheet date.

For the Admitted Body schemes, which are largely sections of the Local Government Pension Scheme, the Group will only participate for a finite period up to the end of the relevant contract. The Group is required to pay regular contributions, as decided by the relevant scheme actuaries and detailed in each scheme's Contributions Certificate, which are calculated every three years as part of a triennial valuation. In a number of cases contributions payable by the employer are capped and any excess is recovered from the entity that the employees transferred from. In addition, in certain cases, at the end of the contract the Group will be required to pay any deficit (as determined by the scheme actuary) that is assessed for its notional section of the scheme.

Multi-employer schemes

As a result of historic acquisition activity and staff transfers following contract wins, the Group participates in four multi-employer pension schemes. The total contributions to these schemes for the financial year ending 31 March 2019 are anticipated to be £0.1m. For three of these schemes, the Group's share of the assets and liabilities is minimal.

The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the 'Plumbing Scheme') a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. The size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. Consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

The April 2014 valuation of the Plumbing Scheme indicated a surplus on a technical provisions basis of £19m, on liabilities of £1.47bn. The Annual Member update issued by the Plumbing Scheme in October 2017 stated that an interim valuation prepared as at April 2016 indicated a deficit, however the draft triennial valuation as at 5 April 2017 continues to show a surplus on a technical provisions basis. Details of the draft triennial valuation as at 5 April 2017 are set out in Note 34.

As set out in Note 34 the Group has a potential exposure to Section 75 employer debts in respect of the Plumbing Scheme, which has been disclosed as a contingent liability.

Further information in respect of the Group scheme and Other schemes

The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2017.

The Group made a total contribution to the Group scheme of £4.4m during the year (2017: £2.0m), including an additional payment of £3.0m in relation to payment on a letter of credit against the funding deficit. The Group expects to make contributions of around £5.6m to the Group scheme in the year ending 31 March 2019, including £4.2m against the funding deficit. Employees' contribution to the cost of the scheme is generally settled through a salary sacrifice arrangement.

The Group made contributions to the Other schemes of £0.3m in the year (2017: £0.3m). The Group expects to make contributions of around £nil to the Other schemes in the year ending 31 March 2019.

Details of latest funding valuation

	Group scheme
Date of latest funding valuation	31 March 2017
Assets at valuation date	£178.7 million
Funding liabilities at valuation date	£225.3 million
Deficit at valuation date	£46.6 million

37. Retirement benefit schemes continued

The total contribution rate is between 40.5% and 44.9% of annual pay for the remaining active members. The employer contribution rate is the balance of the total cost after the deducting the employee rate, which ranges depending on status and earnings. The total contribution excludes any allowances for expenses met by the scheme.

To eliminate the funding deficit the Trustee and the Group agreed that additional contributions (i.e. over and above those required to cover benefits being accrued) will be paid into the scheme of £58.0m by 31 March 2027, of which £11.9m are due by 31 March 2020. On 27 November 2017, the Group paid the first of these additional contributions amounting to £3.0m. Under this recovery plan, if the assumptions made are borne out in practice, the deficit would be eliminated by 31 March 2027.

The following table sets out details of the membership of the Group scheme at 31 March 2017:

	Group scheme
Active members – by number	182
Active members – by proportion of funding liability	20.4%
Total pensionable salary roll p.a.	£8.4m
Deferred members – by number	853
Deferred members – by proportion of funding liability	52.0%
Total deferred pensions p.a. (at date of leaving scheme)	£4.6m
Pensioner members – by number	640
Pensioner members – by proportion of funding liability	27.6%
Total pensions in payment p.a.	£2.7m

Accounting assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension schemes, as detailed below, are set after consultation with independent, professionally qualified actuaries.

The discount rate used to determine the present value of the obligations is set by reference to market yields on high quality corporate bonds. The assumptions for price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds. The assumption for increases in pensionable pay takes into account expected salary inflation, the cap at CPI, and how often the cap is likely to be exceeded.

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations, with a lower 'best-estimate' allowance for future improvements to mortality.

Principal accounting assumptions at balance sheet dates

	Group scheme		Other schemes	
	2018 %	2017 %	2018 %	2017 %
Key assumptions used for IAS 19 valuation:				
Discount rate	2.60	2.65	2.60	2.65
Expected rate of pensionable pay increases	3.10	2.00	3.10	3.40
Retail price inflation	3.10	3.40	3.10	3.40
Consumer price inflation	2.10	2.40	2.10	2.40
Future pension increases	3.40	3.40	3.40	3.40

37. Retirement benefit schemes continued

	Group scheme	
	2018 Years	2017 Years
Post retirement life expectancy:		
Current pensioners at 65 – male	88.0	88.0
Current pensioners at 65 – female	89.0	90.0
Future pensioners at 65 – male	89.0	89.0
Future pensioners at 65 – female	90.0	91.0

Life expectancy for the other schemes is that used by the relevant scheme actuary.

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

Sensitivity of defined benefit obligations to key assumptions

		Impact on defined benefit obligations	
	Change in assumption	Increase/(decrease) in obligations %	Increase/(decrease) in obligations £m
Increase in discount rate	0.1%	(2.0)%	(5.0)
Increase in RPI inflation*	0.1%	1.5%	3.8
Increase in CPI inflation (excluding pay)	0.1%	0.7%	1.8
Increase in salary growth	0.1%	0.0%	–
Increase in life expectancy	1 year	3.9%	9.8

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

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the Group scheme holds a proportion of its assets in UK corporate bonds. A fall in the discount rate as a result of lower UK corporate bond yields would lead to an increase in the value of these assets, thus mitigating the increase in the defined benefit obligation to some extent.

The duration, or average term to payment for the benefits due, weighted by liability, is around 22 years for the Group scheme.

Amounts recognised in financial statements

The table below outlines where the Group's post-employment amounts are included in the financial statements.

	2018			2017		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Current service cost	(1.7)	(0.3)	(2.0)	(3.2)	(0.3)	(3.5)
Total administration expense	(1.1)	–	(1.1)	(0.8)	–	(0.8)
Amounts recognised in operating profit	(2.8)	(0.3)	(3.1)	(4.0)	(0.3)	(4.3)
Past service cost (including curtailments)	(1.9)	–	(1.9)	–	–	–
Net interest cost	(1.9)	(0.1)	(2.0)	(1.3)	–	(1.3)
Amounts recognised in profit before tax	(6.6)	(0.4)	(7.0)	(5.3)	(0.3)	(5.6)

The past service cost (including curtailments) is as a result of an increase in liabilities driven by the closure of the main Group scheme.

37. Retirement benefit schemes continued

Amounts recognised in the consolidated statement of comprehensive income are as follows:

	2018			2017		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Actuarial (losses)/gains arising due to changes in financial assumptions	8.6	0.8	9.4	(52.5)	(3.7)	(56.2)
Actuarial (losses)/gains arising from liability experience	(1.1)	0.8	(0.3)	0.8	–	0.8
Actuarial gains due to changes in demographic assumptions	5.9	0.2	6.1	–	–	–
Effect of asset ceiling	–	(0.5)	(0.5)	–	–	–
Return on scheme assets, excluding interest income	4.6	0.4	5.0	18.7	1.3	20.0
	18.0	1.7	19.7	(33.0)	(2.4)	(35.4)

The amounts included in the balance sheet in respect of the Group's defined benefit retirement benefit schemes are as follows:

	2018			2017		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	182.3	12.1	194.4	177.8	11.3	189.1
Present value of defined benefit obligations	(237.1)	(14.1)	(251.2)	(248.5)	(14.8)	(263.3)
Net pension liability	(54.8)	(2.0)	(56.8)	(70.7)	(3.5)	(74.2)

All figures above are shown before deferred tax.

Movements in the present value of defined benefit obligations in the year in respect of both the Group and other schemes were as follows:

	2018			2017		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	248.5	14.8	263.3	191.3	10.6	201.9
Current service cost	1.7	0.3	2.0	3.2	0.3	3.5
Interest cost	6.5	0.4	6.9	6.8	0.4	7.2
Contributions from scheme members	–	0.1	0.1	0.1	0.1	0.2
Actuarial (gains)/losses arising due to changes in financial assumptions	(8.6)	(0.8)	(9.4)	52.5	3.7	56.2
Actuarial losses/(gains) arising from experience	1.1	(0.8)	0.3	(0.8)	–	(0.8)
Actuarial gains due to changes in demographic assumptions	(5.9)	(0.2)	(6.1)	–	–	–
Effect of asset ceiling	–	0.5	0.5	–	–	–
Benefits paid	(8.1)	(0.2)	(8.3)	(4.6)	(0.3)	(4.9)
Past service cost (including curtailments)	1.9	–	1.9	–	–	–
At 31 March	237.1	14.1	251.2	248.5	14.8	263.3

37. Retirement benefit schemes continued

The defined benefit obligations of the Group scheme are analysed by participant status below:

	2018 £m	2017 £m
Active	48.3	85.0
Deferred	123.3	103.1
Pensioners	65.5	60.4
At 31 March	237.1	248.5

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

	2018			2017		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	177.8	11.3	189.1	156.9	9.5	166.4
Interest income	4.6	0.3	4.9	5.5	0.4	5.9
Actuarial gains on assets	4.6	0.4	5.0	18.7	1.3	20.0
Contributions from the sponsoring companies	4.4	0.3	4.7	2.0	0.3	2.3
Contributions from scheme members	–	–	–	0.1	0.1	0.2
Expenses paid	(1.0)	–	(1.0)	(0.8)	–	(0.8)
Benefits paid	(8.1)	(0.2)	(8.3)	(4.6)	(0.3)	(4.9)
At 31 March	182.3	12.1	194.4	177.8	11.3	189.1

The history of experience adjustments is as follows:

					Group scheme
	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Fair value of scheme assets	182.3	177.8	156.9	162.2	143.8
Present value of defined benefit obligations	(237.1)	(248.5)	(191.3)	(197.1)	(160.8)
Deficit in the scheme	(54.8)	(70.7)	(34.4)	(34.9)	(17.0)
Experience (losses)/gains on scheme liabilities	(1.1)	0.8	3.1	1.2	0.1
Percentage of scheme liabilities	0.5%	(0.3)%	(1.6)%	(0.6)%	(0.1)%
Experience gains/(losses) on scheme assets	4.6	18.7	(6.2)	13.0	3.6
Percentage of scheme assets	2.5%	10.5%	(4.0)%	8.0%	2.5%

					Other schemes
	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Fair value of scheme assets	12.1	11.3	9.5	9.5	16.2
Present value of defined benefit obligations	(14.1)	(14.8)	(10.6)	(10.4)	(18.3)
Deficit in the scheme	(2.0)	(3.5)	(1.1)	(0.9)	(2.1)
Experience gains/(losses) on scheme liabilities	0.8	–	–	(0.1)	0.3
Percentage of scheme liabilities	(5.6)%	–	–	0.9%	(1.8)%
Experience gains/(losses) on scheme assets	0.4	1.3	(0.6)	0.8	(0.3)
Percentage of scheme assets	3.3%	11.5%	(6.1)%	8.4%	(1.9)%

37. Retirement benefit schemes continued

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

	2018			2017		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Equities	66.3	7.0	73.3	66.4	7.6	74.0
Government bonds	26.9	–	26.9	26.8	1.6	28.4
Corporate bonds	22.0	3.8	25.8	21.7	0.8	22.5
Property	9.5	0.9	10.4	16.2	0.8	17.0
Diversified growth fund	45.6	–	45.6	46.6	–	46.6
Cash	12.0	0.4	12.4	0.1	0.5	0.6
Total fair value of assets	182.3	12.1	194.4	177.8	11.3	189.1

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 67% (2017: 73%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long term.

£nil (2017: £7m) of the property assets represent freehold property; the rest are 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 (67%) 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 25% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting obligations. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting obligations. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the scheme's obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the obligations.

37. Retirement benefit schemes continued

Areas of risk management

Although investment decisions in the scheme are the responsibility of the Trustee, the Group takes an active interest to ensure that pension plan risks are managed efficiently. The Group and Trustee have agreed a long-term strategy for reducing investment risk where appropriate.

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. At present there is an inequality of benefits between male and female members who have GMP. The Government intends to implement legislation to equalise benefits, which could result in an increase in the value of GMP for males. This would increase the defined benefit obligations. At this stage, it is not possible to quantify the impact of this change, and therefore no provision has been made.

Certain benefits payable on death before retirement are insured.

38. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note.

During the year, the Group derived £0.8m (2017: £0.2m) of revenue from contracts with joint ventures and associated undertakings and received £0.6m (2017: £0.6m) of dividends. At 31 March 2018 trade and other receivables of £0.2m (2017: £nil) were outstanding and loans to joint ventures and associates of £nil (2017: £nil) were included in financing assets.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company. During the year, the Group made donations and gifts in kind of £0.3m (2017: £0.3m) to the Foundation. At 31 March 2018 £nil (2017: £nil) was due to the Foundation and the Foundation had £nil (2017: £nil) held within creditors as an amount owed to Mitie Group plc.

No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest.

The Group's key management personnel include the Executive Directors, Non-Executive Directors and the Executive Leadership team. Details of the Directors' remuneration is included in Note 7. The underlying remuneration for other key management personnel, including the share-based payments charge is £5.6m (2017: £4.1m).

In the Annual Report and Accounts for the year ended 31 March 2017, the Company noted that, as a consequence of prior year adjustments to the accounts for the financial year ended 31 March 2016, the Remuneration Committee would determine what rights might be available to the Company to recover the bonus and other awards made to each of Ruby McGregor-Smith and Suzanne Baxter in respect of FY16. The matters which gave rise to the prior year adjustments are now the subject to the on-going investigation by the Financial Conduct Authority (the "FCA"), which the Company disclosed in its announcement on 29 August 2017. In that announcement, the Company reported that the FCA had commenced an investigation in connection with the timeliness of a profit warning announced by the Company on 19 September 2016 and the manner of preparation and content of the Company's financial information, position and results for the period ending 31 March 2016. The Company has been advised by its external lawyers that as any claim against Ruby McGregor-Smith and Suzanne Baxter would cover the same matters, facts and circumstances which are the subject of the FCA investigation, any formal steps to recover bonuses or other awards should be deferred until after the FCA have reached their findings. It is currently anticipated that the FCA will conclude its investigation during the course of FY19.

Details of transactions with Mitie Group plc Pension Scheme, and other smaller pension schemes, are given in Note 37.

39. Notes to the consolidated statement of cash flows

	2018			2017		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Cash conversion						
Operating loss	(8.3)	–	(8.3)	(42.9)	(135.2)	(178.1)
Depreciation	12.8	–	12.8	13.6	0.5	14.1
Amortisation	13.5	–	13.5	22.4	1.4	23.8
Impairment of goodwill and intangible assets	45.0	–	45.0	18.0	91.2	109.2
Earnings before interest, tax, depreciation and amortisation (EBITDA)	63.0	–	63.0	11.1	(42.1)	(31.0)
Cash (used in)/generated by operations	(7.9)	–	(7.9)	159.9	(8.8)	151.1
Free cash flow						
Cash (used in)/generated by operations			(7.9)			151.1
Purchase of property, plant and equipment			(15.8)			(14.5)
Purchase of other intangible assets			(9.0)			(12.4)
Disposals of property, plant and equipment			1.6			1.0
Income taxes received/(paid)			11.6			(15.3)
Interest paid			(13.5)			(12.7)
Free cash flow			(33.0)			97.2

							2018
	Opening balance £m	Total cash movement £m	Reclassification of senior debt £m	Total FX movements £m	Total fair value changes £m	Other non-cash movements £m	Closing balance £m
		Cash flows	Non-cash changes				
Long-term borrowings – bank loans	–	(38.3)	(15.3)	(0.3)	–	(0.4)	(54.3)
Long-term borrowings – private placement loan notes	–	–	(216.8)	–	13.1	(0.1)	(203.8)
Short-term borrowings – bank loans	(15.3)	–	15.3	–	–	–	–
Short-term borrowings – private placement loan notes*	(294.0)	71.8	216.8	–	5.4	–	–
Finance lease obligations	(2.8)	1.5	–	–	–	–	(1.3)
Financing liabilities	(312.1)	35.0	–	(0.3)	18.5	(0.5)	(259.4)
Derivative financial instruments*	35.8	(11.6)	–	–	(18.1)	–	6.1
Net financing liabilities	(276.3)	23.4	–	(0.3)	0.4	(0.5)	(253.3)

Note:

* Cash flow movement on these items includes both repayment of private placement loan notes and settlement of associated hedges with a net cash flow of £60.2m (2017: £nil).

40. Subsidiaries

The companies set out below are those which were part of the Group at 31 March 2018.

Company	Country of incorporation	2018 % voting rights and ownership interest	2018 % nominal value owned
Care & Custody (Health) Limited	United Kingdom	100%	100%
Cole Motors Limited*	United Kingdom	100%	100%
Creativevents Limited‡	United Kingdom	100%	100%
Direct Enquiries Holdings Limited‡	United Kingdom	100%	100%
Jabez Holdings Limited*	United Kingdom	100%	100%
Mitie Aviation Security Limited	United Kingdom	100%	100%
Mitie Belgium BVBA	Belgium	100%	100%
Mitie Belgium Security BVBA	Belgium	100%	100%
Mitie Built Environment Limited‡	United Kingdom	100%	100%
Mitie Business Services Limited	United Kingdom	100%	100%
Mitie Business Services UK Limited‡	United Kingdom	100%	100%
Mitie Care and Custody Limited[X]	United Kingdom	100%	100%
Mitie Catering Services Limited[X]	United Kingdom	100%	100%
Mitie Cleaning & Environmental Services Limited	United Kingdom	100%	100%
Mitie Cleaning Services Limited‡	United Kingdom	100%	100%
Mitie Client Services Limited	United Kingdom	100%	100%
Mitie Company Secretarial Services Limited*	United Kingdom	100%	100%
Mitie Compliance Ltd*	United Kingdom	100%	100%
Mitie Deutschland GmbH 1	Germany	100%	100%
Mitie Document Solutions Limited*	United Kingdom	100%	100%
Mitie Engineering Limited*	United Kingdom	100%	100%
Mitie Engineering Services (Bristol) Limited*	United Kingdom	100%	100%
Mitie Engineering Services (Guernsey) Limited	Guernsey	100%	100%
Mitie Engineering Services (Jersey) Limited	Jersey	100%	100%
Mitie Engineering Services (Northern Region) Limited‡	United Kingdom	100%	100%
Mitie Engineering Services (Wales) Limited*	United Kingdom	100%	100%
Mitie Engineering Services Limited*	United Kingdom	100%	100%
Mitie Environmental Limited*	United Kingdom	100%	100%
Mitie España, S.L.	Spain	100%	100%
Mitie Events & Leisure Services Limited‡[X]	United Kingdom	100%	100%
Mitie Facilities Management Limited[X]	Ireland	100%	100%
Mitie Facilities Services Limited	United Kingdom	100%	100%
Mitie France SAS	France	100%	100%
Mitie Group Pension Scheme Trustee Company Limited*	United Kingdom	100%	100%
Mitie Holdings Limited	United Kingdom	100%	100%
Mitie Infrastructure Limited‡	United Kingdom	100%	100%
Mitie Integrated Facilities Management Limited*	United Kingdom	100%	100%
Mitie International Limited*	United Kingdom	100%	100%
Mitie Investments Limited‡	United Kingdom	100%	100%
Mitie Justice Limited*	United Kingdom	100%	100%
Mitie Landscapes Limited	United Kingdom	100%	100%
Mitie Limited	United Kingdom	100%	100%
Mitie Local Services Limited*	United Kingdom	100%	100%
Mitie Managed Services Limited*	United Kingdom	100%	100%
Mitie Nederland B.V.	Netherlands	100%	100%
Mitie Norge Aksjeselskap	Norway	100%	100%

40. Subsidiaries continued

Company	Country of incorporation	2018 % voting rights and ownership interest	2018 % nominal value owned
Mitie Pest Control (London) Limited*	United Kingdom	100%	100%
Mitie Pest Control Limited	United Kingdom	100%	100%
Mitie PFI Limited	United Kingdom	100%	100%
Mitie Polska Sp. z o.o.	Poland	100%	100%
Mitie Property Management Limited‡+	United Kingdom	100%	100%
Mitie Property Services (UK) Limited+	United Kingdom	100%	100%
Mitie Reinsurance Company Limited	Guernsey	100%	100%
Mitie Resources Limited*	United Kingdom	100%	100%
Mitie Schweiz GmbH	Switzerland	100%	100%
Mitie Scotgate Limited*	United Kingdom	100%	100%
Mitie Security (London) Limited*	United Kingdom	100%	100%
Mitie Security Holdings Limited‡	United Kingdom	100%	100%
Mitie Security Limited	United Kingdom	100%	100%
Mitie Services (Retail) Limited*	United Kingdom	100%	100%
Mitie Shared Services Limited	United Kingdom	100%	100%
Mitie Suomi Oy	Finland	100%	100%
Mitie Sverige AB	Sweden	100%	100%
Mitie T S 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 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^x	United Kingdom	100%	100%
Mitie Work Wise Limited*	United Kingdom	100%	100%
Parkersell Limited*	United Kingdom	100%	100%
Procius Limited*+	United Kingdom	100%	100%
Robert Prettie & Co Limited*	United Kingdom	100%	100%
Service Management International Asia Pacific PTE. Ltd.	Singapore	100%	100%
Source Eight Limited‡x	United Kingdom	100%	100%
Source8 Africa Limited‡	United Kingdom	100%	100%
Source8 Delivery (Nigeria) Limited	Nigeria	100%	100%
Source8 Services FZLLC	United Arab Emirates	100%	100%
UK CRBS Limited‡	United Kingdom	100%	100%
Utilyx Asset Management Limited‡	United Kingdom	100%	100%
Utilyx Asset Management Projects Limited‡	United Kingdom	100%	100%
Utilyx Broking Limited‡	United Kingdom	100%	100%
Utilyx Healthcare Energy Services Limited	United Kingdom	100%	100%
Utilyx Holdings Limited‡	United Kingdom	100%	100%
Utilyx Limited	United Kingdom	100%	100%
Utilyx Risk Management Limited‡	United Kingdom	100%	100%
Wealthy Thoughts Limited*	United Kingdom	100%	100%

* These entities were dormant during the year ended 31 March 2018 and will take the exemption from preparing and filing financial statements for the year ended 31 March 2018 (by virtue of section 448A of the Companies Act 2006).
‡ These subsidiaries have taken advantage of the audit exemption under s479A of the Companies Act 2006 for the period ended 31 March 2018. As such, Mitie Group Plc has provided a guarantee against all debts and liabilities in these subsidiaries as at 31 March 2018.
\+ Held directly by the Company.
x The Company holds direct minority interest in these companies.

40. Subsidiaries 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
Mitie Belgium BVBA	Regus Brussels South Station, Marcel Broodthaersplein 8 (box 5), 1060 Brussels (Sint-Gillis), Belgium
Mitie Belgium Security BVBA	Regus Brussels South Station, Marcel Broodthaersplein 8 (box 5), 1060 Brussels (Sint-Gillis), Belgium
Mitie Deutschland GmbH	Meßstetter Straße 8, , 70567, Stuttgart, Germany
Mitie Engineering Services (Guernsey) Limited	Martello Court, Admiral Park, St Peter Port, GY1 3HB, Guernsey
Mitie Engineering Services (Jersey) Limited	13 Castle Street, St Helier, JE4 5UT, Jersey
Mitie España, S.L.	Osborne Clarke, Avenida Diagonal, 477, Planta 20, 08036, Barcelona, Spain
Mitie Facilities Management Limited	108 Q House, Furze Road, Sandyford, Dublin 18, Ireland
Mitie France SAS	259 rue St Honore, 75001, Paris, France
Mitie NI Limited	Clara House , Office B5, Dunmurry Office Park, 37A Upper Dunmurry Lane, Belfast, Northern Ireland, BT17 0AA, United Kingdom
Mitie Nederland B.V.	Hoofdweg 52A, 3067 GH Rotterdam, P.O. Box 8540, 3009 AM Rotterdam, 3009 AM Rotterdam, Netherlands
Mitie Norge Aksjeselskap	Kongensgate 9, 0153, Oslo, Norway, Norway
Mitie Polska Sp. z o.o.	Solec 22, 00-410, Warsaw, Poland
Mitie Reinsurance Company Limited	Maison Trinity, Trinity Square, St. Peter Port, GY1 4AT, Guernsey
Mitie Schweiz GmbH	Brandschenkestrasse 90, CH-8027, Zurich, Switzerland
Mitie Suomi Oy	c/o Ov Visma Services Infocon Ab, Pormestarinrine 8, 00160 Helsinki, Finland
Mitie Sverige AB	Kungsgatan 55 , 111 22 Stockholm, Sweden, Sweden
Service Management International Asia Pacific PTE. Ltd.	65 Chulia Street, #38-02/03, OCBC Centre, Singapore, 049513
Source8 Delivery (Nigeria) Limited	235 Ikorodu Road, Ilupeju, Lagos, Nigeria
Source8 Services FZLLC	17 The Iridium Building, Um Suqueim Road, Al Barsha, Dubai, PO BOX 391186, United Arab Emirates

No subsidiaries have non-controlling interests that are material to the Group.

The Group has a 30% interest in its associate, Pyramid Plus South LLP, a limited liability partnership registered in the United Kingdom with its registered office at The Point, 37 North Wharf Road, London, W2 1BD.

41. Events after the reporting period

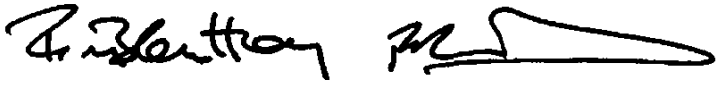
There are no material post balance sheet events that require adjustment or disclosure in the annual report.

Company balance sheet
At 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Investments in subsidiary undertakings	44	557.0	589.5
Deferred tax asset	46	0.8	0.3
Total non-current assets		557.8	589.8
Current assets			
Debtors	45	98.2	36.9
Total current assets		98.2	36.9
Total assets		656.0	626.7
Creditors: amounts falling due within one year	47	(82.2)	(44.6)
Total current liabilities		(82.2)	(44.6)
Net current assets		16.0	(7.7)
Net assets		573.8	582.1
Capital and reserves			
Share capital	31	9.3	9.2
Share premium account	32	130.6	130.6
Merger reserve	32	104.2	91.8
Own shares reserve	32	(43.4)	(42.2)
Other reserves		22.9	25.3
Loss for the year		(12.7)	(42.6)
Retained earnings		362.9	410.0
Equity shareholders' funds		573.8	582.1

The Company reported a loss for the financial year ended 31 March 2018 of £12.7m (2017: £42.6m).

The financial statements of Mitie Group plc, company registration number SC019230, were approved by the Board of Directors and authorised for issue on 6 June 2018. They were signed on its behalf by:



Phil Bentley
Chief Executive Officer

Paul Woolf
Chief Financial Officer

Company statement of changes in equity
For the year ended 31 March 2018

	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 2016	9.3	127.7	80.1	(48.8)	21.1	474.4	**663.8**
Loss for the year	–	–	–	–	–	(42.6)	**(42.6)**
Shares issued	0.1	2.9	11.7	–	–	–	**14.7**
Share-based payments	–	–	–	6.8	3.8	(2.5)	**8.1**
Share buybacks	(0.2)	–	–	(0.2)	0.4	(24.4)	**(24.4)**
Dividends paid	–	–	–	–	–	(37.5)	**(37.5)**
At 31 March 2017	9.2	130.6	91.8	(42.2)	25.3	367.4	**582.1**
Loss for the year	–	–	–	–	–	(12.7)	**(12.7)**
Share-based payments	–	–	–	6.9	(2.4)	0.3	**4.8**
Acquisitions and other movements	0.1	–	12.4	(8.1)	–	–	**4.4**
Dividends paid	–	–	–	–	–	(4.8)	**(4.8)**
At 31 March 2018	9.3	130.6	104.2	(43.4)	22.9	350.2	**573.8**

As at 31 March 2018, the Company had distributable reserves of £117.5m (2017: £137.3m).

Details of dividends paid to shareholders are given in Note 11 of the consolidated financial statements.

42. Significant accounting policies

(a) Basis of accounting

The separate financial statements of the Company are presented as required by company law. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The financial statements have also been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, impairment of assets, standards not yet effective, and related party transactions.

Where relevant, equivalent disclosures have been given in the Group accounts.

As more fully detailed in the Directors' report, the Company's financial statements have been prepared on a going concern basis.

(b) Principal accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are shown at cost less any provision for impairment.

Investments in subsidiaries are reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the investment's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying value of an asset exceeds its recoverable amount.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to the profit and loss account, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on temporary differences, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

42. Significant accounting policies continued

Financial instruments

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account where there is objective evidence that the asset is impaired.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are measured at amortised cost.

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

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Share-based payments

The Company 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 or Monte Carlo models or the share price at grant date, and the corresponding expense is recognised on a straight line basis over the vesting period based on the Company's estimate of shares that will eventually vest. At each balance sheet date, the Company 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 costs of options and conditional awards over the Company's shares granted to employees of the Company's subsidiaries are accounted for as a capital contribution within the carrying value of investments in subsidiary undertakings.

Pensions

The Company participates in the Mitie Group plc Pension Scheme. All group companies account for the contributions to the defined benefit scheme in respect of their employees and as part of a group arrangement one of the Company's subsidiaries accounts for the other costs, income, assets and liabilities of the scheme. Note 37 to the consolidated financial statements sets out details of the IAS 19 'Employee benefits' net pension liability of the scheme amounting to £54.8m (2017: £70.7m).

43. Loss for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own statement of comprehensive income (including the profit and loss account) for the year. Mitie Group plc reported a loss after taxation for the financial year ended 31 March 2018 of £12.7m (2017: £42.6m).

The auditor's remuneration for audit services to the Company was £40,000 (2017: £40,000).

Detailed disclosures of Directors' remuneration and share interests are given in the audited section of the Directors' remuneration report on pages 101 to 109.

44. Investments in subsidiary undertakings

	£m
Shares at cost	
At 1 April 2017	690.9
Restructuring	497.3
Acquisitions	7.3
Capital contribution re share-based payments	1.0
Disposals	(580.0)
At 31 March 2018	**616.5**
Provision for impairment	
At 1 April 2017	101.4
Charged to income statement	–
Disposals	(41.9)
At 31 March 2018	**59.5**
Net book value	
At 31 March 2018	**557.0**
At 31 March 2017	589.5

A listing of subsidiaries is given in Note 40 to the consolidated financial statements.

During the year, the Company underwent a process to rationalise and simplify the corporate structure which included the acquisition of minority shareholder interests in the remaining Mitie Model companies (see Note 33 to the consolidated financial statements). The reorganisation was facilitated through Mitie Treasury Management Limited (MTML), an existing entity held by the Company acquiring the majority of the Company's investments, including its principal holding companies, through share for share exchanges. In addition, minority interests held by the Company in other Group companies were transferred to the majority shareholder for consideration left outstanding on intercompany account. No gain or loss arose in the Company as a result of these steps.

45. Debtors

	2018 £m	2017 £m
Amounts owed by subsidiary undertakings	**96.3**	31.2
Other debtors	**1.8**	0.7
Prepayments and accrued income	**0.1**	0.2
Corporation tax	**–**	4.8
	98.2	36.9

The Directors consider that the carrying amount of debtors approximates their fair value.

46. Deferred tax

	Share-based payment timing difference £m
Deferred tax asset at 1 April 2017	0.3
Charge to income statement	0.5
Deferred tax asset at 31 March 2018	**0.8**

47. Creditors: amounts falling due within one year

	2018 £m	2017 £m
Overdrafts	24.8	5.4
Trade creditors	4.4	2.2
Amounts owed to subsidiary undertakings	28.5	5.2
Corporation tax liability	0.6	–
Other taxes and social security	(0.2)	0.2
Accruals and deferred income	9.3	19.0
Provisions	14.8	12.6
	82.2	44.6

Amounts owed to subsidiary undertakings are repayable on demand. The Directors consider that the carrying amount of creditors approximates their fair value.

The Company's bank overdrafts are part of the Group's banking arrangements and are offset against credit balances within the Group. The Company has adequate liquidity to discharge all current obligations.

For details of Group borrowings, see Note 26 to the consolidated financial statements.

48. Contingent liabilities

Per Note 40, Mitie Group plc has taken the audit exemption for a number of subsidiaries by virtue of s479A of the Companies Act. A parent company guarantee has been provided for these entities under s479C of the Companies Act:

49. Share-based payments

The Company has six equity-settled share schemes as described in Note 36 to the consolidated financial statements.

The Company recognised an expense of £0.4m (2017: £2.4m) related to the share-based payment charge for discretionary share option schemes.

The fair value of options is measured by use of the Black-Scholes and Monte Carlo models. The inputs into the Black-Scholes and Monte Carlo models are as described in Note 36 to the consolidated financial statements.

50. Related parties

The Company makes management charges to all of its subsidiaries, whether they are wholly-owned or otherwise, and receives dividends from its subsidiaries, according to their ability to remit them. Other details of related party transactions have been given in Note 38 to the consolidated financial statements.

Under FRS 101 the Company is exempt from disclosing key management personnel compensation and transactions with other companies wholly owned by Mitie Group plc. There were no other related party transactions during the year ended 31 March 2018 (2017: £nil).

Appendix – Alternative Performance Measures (APMs)

The Group presents APMs as the Group has applied IFRS 15 in the 2018 financial statements using the cumulative effect method through an adjustment to the opening balance of equity at 1 April 2017 and has not restated the comparative information for the 2017 financial year. In addition, there were a number of significant restatements recorded in the 2017 financial statements. The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. These APMs are measures which disclose the adjusted performance of the Group without the adoption of IFRS 15 (see Note 1 (a)) and excluding specific items which are regarded as non-recurring. The Group separately reports the impairment of goodwill, the cost of restructuring programmes, acquisition and disposal costs, amortisation of acquisition related intangible assets, exceptional items and other specific items in the income statement which, in the Directors' judgement, need to be disclosed separately (see Notes 3, 4 and 5) 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.

APMs presented	2018 £m	Restated 2017[1] £m
Revenue		
Adjusted revenue	2,199.1	2,140.0
Impact as a result of the adoption of IFRS 15	4.6	–
One-offs:		
Adjustment to accrued income on long-term complex contracts	–	(20.4)
Accrued income, debtors, prepayments included in trade & other receivables	–	(7.4)
Effects of foreign currency	–	11.2
Other one-off items	–	–
Before other items	2,203.7	2,123.4
Other items	–	–
Total revenue as reported	2,203.7	2,123.4
Operating profit		
Adjusted operating profit	77.1	82.0
Impact as a result of the adoption of IFRS 15	12.5	–
One-offs:		
Impairment and amortisation of intangible assets (Note 14)	–	(10.5)
Adjustment to accrued income on long-term complex contracts	–	(20.4)
Accrued income, debtors, prepayments included in trade & other receivables	–	(36.4)
Impairment of mobilisation asset	–	(5.7)
Other provisions & accruals	–	(4.6)
Other one-off items	–	(10.7)
Before other items	89.6	(6.3)
Adjusted other items	(103.0)	(36.6)
Impact as a result of the adoption of IFRS 15	5.1	–
Other items as reported	(97.9)	(36.6)
Total operating profit as reported	(8.3)	(42.9)

The total adjustments presented above impact business segments as follows:

Adjustments to revenue	2018 £m	Restated 2017[1] £m
Engineering Services	(6.9)	14.6
Security	(0.3)	–
Professional Services	0.6	–
Cleaning & Environmental Services	(0.9)	3.6
Care & Custody	2.4	–
Catering	–	(1.6)
Property Management	0.5	–
Total adjustments	(4.6)	16.6

1. The Group has restated 2017 income statement and balance sheet as per Note 1, page 134.

Appendix – Alternative Performance Measures (APMs) continued

Adjustments to operating profit	2018 £m	2017 £m
Engineering Services	(10.3)	37.5
Security	(2.3)	3.8
Professional Services	0.5	2.6
Cleaning & Environmental Services	(1.7)	14.4
Care & Custody	1.3	0.7
Catering	(0.6)	0.6
Property Management	0.6	16.8
Corporate Centre	–	11.9
Total adjustments	(12.5)	88.3

	2018			2017		
Adjustments to cash flows	As reported £m	Impacts of IFRS 15 £m	Adjusted cash flows £m	As reported £m	One-off items £m	Adjusted cash flows £m
Operating loss – continuing operations	(8.3)	(17.6)	(25.9)	(42.9)	88.3	45.4
– discontinued operations	–	–	–	(135.2)	–	(135.2)
Adjustments for non-cash and non-operating items	75.5	–	75.5	187.2	(88.3)	98.9
Operating cash flows before movements in working capital	67.2	(17.6)	49.6	9.1	–	9.1
(Increase)/decrease in inventories	(0.1)	–	(0.1)	3.2	–	3.2
(Increase)/decrease in receivables	(43.2)	13.1	(30.1)	60.2	–	60.2
(Increase)/decrease in contract assets	(2.3)	2.3	–	–	–	–
(Decrease)/increase in deferred income arising on contracts	(12.8)	12.8	–	–	–	–
(Decrease)/increase in payables	(21.2)	(9.1)	(30.3)	73.0	–	73.0
(Decrease)/increase in provisions	4.5	(0.2)	4.3	5.6	–	5.6
Cash (used in)/generated by operations	(7.9)	1.3	(6.6)	151.1	–	151.1
Income taxes, interest and acquisition costs received/(paid)	(1.9)	–	(1.9)	(28.3)	–	(28.3)
Net cash (outflow)/inflow from operating activities	(9.8)	1.3	(8.5)	122.8	–	122.8
Investing activities						
Purchase of property, plant and equipment	(15.8)	(0.2)	(16.0)	(14.5)	–	(14.5)
Purchase of other intangible assets	(9.0)	(1.1)	(10.1)	(12.4)	–	(12.4)
Other investing activities	(7.3)	–	(7.3)	–	–	–
Net cash outflow from investing activities	(32.1)	(1.3)	*(33.4)*	(26.9)	–	(26.9)
Net cash inflow from financing activities	(27.8)	–	*(27.8)*	(60.3)	–	(60.3)
Net (decrease)/increase in cash and cash equivalents	(69.7)	–	*(69.7)*	35.6	–	35.6

Adjustments to the balance sheet are shown in Note 1 on page 140.

Shareholder information

Overview	
HY 18/19 half-yearly results	22 November 2018

Dividends	
FY 17/18 interim dividend (1.33p paid)	7 February 2018
2018 final dividend (2.67p proposed):	
– ex-div date	21 June 2018
– record date	22 June 2018
– last date for receipt/revocation of DRIP mandate	9 July 2018
– payment date	6 August 2018

Annual General Meeting	
2018 Annual General Meeting	31 July 2018

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34 Beckenham Road
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Kent
BR3 4TU

Telephone: 0871 664 0300*
Website: www.mitie-shares.com

* calls cost 12p a minute plus network extras, lines are open 9.00am – 5.30pm Mon – Fri.

Dividend reinvestment plan (DRIP)
Mitie has set up a dividend reinvestment plan (DRIP) to enable you to build your shareholding by using your cash dividends under a standing election to buy additional shares in Mitie. If you would like to receive further information, including details of how to apply, please call Link Asset Services on 020 8639 3402 or contact them by sending an email to: shares@linkgroup.co.uk

Mitie online share portal
Mitie has launched a shareholder portal where shareholders can register and can:

- 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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Investing in our strengths

We use
56m
refuse sacks
to collect waste from client premises

We sent out over
15m
pieces of paper
through our hybrid mail system last year

Image removed

Image removed

We sell
13.5m
cups of coffee each year

We take over 2m readings every day from
5,000 sensors

Image removed

Image removed

We buy
3.7m litres
of milk each year – enough to fill two Olympic-sized swimming pools

We buy
30km
of copper tubing each year –
the equivalent of 94 Shards stood end-to-end

Image removed

555
new apprentices in FY 17/18

We complete over
1,000 social housing repairs
each day

Image removed

We provide support services for 13 police forces nationally

We have
10
drone flight pilots across the UK

Image removed

Registration number:
SC19230

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