

Parent for: 7650472.

Mitie Group plc Annual Report and Accounts 2020

Dear Shareholders,

I am writing to you in the middle of the COVID-19 crisis when our company is focused on protecting the health and safety of colleagues, customers, other business partners and the communities we serve. While, at the same time, we are ensuring that our businesses are able to continue with minimal disruption and to deliver the essential services we provide to our customers.

As part of our response to COVID-19, we have cut many costs including those associated with producing a glossy brochure style annual report and accounts. Inside you will find all the information you have come to expect from Mitie, just presented in a plain text format. For those of you who opt to receive a hard copy, this document will be printed out and posted to you. My traditional letter to shareholders appears on page 7.

I thank you for your support and understanding.

Derek Mapp
Chairman

TUESDAY



AA1C0069

A14

30/03/2021

#325

COMPANIES HOUSE

About Mitie

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

Exceptional, every day for our customers

Our customers range from banks and retailers, to hospitals, schools and government entities. We received a net promoter score of +30 this year. We have an order book of £4.3bn and a pipeline of opportunities of £7.9bn.

Read more on page 4.

Exceptional, every day for our employees

Our 47,500 employees go the extra mile for our customers and each other to deliver basics brilliantly. We are driven by our vision of 'The Exceptional, Every Day' and our vision and values. We are One Mitie.

Read more on page 49.

Exceptional, every day for our environment

In 2010, we committed to reduce our emissions intensity by 35% by 2020. By rationalising our estate, restricting business travel and improving fleet efficiency, we achieved this a year early. We have now set an even more ambitious target to reach net zero carbon by 2025.

Read more on page 67.

Strategic report

02	About Mitie
03	Financial highlights
04	Group information
07	Chairman's statement
11	Business model
14	Market review
16	Our strategy in action
17	Chief Executive's strategic review
24	Key performance indicators
27	Operating review
37	Finance review
45	Stakeholder engagement
47	Non-financial information statement
48	Mitie Social Value and Responsible Business Charter
49	Our people
55	Delivering social value
61	Focus on Environment, Social and Governance
67	Plan Zero/Environment
70	Section 172(1) statement
74	Effective risk management
77	Principal risks and uncertainties
92	Viability statement

Governance

95	Chairman's introduction to governance and the Board
97	Board biographies
103	Governance at a glance
103	Board leadership and company purpose
113	Division of responsibilities
118	Composition, succession and evaluation
122	Audit, risk and internal control
127	Remuneration
128	Nomination Committee report
131	Audit Committee report
141	Directors' remuneration report
162	Social Value & Responsible Business Committee report
164	Disclosure Committee report
165	Directors' report
172	Statement of Directors' responsibilities

Financial statements

174	Independent auditor's report to the members of Mitie Group plc
185	Consolidated income statement
186	Consolidated statement of comprehensive income
187	Consolidated balance sheet
189	Consolidated statement of changes in equity
190	Consolidated statement of cash flows
192	Notes to the consolidated financial statements
247	Company balance sheet
248	Company statement of changes in equity
249	Notes to the Company financial statements
253	Appendix – Alternative Performance Measures (APMs)
255	Shareholder information

Financial Highlights (for the year ended 31 March 2020)

£2.2bn
Revenue
(FY 18/19: £2.1bn)

16.0p
Basic earnings per share
before other items
(FY 18/19: 14.7p)

£74.9m
Net debt (at period-end
pre-IFRS 16)
(FY 18/19: £140.7m)

£4.3bn
Secured order book
(FY 18/19: £4.1bn)

£86.1m
Operating profit before
other items
(FY 18/19: £79.6m)

1.33p
Dividends per share
(FY 18/19: 4.0p)

£239.6m
Daily average net debt
(pre-IFRS 16)
(FY 18/19: £302.0m)

£7.9bn
Pipeline of opportunities
(FY 18/19: £9.6bn)

- Revenue¹ of £2,174m was 4% ahead of the prior year with flat organic revenue growth
- Operating profit before other items^{1,2} of £86.1m is 8% ahead of the prior year (FY 18/19 £79.6m)
- Operating profit increased 55% to £64.6m (FY 18/19 £41.7m), with the higher growth due to lower levels of other items in FY 19/20
- Basic earnings per share before other items^{1,2} of 16.0p, 9% ahead of the prior year (FY 18/19 14.7p)
- Free cash flow of £10.8m (FY 18/19 £21.4m)
- Continued improvement in period-end net debt to £74.9m (FY 18/19 £140.7m) and lower leverage to 0.7x (FY 18/19 1.33x) on a pre-IFRS 16 basis
- Order book¹ increased 4% to £4.3bn (FY 18/19 £4.1bn)
- Net Promoter Score (NPS) increased to +30 (FY 18/19 +12)

Financial Summary

	FY 19/20		FY 18/19	
	Before other items ²	Total	Before other items ²	Total
£m unless otherwise specified				
Revenue ¹	2,173.7	2,173.7	2,085.3	2,085.3
Operating profit ¹	86.1	64.6	79.6	41.7
Operating profit margin ¹	4.0%	3.0%	3.8%	2.0%
Profit before tax ¹	69.9	48.4	65.9	28.0
Profit for the year	60.3	90.5	63.7	30.9
Basic earnings per share	16.0p ¹	25.0p	14.7p ¹	8.6p
Full year total dividends per share		1.33p		4.0p
		FY 19/20		FY 18/19
Period-end net debt (pre-IFRS 16) ³		74.9		140.7
Average daily net debt (pre-IFRS 16)		239.6		302.0
Period-end net debt (post-IFRS 16) ³		167.9		n/a
Order book ¹		4,294.4		4,120.8

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

¹ From continuing operations

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

³ Note 25 to the consolidated financial statements for analysis of net debt

Group Information

Mitie is the UK's leading facilities management and professional services company. We offer a range of services including Technical Services (engineering services, energy, water and real estate services), Business Services (security, cleaning and office services) and Specialist Services (Care & Custody, Landscapes and Waste Management).

Our Vision	The Exceptional, Every Day.
Our purpose	Our expertise, care, technology and insight create amazing work environments, helping our customers be exceptional, every day.
What we do	We are the UK's leading facilities management (FM) and professional services company, employing 47,500 people. We manage and maintain some of the nation's most recognised landmarks and work with a wide range of blue-chip organisations and public sector customers. We have scale and nationwide reach as well as breadth and depth of facilities management services, which we deliver in a flexible, tailored proposition through self-delivery or strategic partnerships. We work in partnership with our customers to grow customer lifetime value by offering technology-backed solutions; our technology is a true differentiator. We are ambitious for the future of the FM industry, our customers and our employees.

We deliver the exceptional through a range of services

Mitie operates through three principal divisions: Technical Services, Business Services and Specialist Services.

Technical Services

The Technical Services division provides public and private sector customers with a broad range of crucial project and maintenance services that keep their organisations running. The division incorporates a range of key engineering, maintenance, repair and project services, energy and carbon management services and water and real estate services.

Maintenance: Mitie has extensive knowledge of, and experience in, maintaining and repairing buildings and assets in various industries and sectors. Maintenance areas include electrical, mechanical, controls, water, HVAC, lighting systems and building fabric, such as repair, decoration and painting works. Across these areas, Mitie offers a flexible and proactive suite of services, which include mobile and site-based maintenance, maintenance and repair, remote monitoring, data analytics and remote intervention. Mitie's maintenance services utilise technologically-advanced data-driven capabilities, in-house expertise and mobile engineering with a national presence, to deliver a comprehensive range of services tailored to customer needs, with a focus on up-time, energy efficiency, carbon impact and whole-life cost of the relevant asset or facility.

Engineering Projects: Mitie's engineering project capabilities deliver end-to-end services across a comprehensive range of maintenance, engineering and refit works. These services include design and planning of building projects and systems, as well as highly skilled contracting works. An experienced principal contractor, Mitie manages project-based services across the commercial, retail, industrial, social, education, leisure and domestic property sectors.

Business Services

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

'Soft Services' such as security, cleaning, front of house, and document management are often intrinsically linked in their delivery. Customers are increasingly coming to market with 'soft services' tenders, as they look to bundle these together to achieve maximum efficiency, which Mitie is uniquely positioned to deliver.

The formation of the Business Services division, led by a senior leadership team unrivalled in the industry, has created obvious synergies in back-office support and frontline operations, and ensures that we deliver the exceptional every day to our business services customers.

Security: Mitie Security is the UK's largest intelligence-led security business. It provides safe and secure environments for its customers, by combining the deep expertise of its people, harnessing the power of its systems, and deploying the best technology. Translating operational data into meaningful insights gives its people the actionable intelligence to deliver effective security solutions, in the right place and at the right time.

Providing integrated, risk-based solutions, Mitie Security delivers a range of services, including manned guarding using its unique intelligence-led approach to security personnel, fire and security services. Mitie Security is now the UK's fifth largest integrator and its 24/7 proprietary business intelligence software helps customers better protect their people assets and environments.

Cleaning: Mitie Cleaning & Environmental Services is a people-centric business, supplemented by industry-leading technology, providing quality cleaning services through safe and secure practices to a wide range of sectors in both the public and private space. It delivers specialist services through an innovation-led approach, utilising sector-specific capabilities. Its specialist offering to the public sector includes providing general cleaning and specialist services to the NHS, including some of the UK's largest hospitals, via its healthcare division, a large footprint in the education sector, including schools and universities, and services for a wide range of public sector and government organisations.

In the private sector, its clients range from diverse industries such as distribution, automotive and the industrial sector, large corporate organisations and iconic buildings in London, to leading pharmaceutical clients with specific clean room environment requirements.

Specialist Services

Specialist Services incorporates a number of specialised services, including Mitie's Care & Custody, Waste Management and Landscapes businesses.

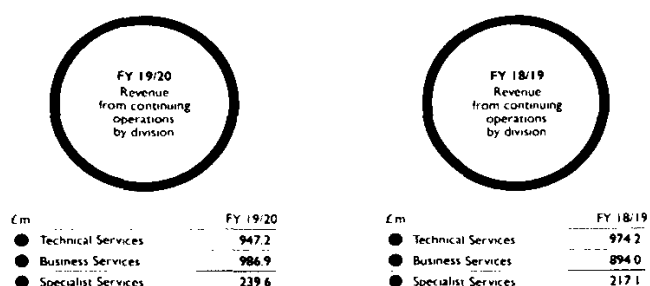
Care & Custody provides high-quality, critical public services in immigration, criminal justice and healthcare. A range of its services are delivered to vulnerable adults in secure environments, including immigration removal centre management and detention and escorting services on behalf of the Home Office. Care & Custody also provides forensic medical examination and custody support services for police forces across England and Wales.

Mitie Waste Management is a leading national waste management business providing innovative waste reduction and treatment solutions. The business views waste as a resource; an opportunity to save money for clients, as well as benefit the environment. Waste Management extracts the value of redundant materials instead of relinquishing it to the waste industry, sharing the gains with clients so that waste reduction and changes in behaviour are incentivised. Mitie Waste Management is focused on waste prevention, reduction, reuse and recycling.

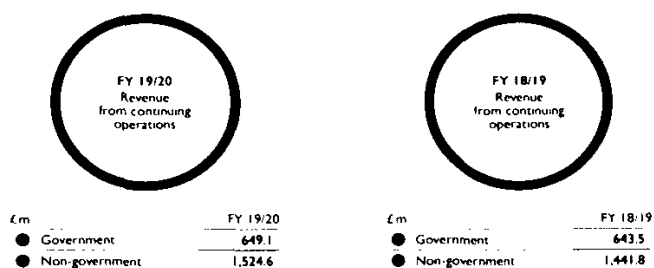
Landscapes is a top five UK provider of landscaping, focused on both horticultural and winter services. The former includes landscape maintenance, projects and improvement schemes, estates cleansing, interior plants and seasonal displays. Winter services comprise snow clearance and salt gritting.

Landscapes enjoys a balanced mix of fixed and pay-as-you-go work throughout the year. This ensures a broadly stable performance, with further upside during harsh winters when gritting services are provided. Landscapes customers are primarily private sector, with a good representation of Mitie Strategic Accounts.

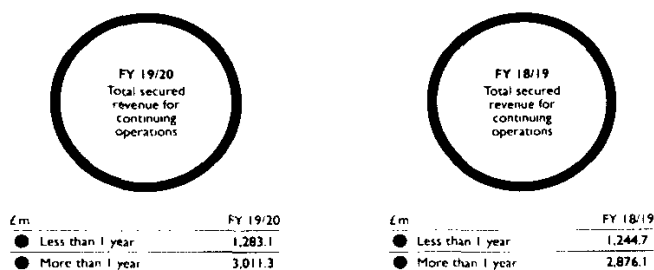
Revenue from continuing operations



Customer type



Forward order book



Chairman's statement

Dear Mitie Shareholder,

We are in unprecedented times as we navigate the COVID-19 crisis. Early on we established three overriding priorities to guide our response to COVID-19: protecting the health and safety of colleagues, customers, other business partners and the communities we serve; ensuring that our businesses are able to continue with minimal disruption; and delivering the essential services we provide to our customers.

Mitie's 37,500 frontline employees have been working hard to support all our customers in these unprecedented times – especially in NHS hospitals, within critical infrastructure, in supermarkets and at on-line retail hubs – all focused on delivering essential services to keep the UK moving. In addition, our employees have been setting up and running critical COVID-19 facilities at the NHS Nightingale hospitals and testing centres around the UK. They are our frontline heroes and we are incredibly proud of their dedication and appreciative of their efforts.

The COVID-19 crisis has affected us all and sadly a number of colleagues passed away from this terrible disease. We are providing next of kin with additional support at this time.

The steps we have taken to transform the business over the last three years have better positioned Mitie to navigate this crisis. We have a leaner corporate structure, enabling us to make decisions more quickly, and, at the operational level, our investment in technology, development of Strategic Account Managers and investment in our people has allowed us to better support our customers during these uncharted times. Whilst we are part-way through this crisis and we are uncertain what the months ahead will bring, we believe our strategy and business model are robust and we will come out of the crisis in a strong position to continue our transformation.

Financial performance

I am very pleased to report that Mitie has delivered another year of improved financial and operational performance. Revenue from continuing operations grew 4% to £2,174m as the acquisition of VSG, new contract wins and growth from our Strategic Accounts mitigated loss of revenue from deferred or cancelled discretionary variable works and engineering projects as a result of economic uncertainty from Brexit and more recently COVID-19. Earnings per share before other items from continuing operations increased 9% to 16.0p, reflecting our improved performance. Earnings per share from continuing operations increased 78% to 11.2p, with the higher growth due to lower levels of other items. Our closing net debt, on a pre-IFRS 16 basis, was £75m, the lowest we have reported in the last three years and a reflection of the improved financial strength of the business.

Strategy

It is now three years since we set out our strategy to transform Mitie and, in that time, we have improved the financial strength of the Company, have better customer service and employee engagement and a growing market share. As we move into the 'Accelerated value creation' phase of our transformation, the Board continues to believe this is the right strategy for the Group and, even when taking into account the impact of COVID-19, we continue to expect this strategy to deliver value in the medium term.

Our strategy is based on four pillars – customer, people, cost and technology – and is designed to grow customer lifetime value through technology-based solutions. We are focusing on core businesses where we can have market-leading positions to ensure long-term sustainable growth. Our vision is to deliver *The Exceptional, Every Day*.

Our customer service has remained a core focus and we have further improved our Net Promoter Score (NPS) to +30. The 57-point increase from FY 16/17 is something we are very proud of, but we

still have room for improvement. Investment in our Strategic Account Managers has resulted in a 5% increase in revenue from our top 50 customers and these relationships have been, and will be, pivotal to our resilience during and beyond the COVID-19 pandemic.

We are committed to creating a 'Great Place to Work' and employee engagement has improved to 46% following another successful 'You Said, We Did' campaign. Listening and reacting to our employees' needs has never been more important, so we ran an additional survey in May 2020 to find out how we could support our people more during the COVID-19 crisis. We were delighted to find out that over three-quarters of our people feel proud to work for Mitie as a key contributor to the effort to tackle COVID-19. My fellow Board members and I have enjoyed meeting our colleagues around the UK and we hope it won't be long before we have the opportunity to continue face-to-face meetings. In the meantime a 'virtual roadshow' is planned to continue this engagement.

Following on from Project Helix, which delivered £45m of cost savings, we launched Project Forte in FY 19/20. Forte is a two-year transformation programme for Technical Services and is focused on delivering improved productivity and supply chain savings.

Technology plays an increasingly important role in our industry and we intend to be at the forefront of innovation to optimise the performance of our customers' estate, improve sustainability and enhance the wellbeing of their people. Our acquisition of Vision Security Group (VSG) in FY 18/19 strengthened our position as one of the UK's largest providers of security services to business and some key IT milestones were achieved during FY 19/20 including CE+ Compliance, which is critical for government work, rolling out Office 365 and Microsoft Teams, and moving to cloud-based applications. These IT measures have been key to our successful ability to work from home during the COVID-19 crisis.

"During the last year Mitie transitioned to the second phase of its transformation – Accelerated value creation"

In December 2019 we set out our plans for phase two of our transformation, 'Accelerated value creation' which will see a combination of better growth, lower costs, reducing one-off hits and further deleveraging. Prior to COVID-19 we were making good progress in implementing phase two, with Technical Services and Business Services becoming market leaders, enhancements in customer-facing technology to improve service capabilities and improved Strategic Account Management.

Current trading

The impact of COVID-19, especially over an extended period, presents challenges to many companies. It has been the absolute focus of the Board to ensure that we have the requisite financial strength and take advantage of unique M&A opportunities. I am therefore delighted that we have been able to sign a sale and purchase agreement to acquire Interserve Facilities Management, subject to shareholder approval whilst raising an additional £201m of equity and gaining lender support to extend our revolving credit facility until December 2022.

In the first two months of our current financial year, our business is proving more resilient than initially expected, reflecting the essential nature of the services we provide to customers. The decline in revenue was 12%. Year to date average net debt of £86m at 31 May 2020 is at the lowest point for over 10 years. Early indications show that June trading will also be better than expected.

Board composition

On 2 January 2020 we welcomed Andrew Peeler to the Board as Chief Financial Officer. Further details on Andrew's appointment can be found on page 142.

Jennifer Duvalier continues to act as the Company's designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce. Jennifer has undertaken several initiatives

during FY 19/20 to establish communication channels with the workforce ensuring that the views of frontline employees are heard and understood. Jennifer provides the Board with an update at every Board meeting so that their views are regularly voiced at Board-level and can be incorporated into the Board's decision-making process. Between meetings, notes from Jennifer's visits are made available to the Board via the electronic Board portal.

The Board considers the balance in its members' skills and experience appropriate both from an overall Board composition perspective and based on individual contribution. The biographies of each member of the Board and the Chief of Staff, General Counsel & Company Secretary begin on page 97.

Social value and responsible business

The Social Value & Responsible Business Committee, chaired by Non-Executive Director Baroness Coughtie, was created in June 2019 to drive the social value and responsible business agenda on behalf of the Group. The Committee seeks to ensure that the Group conducts its business in a commercially responsible way to achieve maximum positive impact on the communities, people and environment in which it works, for the benefit of Mitie's customers, staff and shareholders.

During FY 19/20, the Mitie Social Value and Responsible Business Charter was created, the first Social Value report was published and ambitious targets were agreed. More details appear on pages 55 to 60.

Early in 2020 Mitie launched Plan Zero, which is our strategy to reach net zero carbon by 2025. To achieve this, Mitie will eliminate carbon emissions from power and transport, eradicate non-sustainable waste and enhance inefficient buildings to meet the highest environmental standards.

We have made significant progress on transitioning Mitie's fleet to electric vehicles. Mitie also has significant expertise in other aspects of sustainability; notably in Technical Services, on decarbonisation of heating systems and procurement of renewable energy, and in Mitie Waste Management on reduction of total waste levels and moving to a circular economy approach.

Stakeholder engagement

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

During FY 19/20 the Board continued to ensure that during this period of transformation there is proactive engagement with all stakeholders. As mentioned above, Jennifer Duvalier oversees Board engagement with our workforce. I have met representatives of all our major shareholders and the Board receives regular updates from the Executive Leadership Team on engagement with customers, suppliers, banks, noteholders and other stakeholders.

Dividend

At the outset of COVID-19, the Board took a series of measures to conserve cash and that included not paying a final dividend for FY 19/20 unless overall trading improves materially. At our most recent Board Meeting we took the decision not to recommend a final dividend in respect of FY 19/20. Therefore, the total dividend for the year is 1.33p, being the dividend declared at the time of our interim results and paid in November 2020. There will be no further dividend payments in respect of the full year ended 31 March 2020. The Board's intention is to hold the dividend flat in line with amounts paid in immediately preceding years until our transformation is complete, when we will review the dividend policy.

Mitie has reached agreement with the holders of the US private placement notes and the revolving credit facility banks to amended financial covenants, details of which can be found within the Financial Review on page 37. These arrangements are conditional on completion of the Rights Issue. In return, Mitie has agreed, among other things, restrictions to dividend payments which will continue to apply if leverage is above 3.0x net debt to EBITDA.

AGM

Mitie is closely monitoring the impact of the COVID-19 pandemic and public health concerns in the United Kingdom and elsewhere. Mitie currently intends to hold its Annual General Meeting (AGM) on 28 July 2020 at 11.30am at Level 12, The Shard, 32 London Bridge Street, London SE1 9SG. However, given the UK Government's current guidance on social distancing and restrictions on public gatherings, it will not be possible for shareholders to attend the AGM in person unless both the COVID-19 situation and the UK Government's guidance has changed by the date of the meeting.

The Board very much regrets that, as things currently stand, it will be necessary to restrict attendance at the AGM, but the health and well-being of employees, shareholders and the wider community in which the Company operates is of paramount importance for the Board. The Board strongly encourages shareholders to appoint the chairman of the AGM as their proxy and provide voting instructions in advance of the meeting in accordance with the instructions explained in the Notice of AGM.

I hope that you will understand the reasoning for our approach to the AGM, and hope that we can gather in happier times at the meeting in 2021.

Derek Mapp
Chairman

Business model

Creating value for all our stakeholders

Our vision

'The Exceptional, Every Day'

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

Our purpose

Our expertise, care, technology and insights create amazing work environments, helping our customers be exceptional, every day. Achieving 'The Exceptional, Every Day' doesn't happen by chance. We start by doing the basics brilliantly, tailoring solutions that anticipate and meet our customers' needs. We are aware that technology is changing our world, and we are using it to change facilities management. We provide data-driven solutions, embedding technology seamlessly into everything we do. The insights gained allow us to offer customers a new level of flexibility and control, helping them become exceptional at what they do best.

Our values

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

	1.	2.	3.
	Diligence and design	Mobilisation and running operations	Insights to drive value
What we do	We start by engaging with a new or existing customer to understand their needs or any changes to requirements. We design a solution using our expertise, knowledge and technology.	We look to mobilise our contracts in the most efficient way. Once in operation, we are continually looking for opportunities to remove cost, expand our offering where it would be of benefit to customers and become a valued strategic partner.	Using our proprietary technology, data analysis and open source data lake, as well as traditional methods, we collate information on customers' buildings and assets and the wellbeing of their employees. We convert data and feedback into actionable recommendations for our customers. Recognising that every customer is different, our approach is tailored to each customer's unique needs and is designed to deliver continual improvements throughout the life of the contract.

The Mitie approach	We have created a One Mitie approach to everything we do to deliver a seamless, unrivalled service.	Scale The scale of our operations allows us to self-deliver most services, including some specialist services. We also partner with third parties to deliver additional specialist services.	Nationwide reach Our nationwide reach allows us to service large customers with presence all over the UK.	Expertise We are a partner trusted for our expertise and for putting our customers at the heart of our business.	Technology Our technology suite includes MiTec, service operations centre (SOC) and global security operations centre (GSOC).
Delivered through our business	We offer a breadth of services underpinned by broad expertise, a flexible approach and proprietary market-leading technology.				
Guided by our strategy	Our four strategic pillars – customer, people, cost and technology – underpin our strategy of focusing on our larger businesses and strategic accounts where our technology offer is a true differentiator, to ensure long-term sustainable growth, delivery of our vision of ‘ The Exceptional, Every Day ’ and creation of value for all our stakeholders.	Customer: putting customers at the heart of what we do Build market-leading positions in higher growth segments and increase customer NPS.	People: our single most important resource Create a ‘Great Place to Work’ for our employees.	Cost: strong balance sheet and cost control Strengthen our balance sheet and maintain cost discipline to remain competitive.	Technology: solutions to drive value Embed technology into the heart of our offering.

Customers

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

+30 Net Promoter Score (an improvement of 18 points from +12 in FY 18/19)

Shareholders

We are a business in transformation with strong management, an excellent customer base and a clear strategy. We launched phase 2 of our transformation ‘Accelerated value creation’ and we are committed to strong financial management and the creation of shareholder value.

16.0p basic earnings per share before other items from continuing operations (improved from 14.7p in FY 18/19)

Employees

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

46% employee engagement (improved from 45% in FY18/19)

Communities and environment

Mitie's vision is to create social value through everyday operations, leaving a legacy for the communities in which we work to support a brighter future for all. Mitie will do this by having clear targets across its five pillars of Social Value, which are Employment, Responsibility, Community, Environment and Innovation; each backed up with a plan to deliver against these targets.

8% reduction in carbon emissions

Suppliers

We are committed to ensuring a responsible supply chain. We work with all suppliers to ensure adherence to our Code of Conduct, including Modern Slavery and Human Trafficking, Safety and Sustainability objectives, and our Mitie vetting standards. We only trade with suppliers that comply with our Procurement Policy and Supplier Social Value Policy.

We procured from c. 7,000 suppliers in FY 19/20

Market review

Key market drivers – A world of opportunity

Mitie is the UK's largest facilities management (FM) company, delivering services to the UK government and private companies across a range of sectors including manufacturing, retail, transport and logistics and healthcare.

The UK has a large and established outsourced FM market. Prior to COVID-19, it was forecast to grow at moderate levels c.2% as the market continued to move slowly from insourcing to outsourcing. Despite recent industry turbulence, we are not seeing any marked trends for insourcing. The relative share of contract types (single service c.45%, bundle/integrated FM c.55%) has remained relatively stable. Customers' primary focus continues to be on cost, efficiency and service quality, but with an increasing focus on technology, sustainability and employee wellbeing. Turbulence in the sector has highlighted the need for a more informed approach to pricing and risk transfer. Scrutiny into public sector outsourcing has remained high.

How we are responding

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

Sector focus

Mitie's customer strategy is focused on large and/or multi-service customers where we can leverage our competitive advantages of national scale (top three market share in Engineering, market leader in Security and number two in Cleaning), service line breadth, self-service capability, technology leadership and low cost-to-serve. Over the last two years Mitie has also been curtailing its smaller unprofitable customers. This has increasingly built a more cost efficient, customer service oriented and focused business. Mitie has also built a significant presence and operational expertise in its core customer sectors: Public Sector, Financial & Professional Services, Retail, Manufacturing, and Transport & Logistics. These sectors account for c. 70% of Mitie's revenue.

The public sector is Mitie's largest sector. Over the last two years Mitie has secured places on several new government frameworks and has built a significant public sector pipeline. Mitie has invested resources to build a public sector sales and operational capability, which includes expertise in critical infrastructure at scale across the UK. Mitie is a leading provider of FM services across the retail sector. It has industry-leading technology (e.g. intelligence technology, remote operating centres), new and innovative operating models (e.g. community guarding) and the scale to service customers with a large retail outlet footprint. In Financial & Professional Services, Manufacturing, and Transport & Logistics, Mitie has the technology, processes and systems to deal with high-level security needs and complex building requirements.

Technical Services

Mitie Engineering is by far the largest business within the Technical Services division and operates in the largest market within the FM industry. The engineering market is highly competitive, with Mitie and its top competitors each having under 5% market share. Mitie focuses on large-scale customers where it can leverage its national footprint and self-delivery capacity. It has a unique set of capabilities which differentiates it within the market. These include a mobile workforce to service customers with a broad outlet footprint, leading monitoring and workplace technology, an integrated set of services (i.e. maintenance, projects, energy, occupier services), and an emerging expertise in sustainable FM services.

Security

Mitie Security is the clear market leader within the FM security market. It has a unique position as a specialist FM security provider. With the acquisition of Global Aware and Vision Security Group (VSG), Mitie Security has continued to build scale within the market. Mitie Security is focused on Retail, Transportation & Logistics, Aviation, Financial & Professional Services and Public sectors. It brings a unique set of capabilities and expertise that differentiates it within the market and these sectors. Mitie is the largest specialist security provider in the UK. Its scale, coverage of the UK and self-delivery capabilities enables it to provide security services to any customer. Mitie Security provides a unique technology offer which includes intelligence (GSOC), remote monitoring and lone worker apps which are reshaping the industry from pure manned-guarding to an integrated technology-enabled security service. This integrated offering enables Mitie Security to seamlessly cross-sell its various services. As a market leader, Mitie is helping to shape the future of FM security through its participation on security industry forums such as the City Security Council, National Business Crime Centre and Violence Reduction Campaign.

Cleaning

Cleaning is a highly competitive market. As a top three FM cleaning provider, Mitie has national scale and a deep level of expertise to deliver against any customer needs. It is a critical service in Mitie's integrated facilities management (IFM) offering (IFM represents c. 50% of Mitie's business). Mitie Cleaning targets large customers that require an IFM offering and has a specific focus on Mitie's priority sectors. Mitie has built an efficient cleaning operation to complement its other businesses within the overall Mitie portfolio.

Our strategy in action

Our strategy is to focus on our larger businesses and strategic accounts, where our technology offering is a true differentiator. This will ensure long-term sustainable growth, delivery of our vision of 'The Exceptional, Every Day' and value creation for all our stakeholders. Page 95 sets out our governance framework, which underpins the delivery of our strategy.

Our four strategic pillars

1. **Customer:** Build market-leading positions in higher growth segments and increase customer Net Promoter Score (NPS)
2. **People:** Create a 'Great Place to Work' for our employees
3. **Cost:** Strengthen our balance sheet and maintain cost discipline to remain competitive
4. **Technology:** Embed technology into the heart of our offering

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

Achievements:

- NPS increased 18 points to +30
- Top 50 accounts grew revenues by 5%
- Significant contracts in manufacturing and pharmaceutical sectors

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

£7.9bn pipeline of opportunities

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

Achievements:

- Integration of VSG
- Cleaning and Security integration
- Further reduction in average and closing net debt
- Cost reduction programme Project 2025 initiated

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

£5m of business integration savings

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

Achievements:

- Launched a Simplifying Mitie campaign and Celebration Hub platform
- Launched communications platform for 47,500 employees
- Enterprise HR system launched
- Employee engagement increased to 46%, from 45% in FY 18/19
- Jennifer Duvalier instigated the 'back to the floor' programme with nine site visits

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

46% employee engagement

Technology: Embed technology into the heart of our offering

Achievements:

- Integration of Global Aware and VSG to create market-leading technology in Security
- Roll-out complete of Office 365 and Microsoft teams
- CE+ compliance
- Increased adoption of ESME with customers
- Aria & Mozaic implementation into Technical Services. Mozaic is live in 76 accounts
- Remote monitoring with new technology partner Accruent

KPIs: Revenue growth, order book, NPS

76 accounts have Mozaic

Focusing our business

Achievements

- Sale of Gather & Gather Catering business
- Integration of VSG and Global Aware acquisitions
- Integration of Security/Cleaning to create Business Services

1 successful transaction; 3 successful integrations

Chief Executive's strategic review

"Mitie has delivered another year of solid results making good progress against our strategy. Today's announcement of a £201m Rights Issue will strengthen our balance sheet against an extended COVID-19 impact, securing bank refinancing and provide a platform for growth opportunities.

We are pleased to have signed a Sale and Purchase Agreement to acquire Interserve Facilities Management. This will be a transformative acquisition creating the UK's largest facilities management company and accelerating the delivery of Mitie's long-term technology-led vision."

COVID-19 and current trading

Mitie established three overriding priorities to guide its response to the COVID-19 crisis: protecting the health and safety of colleagues, customers, other business partners and the communities that it serves; ensuring that its businesses are able to continue to operate with minimal disruption and to deliver the essential services it provides to its customers; and preserving Mitie's financial strength.

In our March trading update we highlighted our diversified customer base and set out our expectations for the impact of COVID-19 on our business, including sectors we anticipated to be the most resilient (public sector customers and those linked to major infrastructure) and those we expected to have a bigger downside (transport & logistics and office-based customers). We also noted increasing demand for cleaning and security services.

Mitigating factors

In response to the anticipated revenue reduction we proactively reduced costs and looked at opportunities to preserve the Group's cashflow through a wide range of actions including:

- Deferred payment of VAT, National Insurance and PAYE under HMRC's 'Time to Pay' initiative
- 6,900 employees were furloughed and the majority of these remain furloughed
- Reduced overheads to deliver approximately £25 million of cost savings in FY 20/21
- Reviewed and deferred any non-essential costs and uncommitted capital expenditure
- The Board and Chief Executive Officer and the Executive Leadership Team volunteered reductions in their fees and salaries of 30% and 20% respectively
- No final dividend is recommended for FY 19/20

We have maintained strong relationships with our private and public sector customers during the course of the COVID-19 pandemic and are working together to meet customers' facilities management and professional services needs as operating, travel and leisure restrictions are eased in the coming months. However, recognising the uncertainty of the current situation, in addition to the measures above, we have decided to strengthen the balance sheet and liquidity position with additional financing.

We believe a Rights Issue to be a prudent measure to enable the Group to strengthen the balance sheet against an extended COVID-19 impact, to secure refinancing and to provide a platform for future growth through inorganic and organic opportunities, including the acquisition of Interserve. Mitie has entered into a Sale & Purchase Agreement which, subject to shareholder approval once a Class 1 circular has been published later in the year, will enhance Mitie's position as a leading UK facilities management provider. The enlarged group will have a balance between public and private sector customers and enhance Mitie's financial profile to secure sustainable long-term growth and

ensure we reach our medium-term target of securing an average net debt/EBITDA ratio of less than one.

We have reached a comprehensive agreement with the holders of the US private placement notes and the lenders to the revolving credit facility to grant covenant amendments and waivers under these respective financing arrangements and with the banks in relation to an extension and resizing of the revolving credit facility. These arrangements are conditional on completion of the Rights Issue.

Current trading

Although the outbreak of COVID-19 has continued to impact Mitie's performance through the start of FY 20/21, the business is proving to be more resilient than initially expected especially on the fixed contract element of the business. Mitie operates across a diverse range of sectors for both public and private customers who have seen a varying impact on their end markets. Its public sector customers have largely been resilient however many private sector customers have experienced a volatile trading environment.

Mitie has 37,500 employees working on the frontline every day, keeping its customers' facilities operational. This reflects the strategic importance and essential nature of the Group's services and, in some instances, has led to an increase in demand for critical services. Examples include supermarkets and online retailers whilst new contracts were won with three NHS Nightingale hospitals and 11 drive-in regional Coronavirus testing centres. Conversely, discretionary variable work and engineering projects, including painting and roofing, have seen a significant slowdown, and many offices and retail outlets have been closed during lockdown, impacting revenues.

Group revenue from continuing operations for the two months ended 31 May 2020 was £301.4m, which was 12% lower than the same period in the prior year. Included in this revenue decline were revenues associated with the expected loss / scope reduction of two significant high margin public sector contracts – MOJ and NHS Properties – which represented 3% of the year-on-year revenue reduction, partly offset by new customers such as GSK and BMW.

Technical Services

As expected, the majority of the Group's revenue decline for the two months ended 31 May 2020 came from the Technical Services division, which has a significant contribution from discretionary variable work and engineering projects. Reported revenue was £104.5m, down 24% when compared to the same two-month period last year. Whilst this represents a significant decline, the fixed element declined 2% year-on-year, representing the strong relationship with customers, whilst variable works and projects contracted 39% and 50% respectively in the two-month period.

Technical Services has seen a decline in revenues from customers across finance & professional, manufacturing, transport & logistics, retail, technology & communications representing c. 40% of divisional revenues. Healthcare and pharmaceuticals, utilities and leisure have proven more resilient representing c. 20%.

Business Services

Business Services, which accounted for just over half of Group revenue, reported revenue of £161.9m, 3% lower than the same two-month period last year. The loss of revenue from MOJ impacted the division's result. Business Services has been more resilient during the COVID-19 period with additional cleaning and security services provided to key clients across several sectors. The division launched 'Citrox Protect', a specialist cleaning product, exclusive to Mitie in the FM market, which will mitigate some of the lower revenues from customers hit by closures or reduced services.

The division has seen an uplift in demand for services from the retail sector with new wins and renewals at four of the UK's largest supermarket retailers. This sector represents c. 30% of divisional revenues and witnessed growth during this period benefitting both security and cleaning. Similarly, the Group also saw demand increase in healthcare and NHS Hospitals. Technology & communications, representing c. 7% of

divisional revenues, has proved to be resilient with a flat performance. Office Services, largely the Vetting business which is linked to the aviation sector, has reported a significant decline.

Despite a new win at a UK port client, revenue fell across the transport & logistics sector, which represents c.10% of divisional revenues, largely focused across security and office services (vetting). Finance & professional and property management together represent c.23% of divisional revenues and whilst they provided some early additional revenue due to 'deep cleans', they have witnessed some drop-off as offices and buildings remained closed for much of the period.

Specialist Services

Specialist Services, which accounted for 12% of Group revenue, reported a revenue of £35.0m for the two months ended 31 May 2020, 10% lower than the same two-month period last year. Care & Custody saw a reduction in variable escorting services, which, in conjunction with one client loss, resulted in revenue of £17.4m, down 8%. New wins and extensions were recorded. Waste reported a 14% decline in revenue to £11.3m, as customers within the finance and professional, leisure and transport sectors had less need for their services. This was in part mitigated by an increase in services to the healthcare sector and NHS. Landscaping saw a 10% revenue decline to £6.3m as property managers, leisure and transport & logistics customers reduced services.

Cost management

During this period, the Group has taken decisive actions in response to COVID-19, including reducing overhead costs from a combination of salary reductions, deferring non-essential and uncommitted capex. In addition, Mitie has accessed the government-supported job retention scheme and in total has furloughed up to c.7,000 staff. In the first two months of the year central costs reduced by £2.4m.

Project Forte is a two-year programme focused on delivering c. £25m cost savings within Technical Services and c. £5m from Group-wide automation. To conserve c.£5m cash this year, a six-month delay has been applied to all aspects of the project that hadn't started in March, but we are completing the supply chain management module. However, the overall benefits from Maximo upgrade and the Oracle to SAP implementation will now come through in FY 22/23.

Net debt and working capital

Mitie has reported a continued improvement in net debt, resulting in average daily net debt, pre-IFRS 16, for the two months ended 31 May 2020 of £85.9m (prior year period £217.4m). During the two-month period we benefited from the deferral of £103m from HMRC 'time to pay'. We have continued to pay all our suppliers on time. As we move through June, we continue to see performance in line with April and May and our year to date average daily net debt as at 22 June 2020 was £75.0m.

Medium-term outcome of COVID-19

COVID-19 has had a very different impact on each sector and on each customer. Demand from some Mitie customers has proven remarkably resilient whilst others have been hit hard. How each customer recovers will also be very different, but we are uniquely positioned to continue providing support.

Many clients will experience a slow return to office occupation, with occupancy levels expected to be at a third for the duration of this calendar year as customers implement social distancing measures and their employees and/or customers limit the use of public transport. There will also be a structural shift as companies move to agile working and reduce their office estates. Aviation and transport will have a slow recovery as confidence takes time to rebuild and for all sectors, financial pressure will limit discretionary spend.

Mitie's response is to flex the business model, managing costs with less overtime, a reduction in temporary staff hours and a reduction in equipment hire to mitigate the downside. Mitie's customers are likely to seek more advanced specialised work to support their buildings as and when they re-

open. Mitie has launched a comprehensive guide to getting facilities back up and running 'Getting Britain Back to Business' – including a detailed checklist covering all aspects of facilities management. Mitie has also created a COVID-19 Checklist Assured service 'Mitie Building Confidence' which outlines all the steps required to enable businesses and their employees to feel confident returning to their properties. Thirdly, Mitie has launched specific products to mitigate some of the COVID-19 impact, which include 'Citrox Protect', thermal imaging and energy reduction.

In the short-term, we anticipate the Group's order book reducing, as customers defer facilities management decisions; one upside is that expected renewals are being pushed out. New business and contract extensions have been achieved in the first two months of FY 20/21, including a two-year extension to an engineering and FM contract for Groupe PSA, which adds cleaning and waste management to the services Mitie already delivers.

Over the medium-term, Mitie continues to expect to deliver those goals set out at the launch of 'Accelerated Value Creation', namely operating profit margin improvement towards 5%. Mitie's goal is for average net debt to EBITDA coverage ratio to be <1 with a smooth debt maturity profile.

Financial results for FY 19/20

Revenue from continuing operations increased 4.2% to £2,174m (FY 18/19: £2,085m). Revenue from Mitie's UK businesses, excluding the revenue associated with the VSG acquisition, was just ahead of the prior year by 0.5%. After good growth in strategic accounts in the first half for Technical Services, the second half proved to be more challenging, as economic uncertainty resulted in revenue declines as variable works and projects reduced. Business Services, excluding VSG, delivered a better second half, reversing the terminations reported in the first half, as new customers mobilised during the second half of the year. Specialist Services delivered good revenue growth as Waste Management benefited from a full year of the NHS Improvement contract and additional variable works and Care & Custody saw a strong performance from the Heathrow Immigration Centre.

Mitie's focus on Strategic Account Management is core to its strategy and revenue growth was 5% from its top 50 customers, who represent 63% of total revenue. This reflects the Group's investment in upgrading its Strategic Account Manager capabilities, as evidenced by new energy management contracts, secured with two existing customers.

The COVID-19 impact on FY 19/20 revenue was minimal, due to the lockdown commencing on 23 March 2020. The lost revenues from project work were mitigated by increased revenues, especially from deep cleans.

Operating profit from continuing operations before other items increased 8% to £86.1m (FY 18/19: £79.6m). Profit growth came from new strategic account contracts including GSK and BMW, in addition to cost savings from the integration of VSG, and the integration of Cleaning into Business Services.

Overhead savings from the Group's transformation projects have continued to be reinvested back into technology, procurement and Strategic Account Management.

Operating profit from continuing operations increased 55% to £64.6m (FY 18/19: £41.7m), with the higher growth due to reduced other items compared with the prior year.

Operating profit margin from continuing operations before other items increased 20bps to 4.0% (FY 18/19: 3.8%). Improvements in margin reflected savings in Business Services but were held back due to the decline in the higher margin project work and contract resets.

Sales: In FY 19/20 Mitie secured significant IFM contracts with GSK, mobilised on 1 December 2019, BMW and Toyota Motor Manufacturing UK and renewed/extended the contract with Essex County Council. Mitie won a significant number of new contracts for Business Services including with the Bank of England, HMRC and London City airport.

Contracts with the Department of Health, Eurostar, Standard Life and North West Anglia NHS were successfully retendered. As advised at the time of the half year results, an extension through to the end of 2024 has been secured with Lloyds Banking Group, the Group's largest Integrated Facilities Management (IFM) customer. This renewal was one of several which have been made at lower margins as contracts are reset for future growth.

The order book from continuing operations increased by 4% to £4.3bn (FY 18/19: £4.1bn), benefiting from significant contract wins towards the end of the year. There has been a steady flow of wins and retentions following the successful reorganisation of the sales team and the introduction of Strategic Account Managers.

The pipeline of £7.9bn as at 31 March 2020 is lower than in previous years due to the failure to win new opportunities in both Technical Services and Care & Custody and an element of 'cleansing', as targets are redefined towards higher margin contracts. The pipeline is equally balanced between public and private sectors and includes a noticeable increase in pipeline activity with strategic accounts. Three of Mitie's top 10 customers have re-bids and extensions in the pipeline which also includes £3.5bn of government framework opportunities.

Balance sheet health remains a key focus and on a pre-IFRS 16 basis average daily net debt was £239.6m (FY 18/19: £302.0m) and closing net debt was £74.9m (FY 18/19: £140.7m) boosted by HMRC's 'Time to Pay' scheme. Average daily net debt to EBITDA was 2.25x. Mitie is committed to further reducing customer invoice discounting, normalising creditor days, asking customers for fairer payment terms, streamlining billing processes and delivering faster cash collection. The medium-term objective is to continue to reduce average daily net debt through improvements to the cash collection cycle. At 31 March 2020, Mitie was comfortably within debt covenants.

Operating cashflow increased to £71.8m (FY 18/19: £47.5m) largely driven by the increase in profits and HMRC's Time to Pay. Free cash flow after £23.7m of lease payments, capital expenditure, interest and tax was £10.8m (FY 18/19: £21.4m).

Our transformation

In FY 19/20, Mitie successfully completed Phase one of its transformation, which included Project Helix, portfolio rationalisation, the move to Strategic Account Management and significant progress on strengthening the balance sheet. Phase two, has now commenced and will focus on delivering accelerated growth in returns through:

- Market leadership in Technical Services and Business Services, and margin protection in Specialist Services
- Strategic Account Management to yield faster growth from distinctive technology
- Further cost efficiencies to meet margin ambitions
- Cementing cultural transformation under the 'Mitie Way'
- Continued deleveraging

A large component of Phase two is our engineering workflow transformation. 'Project Forte' is rolling out Maximo and SAP to deliver significant improvements in efficiencies and long-term cost savings. Some of this is currently on hold for six months due to COVID-19, but it is intended to re-start it later in the calendar year and is expected to deliver in-year savings of approximately £3m in FY 20/21. The programme is expected to deliver overall gross benefits of c.£30m (£25m for Technical Services and £5m for Group-wide automation and organisational consolidation) with full Project Forte benefits realised in FY 22/23.

The consolidation of Security and Cleaning under a single 'Business Services' management team has already seen the benefit of tighter workforce management. There are good opportunities to sell bundled services more efficiently to customers and – with shared operating platforms – further savings are anticipated.

In H1 19/20 Mitie Catering was sold to CH&CO, which, as a strategic partner, will continue to provide best-in-class catering services to Mitie's IFM customers.

Mitie's transformation programme has significantly improved its position over the last three years. The initiatives implemented have improved Mitie's financial strength, customer service levels, and market share growth, all of which have helped Mitie build its pipeline for future business.

Mitie is now a better run business than it was before. Over the three years of its transformation, Mitie has delivered revenue growth of 18%, EBIT growth of 13% and EPS growth of 15% before other items from continuing operations. This is as a result of new contract wins, ending non-profitable contracts and higher retention rates. Our financial position is now far stronger, with closing net debt £72m lower at £75m and leverage down to 0.7x. Most importantly, the feedback from customers and our employees is overwhelmingly positive, with customer NPS up from -27 to +30 at year end and employee engagement up to 46%.

It is these results that have set solid foundations that will enable Mitie to navigate the 'new' COVID-19 operating environment and progress through the second phase of its transformation to deliver Accelerated Value Creation.

Social value and responsible business

In September 2019, Mitie launched its first Social Value Report, which highlighted that all Mitie staff have a role to play in creating a brighter future for our people and our planet. This focus on Social Value, our people and our planet, is just one example of how we deliver 'the exceptional, every day'. Some tough targets have been set across all our pillars and we will report on our progress each year.

Supporting our people has never been more important than during the current crisis. Our communications strategy is designed to speak to all five generations in the workplace, and included, for the first time, those on the frontline. This proved invaluable during the early days of the COVID-19 crisis, when feedback in relation to the shortage of PPE enabled us to promptly distribute what was needed.

We were very proud to be recognised in some key awards and accreditations during the year. Mitie was placed sixth (from 17th) in the Inclusive Top 50 UK Employers 2019/2020. For the second year in a row Mitie was certified as a UK Top Employer by the Top Employer's Institute, and Mitie was recognised among Britain's Most Admired Companies 2019.

We were very pleased to achieve a 'Low Risk' ESG rating of 13.0 from Sustainalytics, which makes Mitie the leading global facilities management company in this field.

Dividend

At the outset of COVID-19 the Board took a series of measures to conserve cash and that included not paying a final dividend for the FY19/20 unless overall trading improves materially. At our most recent Board Meeting the decision was taken not to recommend a final dividend in respect of the full year ending 31 March 2020. Therefore, the total dividend for the year is 1.33p, as proposed at the time of our interim results and paid in November 2020. There will be no further dividend payments in respect of the full year 31 March 2020.

More generally, the Board's intention is to hold the dividend flat in line with amounts paid in immediately preceding years until transformation is complete, when we will review the dividend policy

Mitie has reached agreement with the holders of their US Private Placement notes and the revolving credit facility banks to amended financial covenants, details of which can be found within the Finance Review. In return, Mitie has agreed, among other things, restrictions to dividend payments which will continue to apply if leverage is above 3.0x net debt to EBITDA.

Looking ahead

Our business has been performing well. Since we began our transformation three years ago to build the foundations of our business, revenue from continuing operations has increased 18%, with EBIT growth from continuing operations of 13% and EPS growth of 15%. All whilst self-financing significant investment into our technology, our service delivery, and our people. Most importantly we have put Mitie on a firm financial footing reducing net debt. Mitie is now a better quality business.

It is these strong foundations, built over the last three years, that give us the confidence to undertake the Interserve transaction as part of our long term vision. With our enlarged footprint we see continued growth, cost savings and increased free cash flow across our two businesses whilst maintaining our targeted low leverage.

Phil Bentley
Chief Executive Officer

Key performance indicators

Mitie's key performance indicators (KPIs) are measures used to assess the Group's progress against its strategy of focusing on larger businesses and strategic accounts where Mitie's technology offer is a true differentiator, to ensure long-term sustainable growth, delivery of Mitie's vision of 'The Exceptional, Every Day' and creation of value for all the Group's stakeholders.

These KPIs are monitored and reported to the Board in line with their reporting cycle. For example, financial KPIs will be monitored at every Board meeting, whilst non-financial KPIs will usually be monitored annually.

Revenue growth (£m) from continuing operations

4% growth from previous year

FY19/20	£2,174m
FY18/19	£2,085m
FY17/18	£1,894m

Description

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

How we did it

Revenue from continuing operations grew 4% to £2,174m as the benefit from the acquisition of VSG, new contract wins and growth from Strategic Accounts mitigated loss of revenue from deferred or cancelled discretionary variable works and engineering projects as a result of economic uncertainty from Brexit and more recently COVID-19.

Outlook

Mitie's plan is to achieve steady revenue growth from its continuing operations in the medium-term.

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

0.2ppts improvement from previous year

FY19/20	4.0%
FY18/19	3.8%
FY17/18	3.9%

Description

The UK FM industry is a mature and highly competitive market. Profitability on contracts improves as the Group enhances the efficiency of operations throughout the life of the contract.

Reconciliation of operating profit before other items from continuing operations to statutory accounts is provided in Appendix – Alternative Performance Measures on pages 253 to 254.

How we did it

The small improvement in operating margin arose from some significant contract wins and renewals which were partially offset by an abnormally high number of lower margin contract resets.

Outlook

As we move through the accelerated value creation phase of Mitie's strategy, over the medium-term, operating profit margins are expected to move towards the target of 5%.

Basic EPS before other items (p) from continuing operations

8.8% growth from previous year

FY19/20	16.0p
FY18/19	14.7p
FY17/18	13.2p

Description

Basic earnings per share before other items represents the profitability of the Group. Improving earnings per share reflects the improving profitability of the Group.

Order book (£m) from continuing operations

4% growth from previous year

FY19/20	£4,294m
FY18/19	£4,147m
FY17/18	£4,151m

Description

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

How we did it

Increased revenue and operating profit before other items leading to an improvement in profit before tax in conjunction with a reduction in the effective tax rate to 17% resulted in EPS 9% higher than the prior year.

Outlook

The strategy focused on creating value for shareholders is expected to improve EPS in the medium-term due to the implementation of phase two of Mitie's transformation plan.

Net debt/EBITDA ratio (x)

(pre-IFRS 16)

0.6x improvement from 1.3x previous year



Description

Period end net debt/EBITDA ratio or leverage ratio is one of the two debt covenants used to assess Mitie's financial position. Calculated on a pre-IFRS 16 basis, for the leverage covenant the ratio of net debt to EBITDA should be no more than 3x. The other covenant ratio is interest cover (ratio of EBITDA to net finance costs to be no less than 4x).

Covenant ratio calculations are provided in the Finance Review on page 43 and analysis of net debt is provided in Note 25 to the consolidated financial statements.

How we did it

Period end net debt on a pre-IFRS 16 basis decreased by £65.8m to £74.9m through net proceeds from disposals and a focus on accelerating the order to cash cycle alongside the HMRC 'Time to Pay' scheme, which deferred £33m of tax payments. Mitie continued to operate comfortably within its debt covenants.

Outlook

Over the medium-term it is Mitie's intention to reduce its period end net debt/EBITDA ratio whilst also reducing off-balance sheet financing.

Staff turnover

2.9ppts improvement from previous year



Description

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

How we did it

In FY 19/20, we launched an industry-leading talent and resourcing solution to enable us to attract and recruit the best people at all levels. We created and launched our management development offering, 'Licence to Lead' across

How we did it

Mitie's order book for continuing operations increased by 4%. Contract wins helped to improve the order book as well as qualification as a supplier on the CCS frameworks.

Outlook

Improved customer service and increasing market share, alongside qualifications on frameworks, are expected to lead to increases in the order book in the medium-term.

Average daily net debt (£m)

(pre-IFRS 16)

£62m improvement from previous year



Description

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

How we did it

Mitie's average daily net debt decreased by £62.4m to £239.6m. This includes average M&A net proceeds and offsetting measures to reduce off-balance sheet financing.

Outlook

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

Employee engagement (%)

1.0ppt increase from previous year



Description

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

four levels; bronze, silver, gold and platinum through our Learning Hub. We launched a bespoke development academy for our Strategic Account Managers and we partnered Ashridge to curate a development programme for our Leadership Team. Alongside embedding People Hub, a one-stop-shop for everything related to the employee lifecycle, we improved our recognition offering and relaunched our long service awards.

Outlook

Exit and onboarding surveys, alongside annual employee engagement survey results give invaluable insight into focus areas for reducing regretted turnover. Building on our enhanced reach from FY 19/20 we will continue our all employee communications through our company magazine and our frontline 'Insight' app. We will also continue our Executive Roadshows, aiming to reach over 4,000 employees across the year.

Net Promoter Score (index)

18 point increase from previous year to +30



Description

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

Mitie's overall NPS score for FY 19/20 is up 18 points to +30, the third consecutive year of significant improvement. This is testament to our strategy of putting customers at the very heart of our business, listening and responding to customer feedback through robust action planning and greater focus on our strategic accounts.

How we did it

In FY 19/20 we reached a wider section of our customer base, over 1,000 customers (accounting for over 90% of Group revenue), obtaining their feedback to help us understand their opinions and overall satisfaction and to capture an NPS rating by service line and overall for Mitie.

Outlook

Mitie's NPS progress over the last three years has seen a 57-point improvement in our NPS score, from -27 in FY 16/17. We shall continue to widen our NPS and customer experience programme, communications and engagement.

How we did it

Of those who completed the survey, 46% of employees were engaged. When you consider it was circulated in mid-March 2020 as we were moving to a working from home environment, this is very pleasing.

Outlook

Beyond the annual survey, senior management meet employees throughout the year at roadshow conferences across the UK and members of the Group Leadership Team go 'back to the floor' to engage with frontline colleagues.

All injury frequency rate

(per million manhours worked)

14% reduction from previous year



Description

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

How we did it

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

Outlook

The QHSE team will continue to drive Mitie's occupational health and wellbeing strategy with a specific focus on mental health.

Operating review

During the year, Mitie continued on its stated strategy of driving toward, and maintaining a market-leading position in the Group's businesses. Operationally, the Group transitioned to three divisions, separating hard and soft facilities management into Technical Services and Business Services and creating a Specialist Services division for Care & Custody, Waste and Landscapes. The benefits of the integration are already being seen, with new business wins, contract extensions and operational efficiencies.

Whilst operating across three business divisions, Mitie continues to provide an integrated facilities management service for customers with an all-in-one, comprehensive service offering at a single site or, in most cases, across a network of locations. The Group won new integrated facilities management contracts with GSK and SIG and were able to expand service offerings to some strategic account customers, such as Rolls-Royce, Sainsbury's and Co-op.

The Group continued its strategy of focusing on its core businesses and streamlining its portfolio with the disposal of Mitie Catering (Gather & Gather and Creativevents brands) to CH&CO.

Unless otherwise stated, all commentary refers to results from continuing operations before other items.

Technical Services

Mitie's Technical Services division provides public and private sector customers with a broad range of critical project and maintenance services that keep their organisations running. The division provides a range of key engineering, maintenance, repair and project services, energy and carbon management services and water and real estate services.

Maintenance: Mitie has extensive knowledge of maintaining and repairing buildings and assets in various industries and sectors. Maintenance services include electrical, mechanical, controls, water, HVAC, lighting systems and building fabric, such as repair, decoration and painting works. Across these areas, Mitie offers a flexible and proactive suite of services, which includes mobile and site-based maintenance, maintenance and repair, remote monitoring, data analytics and remote intervention.

Mitie's maintenance services utilise technologically-advanced data-driven capabilities, in-house expertise and mobile engineering with a national presence to deliver a comprehensive range of services tailored to customer needs, with a focus on up-time, energy efficiency, carbon impact and whole-life cost of the relevant asset or facility.

Engineering Projects: Mitie's engineering project capabilities comprise end-to-end services across a comprehensive range of M&E and refit works. These services include design and planning of building projects and systems, as well as highly skilled contracting works. An experienced principal contractor, Mitie manages project-based services across the commercial, retail, industrial, social, education, leisure and housing sectors.

Technical Services, which accounted for 44% of Mitie's FY 19/20 revenue and 65% of operating profit, focuses on hard facilities management, including services related to the physical facilities of buildings such as Engineering, Energy/Water, Professional Services (incorporating Occupier Services) and smart building technology. Technical Services has approximately 9,500 employees. Maintenance, which accounted for 81% of divisional revenue is a mixture of fixed contracts with add-on variable works. Engineering Projects accounted for 17% of divisional revenue.

These services are intrinsically linked at the front-end with customers (workflow triage/dispatch) and are expected to become increasingly so with further evolution of smart buildings.

The remaining 2% of divisional revenue came from International operations, where Mitie has been reducing its presence.

Technical Services, £m	FY 19/20	FY 18/19	Change, %
Revenue	947.2	974.2	(2.8)
Maintenance	762.9	762.2	0.1
Engineering Projects	161.7	173.9	(7.0)
International	22.6	38.1	(40.7)
Operating profit before other items	55.9	56.9	(1.8)
Maintenance	42.7	43.8	(2.5)
Engineering Projects	13.8	14.9	(7.4)
International	(0.6)	(1.8)	66.7
<i>Operating profit margin before other items, %</i>	<i>5.9%</i>	<i>5.8%</i>	<i>0.1ppt</i>
Order book	1,914	1,862	2.8

Performance highlights

- Sector focused approach has resulted in significant new customer wins annualised at £65m, adding several blue-chip companies to Mitie's strategic accounts
- Increase operating margin to 5.9% (up 0.1ppt)
- Revenue from the Group's top 50 customers increased 2%, with annualised retentions of £130m
- First time fix up from 75% to 80%
- Further 36% backlog work order reduction YoY
- Service Operation Centre launched in Manchester monitoring 28,000 connected assets (up 20k since Capital Markets Day) and 110,000 sensors and BMS systems
- 30% increase in Energy savings delivered to clients from the previous year, with over 300,000t of carbon savings
- One of only eight global businesses to join RE100, EV100 and EP100, and adopted ISO50001 across the business operating to internationally recognised standards
- Continued NPS improvement, increasing by 22 points to +31 in the 2020 customer survey
- Strong pipeline of £4.7bn (FY 18/19: £4.1bn) supported by UK's biggest national mobile technician workforce
- Working hard with customers to keep them operational during the outbreak of COVID-19 in early March 2020 and beyond

The economic uncertainty seen in the second half of FY 19/20 led to a significant reduction in project works.

Operational performance

During FY 19/20 Technical Services won 13 new contracts or contract extensions, including significant wins in manufacturing from BMW and Toyota and the first pharmaceutical sector win with GSK. Energy is a core element of how Mitie delivers value, resulting in new contracts from Sainsbury's and a contract expansion with Rolls-Royce.

The division increased its public sector exposure with the Yorkshire Ambulance Service and NHS contracts and, more recently, winning contracts to provide strategically critical services for three of the NHS Nightingale hospitals. Technical Services has also retained key customer accounts with Lloyds Banking Group, Essex County Council and Co-op. Project wins also increased by £110m on an annualised basis.

Mitie's state-of-the-art Service Operations Centre, in conjunction with building monitoring technology, has enhanced building performance for customers, with energy savings of approximately 22% in retail properties and 10-15% in offices. The technology is also able to monitor assets remotely to identify problems before the point of failure. Customers benefit from an extended life of asset and less downtime, while Mitie benefits from the ability to plan and control workflow.

Since its launch in June 2017, Project Helix has implemented and focused on improving operational efficiencies including increasing productivity of the workforce. Mitie's strategy has involved reviewing contracts to seek to improve profitability whilst building a technology-based and differentiated value proposition. With Project Helix complete, Technical Services is now implementing the Project Forte transformation programme. Project Forte is a two-year programme which was launched in 2019, primarily focused on re-engineering the Technical Services business through modernisation of its technology infrastructure. This will improve both the customer experience and the efficiency of the internal operations. Project Forte will also drive further Group-wide organisational consolidation, automation of processes and further offshoring of back-office activities. In light of COVID-19 we have put the project on hold to conserve cash, but with 40% complete we anticipate some savings, c. £3m this year. We expect to achieve the full £25m run rate savings by FY 22/23.

Customer NPS increased 22 points to +31 in the 2020 customer survey (FY 18/19 +9) as improved operational performance and an enhanced customer offer is improving relationships, underpinned by Mitie's strategic account management programme.

Financial performance

Technical Services reported revenue of £947.2m, a decrease of 2.8% (FY 18/19: £974.2m). Half of the revenue decline is due to Mitie's International operations (FY 19/20: £22.6m compared to FY 18/19: £38.1m), where Mitie has been managing an exit from loss-making continental European contracts whilst still supporting a key customer.

The majority of divisional revenue is derived from Maintenance and Engineering Projects. Together these reported a decrease in revenue of 1.2%. Whilst there has been an increase in revenue from new contract wins and a 1.6% increase in revenue from strategic accounts, these have been more than offset by revenue reductions as a result of the economic uncertainty surrounding Brexit, and more recently, COVID-19, as well as reductions in Ministry of Justice (MOJ) variable work in anticipation of the contract's end on 31 March 2020.

Operating profit before other items decreased 1.8% to £55.9m (FY 18/19: £56.9m) largely due to the second half decline in higher margin variable works and engineering projects alongside mobilisation costs incurred on new customers contracts and a number of contract resets. Operating profit margin was up to 5.9% (FY 18/19: 5.8%).

Medium-term outlook

The impact of COVID-19 is covered on pages 17 to 23 in the Chief Executive's Review.

Two years ago a new strategy was set to transform Technical Services into a frictionless, insight-driven, customer and people focused technology-led business, re-defining the way in which Mitie delivers services to customers, improving the efficiency of operating processes and reducing costs.

Project Forte is focused on three pillars: transforming Technical Services by re-engineering the workflow processes; building a technology-led offering to bring data and analytics to the core and driving growth through value-added services. COVID-19 has temporarily slowed down progress on implementing the upgrade to Maximo Workflow. The original timetable for delivering Project Forte has been delayed and is now expected to deliver benefits in FY 22/23. Technical Services remains focused on further improving customer loyalty by embedding technology monitoring in their infrastructure, predictive maintenance, cross fertilisation projects and identifying key opportunities to grow revenue by focusing on energy savings and sustainability solutions.

Business Services

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

'Soft services' such as Security, Cleaning, Front of House, and Document Management are often intrinsically linked in their delivery. Customers are increasingly coming to market with 'soft services' tenders, as they look to bundle these together to achieve maximum efficiency, which Mitie is uniquely positioned to deliver.

The formation of the Business Services division, led by a senior leadership team unrivalled in the industry, has created synergies in back-office support and frontline operations, and ensures that Mitie delivers the exceptional every day to its customers.

Security: Mitie Security is the UK's largest intelligence-led security business. It provides safe and secure environments for its customers, by combining the deep expertise of its people, harnessing the power of its systems, and deploying the best technology. Translating operational data into meaningful insights gives Mitie's people the actionable intelligence to deliver effective security solutions, in the right place and at the right time.

Providing integrated, risk-based solutions, Mitie Security delivers a range of services, including manned guarding using Mitie's unique intelligence-led approach to security personnel, fire and security services. Mitie Security is now the UK's fifth largest solutions installer, with 24/7 proprietary business intelligence software, helping customers to better protect their people assets and environments.

Cleaning: Mitie Cleaning is a people centric business, supplemented by industry-leading technology, providing quality cleaning services through safe and secure practices to a wide range of customers in both the public and private sectors. Mitie Cleaning offers specialist cleaning services to the NHS, including some of the UK's largest hospitals.

In the private sector its customers range from diverse industries such as distribution, automotive and industrial sector, large corporate organisations and iconic buildings in London and leading pharmaceutical customers with specific clean room environment requirements.

Business Services accounted for 45% of Mitie's FY 19/20 revenue and 49% of operating profit. Security, which represented 57% of divisional revenue and employs 16,000 colleagues, encompasses manned guarding and technology-backed monitoring solutions, plus fire and security systems installations.

Cleaning, which represented 35% of divisional revenue and employs 17,500 colleagues, focuses on general, specialist and technical cleaning services that include clean rooms, high security environments and window cleaning and is prominent in the healthcare sector, including NHS Trusts, and broad facilities management contracts. The remaining 8% of divisional revenue is represented by Office Services, through Document Management, Vetting (Procius) and Front of House. Business Services is linked at the back-end, in terms of the rostering and payroll processes, systems, and tools required to operate such labour-intensive services.

Business Services, £m	FY 19/20	FY 18/19	Change, %
Revenue	986.9	894.0	10.4
Security	562.7	454.0	23.9
Cleaning	340.5	357.6	(4.8)
Office Services	83.7	82.4	1.6
Operating profit before other items	42.2	39.0	8.2
Security	26.6	22.3	19.3
Cleaning	7.0	8.1	(13.6)
Office Services	8.6	8.6	-
<i>Operating profit margin before other items, %</i>	<i>4.3%</i>	<i>4.4%</i>	<i>(0.1ppt)</i>
Order book	1,835	1,596	15.0

Performance highlights

- Organic revenue growth of 4.5% from the Group's top 50 customers, with a customer retention rate of 93% and key new customer wins or extensions, including GSK, BMW and Starbucks
- Operating profit growth driven by strong performance from Security, including VSG operations, and tighter cost controls and efficiency gains from restructuring
- The acquisitions of VSG and GAIG strengthened Mitie's offer of market-leading technology solutions
- Significant improvement in NPS to +28 in the 2020 customer survey from +16 in FY 18/19
- £100m of annualised new business wins. Pipeline of £2.6bn in FY 19/20
- Working hard with customers to keep them safe, secure, clean and operational during COVID-19

Operational performance

The integration of Mitie's Security, Cleaning and Office Services operations in the early part of FY 19/20 addressed customer and market demands for better use of equipment and technology, plus a drive towards workforce optimisation across back-office functions. The benefits of the integration are already being seen, with some key customer wins and improved Cleaning margin performance in the second half of the year. Enhanced overall service delivery has underpinned the continued high customer retention rate, in excess of 93%.

The acquisitions of VSG in October 2018 and the intelligence software provider Global Aware International Group in July 2019 have continued to strengthen Mitie's position as one of the UK's leading providers of integrated and risk-based security services. The combined group offers opportunities to accelerate the growth of Mitie's premium systems and technology-enabled, intelligence-led security solutions. In FY 19/20, this resulted in several new customer wins, including Co-op, Bank of England, EDF Energy and Asda.

Business Services secured several new contracts and extensions across the division during the reporting period, including IFM contracts with GSK and SIG, and a bundled security, cleaning, concierge and fire and safety technology contract with retail outlet Bicester Village, Oxfordshire. In total Business Services won £100m of annualised new business wins.

Leading with its superior technology-based risk management offer, Security won and extended contracts with a number of UK supermarket retailers, including Sainsbury's and Co-op. As reported in the first half of the year, Security also won two contracts from the Crown Commercial Service (CCS) framework, for the Home Office and Bank of England totalling £110m. As previously announced, the MOJ contract ended on 31 March 2020 with some discretionary works ending earlier in March.

Cleaning is integral to the recently won GSK IFM contract and six additional contracts won in FY 19/20 are due to start mid-2020. The process of exiting lower margin contracts continued.

Within Office Services, Document Management is a largely projects-based business, which has been impacted by the continuing uncertainty around Brexit during FY 19/20. The unit's significant five-year contract win with corporate law firm Addleshaw Goddard, was referenced in the half year results, but the weak economic environment in the second half has not been conducive to Document Management's usual projects revenue generation with a flat overall result on the prior year.

Vetting (Procius) was the only business in Office Services that did not grow in FY 19/20 due to limited routes to market, coupled with the ongoing challenge of changing its focus from aviation to a wider commercial offering.

Customer NPS for Business Services increased 12 points to +28 (FY 18/19 +16). This is largely due to a significant improvement in customer relationship management, which is now more prominent and prioritises a personal approach to maintaining and improving business relationships, and the division's

position as a thought leader in the security and intelligence sector, supported by market-leading technology.

Financial performance

Business Services grew revenue by 10.4% to £986.9m (FY 18/19: £894.0m). Mitie Group acquired VSG in October 2018 with £172.2m full year revenue benefitting the Business Services division in FY 19/20 compared to £79.6m for the five months in FY 18/19. Business Services revenue growth was broadly flat excluding the acquisition of VSG.

Security, excluding the full year of VSG revenue, increased by 4.3% as growth in strategic accounts and new customer wins were achieved due to an advanced technology offering. Cleaning has focused on quality earnings, exiting lower margin contracts which, despite contract renewals, led to a revenue decline of 4.8%. Office Services reported flat revenue year-on-year, largely as a result of the challenging performance of the Procius vetting business.

Operating profit before other items was up 8.2% to £42.2m (FY 18/19: £39.0m) with growth in the top Security strategic accounts and a positive contribution from VSG and Office Services. This growth was offset by a decline in Cleaning profit after key contract changes and the strategic decision to exit lower margin contracts. Performance in the second half of the year was slightly stronger with a small improvement in operating profit margins as cost reductions from the newly implemented workforce optimisation approach started to come through.

Medium-term outlook

The impact of COVID-19 is covered on pages 17 to 23 in the Chief Executive's Review. The overall security market remains fragmented, with manned guarding remaining a competitive and highly commoditised market. In this context, Mitie's ability to provide a broader range of services gives a competitive advantage when bidding for and winning business. Retention is subsequently enhanced through the application of market-leading technology. Security offers a real opportunity for differentiating Mitie in the facilities management sector.

The integration of Cleaning into the Business Services division provides an opportunity to improve profit. The focus is on growing margins through disciplined bidding and re-balancing the contract base away from a low-paid labour-led model to one with more added value.

Specialist Services

Specialist Services accounted for 11% of Mitie's FY19/20 revenue and 29% of operating profit and comprises Care & Custody, Waste and Landscapes. Whilst each business is distinctive, they share a number of common features, operating in niche markets, which are generally higher margin than the Group's other divisions and demonstrate good top line growth. The division reported an improvement in both revenues, to £239.6m (FY18/19 £217.1m), and operating profit before other items to £25.3m (FY18/19 £20.4m). Operating profit margin increased to 10.6%.

Customer NPS increased 9 points to +17 (FY18/19 +8).

The individual performance of each business unit is below.

Specialist Services, £m	FY 19/20	FY 18/19	Change, %
Revenue	239.6	217.1	10.4
Operating profit before other items	25.3	20.4	24.0
Operating profit margin before other items, %	10.6%	9.4%	1.2ppt
Order book	545	664	(17.9)

Care & Custody

Care & Custody provides high-quality, critical public services in immigration, criminal justice and healthcare. A range of its services are delivered to vulnerable adults in secure environments, including immigration removal centre management and detention and escorting services on behalf of the Home Office. Care & Custody also provides forensic medical examination and custody support services for police forces across England and Wales.

Care & Custody enjoys good customer relationships, particularly with the Home Office. Although NPS declined, it is still strong at +44 (FY18/19 +75).

Care & Custody, £m	FY 19/20	FY 18/19	Change, %
Revenue	110.2	107.3	2.7
Operating profit before other items	7.7	3.9	97.4
Operating profit margin before other items, %	7.0%	3.6%	3.4ppt
Order book	481	597	(19.4)

Operational performance

- Healthy pipeline of opportunities
- Leading supplier of medical services to police forces
- Strategic partnership with Attenti for Electronic monitoring services

In June 2019 Care & Custody was appointed to the HM Prison and Probation Service Prison Operator Services Framework (POSF) which is designed to help deliver the government's manifesto commitment of 10,000 new prison places.

Through its ongoing delivery of custodial services, Care & Custody is building on Mitie's strategy to broaden the range of essential services it delivers to Government and other public sector bodies. This year, new contracts with three police forces have been won and extensions secured to three existing police contracts. Care & Custody also extended its contract to provide facilities management services to three prisons: HMP Brixton, HMP & YOI Isis and Medway Secure Training Centre.

Cost rationalisation has continued through the integration of Care & Custody's Workforce IT system with the Detention and Escorting bespoke MEDS case management system. IT is helping to replace call handlers and consolidate the business's Police Health Control Centre activity in one office in Stockport.

Financial performance

Care & Custody's revenues increased to £110.2m (FY18/19: £107.3m) as additional revenue generated by full year revenue from the Detention and Escorting contract offset the end of some contracts. Revenue from Police forensic medical examination services continued to grow and has more than doubled since acquisition in 2016.

Operating profit before other items increased to £7.7m (FY18/19: £3.9m) due to a stronger performance in our immigration services business, improved margins for Police forensic medical services plus the impact of expensing a net £3.3m of mobilisation costs related to that contract in H1 18/19. Campsfield House IRC was demobilised in H1 19/20, with the contract having expired in early 2019.

Medium-term outlook

The impact of COVID-19 is covered on pages 17 to 23 in the Chief Executive's Review.

Growth potential for the medium term is linked to contracts being awarded under the relevant frameworks. There are exciting opportunities across forensic medical services, while a major contract with an NHS Trust in the North West and detainee satellite tracking also open up new opportunities.

Waste

Mitie Waste is a leading national waste management business providing innovative waste reduction and treatment solutions. The business views waste as a resource: an opportunity to save money for customers, as well as benefit the environment. Mitie Waste extracts the value of redundant materials instead of relinquishing it to the waste industry, sharing the gains with customers so that waste reduction and changes in behaviour are incentivised. Mitie Waste is focused on waste prevention, reduction, reuse and recycling.

Waste, £m	FY 19/20	FY 18/19	Change, %
Revenue	81.6	63.1	29.3
Operating profit before other items	9.0	7.2	25.0
Operating profit margin before other items, %	11.0%	11.4%	(0.4 ppt)
Order book	24	28	(14.3)

Operational performance

- NHS framework worth £80m
- Operating profit and revenue increased more than 25%
- New business from PSA Group, Bellrock and Babcock

Mitie Waste works with customers to reduce not only their carbon footprint, but business waste going to landfill. During the year several customers were helped to achieve their ESG targets ahead of time. A successful partnership with Goldman Sachs saw approximately £300k-worth of surplus office furniture donated to charity via the Waste Match service. This saved the customer the expense of a costly disposal and avoided the environmental damage associated with large volumes of landfill.

Behavioural change is a key goal for Mitie Waste, which supported its customer Bidfood's single use plastic awareness campaign in schools. In collaboration with the Girl Guides, Mitie Waste developed an 'Acting on Plastics' badge, with a similar scheme planned for Brownies, Cubs and Scouts.

New business in FY19/20 included a contract with a multinational engineering services provider, together with an extension with a group of NHS Trusts. Other customers include Bellrock, Babcock, AF Blakemore, Vauxhall, Unilever and JLL. The order book has decreased as a majority of work for Waste is variable on the quantity of waste produced and therefore doesn't appear in the order book.

Waste continues to perform well with customers and achieved a good NPS score of +14 in the 2020 NPS survey (FY18/19 +1).

Financial performance

Revenue in Waste grew 29.3% to £81.6m (FY18/19: £63.1m), driven primarily by an improvement in variable works across the portfolio and by a full twelve months' impact from the NHS clinical waste contract, which was mobilised in October 2018. Approximately 80% of contracts are related to managing customers' waste expenditure, with the mutual objective of reducing waste spend and impact on the environment.

Operating profit before other items increased by 25.0% to £9.0m (FY18/19: £7.2m), reflecting improved margins for new work and projects in the second half of the year with NHS Clinical and Unilever, and also due to supplier cost control and relationship management.

Medium-term outlook

The impact of COVID-19 is covered on pages 17 to 23 in the Chief Executive's Review.

There is an estimated £1trillion to be spent on decarbonisation in the UK, presenting material opportunities for Mitie Waste. Through our Plan Zero initiative, Mitie aims not only to achieve net zero carbon by 2025, but to help customers in the development and implementation of their own sustainability agendas. The pipeline for this growth is strong, with opportunities to target large-scale existing Mitie customers for cross-sell opportunities, and to win new customers.

Landscapes

Landscapes is a top five UK provider of landscaping, focused on both horticultural and winter services. The former includes landscape maintenance, projects and improvement schemes, estates maintenance, interior plants and seasonal displays. Winter services comprise snow clearance and salt gritting.

Landscapes enjoys a balanced mix of fixed and pay-as-you-go work throughout the year. This ensures a broadly stable performance, with further upside during harsh winters when gritting services are provided. Landscapes customers are primarily private sector, with a good representation across Mitie's strategic accounts.

Landscapes, £m	FY 19/20	FY 18/19	Change, %
Revenue	47.8	46.7	2.4
Operating profit before other items	8.6	9.3	(7.5)
Operating profit margin before other items, %	18.0%	19.9%	(1.9ppt)
Order book	40	39	2.6

Operational performance

- Strong retention rate of more than 92%
- Award winning Gold RoSPA for safety
- New client win from BMW

Landscapes delivered another year of industry-leading operating margin, driven by operational efficiency and a good revenue mix. The business is focused on high resource utilisation and operating density, using a highly efficient, directly employed workforce.

Frontline teams operate to a 'delivering the basics brilliantly' policy, and the business has invested in new equipment, vehicles and technology to deliver the best possible service. There has been further investment in Landscapes' Nottingham hub, which ensures equipment is maintained, repaired and returned to the front line within 24 hours of a service request, thus avoiding operational disruption.

Landscapes has benefited from contract extensions on over 1,000 sites with NHS Property Services and Lloyds Banking Group, and new contract wins on over 2,000 sites, including with GSK and BMW. Landscapes has also moved into the education sector, providing grounds maintenance and sports ground renovation works to 75 schools across the UK.

Landscapes achieved an improved NPS score of +14 in the 2020 NPS customer survey (FY18/19 +6).

Financial performance

Revenue for Landscapes increased by 2.4% to £47.8m (FY18/19 £46.7m) with 4% new contract growth and winter sales also increasing by 4%. Further revenue growth was held back by a significantly milder than average winter.

Operating profit was 7.5% lower due to the milder winter and the impact on revenue mix. Despite this, Landscapes delivered a strong performance with operating profit before other items of £8.6m (FY18/19 £9.3m).

Medium-term outlook

The impact of COVID-19 is covered on pages 17 to 23 in the Chief Executive's Review.

Landscapes immediate focus is to ensure continued delivery of a highly efficient and quality orientated service to its customers. Productivity and utilisation are monitored via integrated technology solutions and data monitoring to ensure the business remains on track against key KPI targets and competitive against its peers. Account management teams will continue to advise customers and, with an increasing focus on sustainability and employee wellbeing, Landscapes is well placed to deliver project works across customer locations.

The outlook remains encouraging with opportunities to access new sectors and customers in facilities management, logistics, utilities and pharmaceuticals.

Discontinued operations

Catering

Catering, £m	FY 19/20	FY 18/19	Change, %
Revenue	60.5	136.1	nm
Operating profit before other items	2.8	8.6	nm
Operating profit margin, %	4.6%	6.3%	nm

In August 2019, Mitie announced the sale of its catering and hospitality business, comprising Gather & Gather and Creativevents, to CH&CO. This was for a consideration of up to £85m, with £73m payable in cash at completion and further deferred consideration payable within 12 months of completion and four years of completion subject to the achievement of certain performance milestones. The deal completed on 6 September 2019. Mitie and CH&CO entered into a strategic partnership ensuring that the Gather & Gather catering offer remains exclusive to Mitie's customers as its only IFM sector partner.

For the five months up to disposal, Catering reported revenues of £60.5m (FY18/19: £136.1m) and operating profit before other items of £2.8m (FY18/19: £8.6m).

Corporate overheads

Corporate overheads represent the costs of running the Group and include costs for the head office commercial and business development, financial, marketing, legal and HR teams. Corporate overhead costs have marginally increased to £37.9m (FY18/19: £36.7m) with costs incurred improving Mitie's systems infrastructure, strategic account management investment, procurement investment and management incentives. Systems investment areas include data hosting costs and infrastructure to underpin Mitie's new permanent recruitment platform.

Finance review

Overview

- Revenue growth from continuing operations of 4% to £2,174m. Excluding the acquisition of VSG, organic revenue was, as expected, broadly flat year over year.
- Operating profit from continuing operations before other items increased 8% to £86.1m (FY18/19: 79.6m)
- Catering business disposed of during the year, with a net gain on disposal of £49.4m
- Average daily net debt continued to fall, decreasing by 21% to £240m on a pre-IFRS 16 basis
- Covenant leverage (net debt / EBITDA) reduced significantly to 0.7x at 31 March 2020, from 1.3x at 31 March 2019

This year has seen Mitie continue to deliver its financial strategy with further progress towards a strong and stable balance sheet, reducing off-balance sheet financing at the same time as reducing leverage. Average daily net debt has reduced from £302.0m in FY18/19 to £239.6m in FY19/20 on a pre-IFRS 16 basis, and Mitie's total financial obligations have decreased by £89m over the same period, to £292m at the end of FY19/20. This represents a £159m reduction over two years. Covenant leverage (net debt / EBITDA pre-IFRS 16) is down to 0.72x as at 31 March 2020, and interest cover has increased to 9.3x.

These improvements to the balance sheet have been delivered alongside ongoing investments in financial systems and substantially improved supplier payment performance.

The Group adopted IFRS 16 'Leases' starting 1 April 2019. Prior year comparative information has not been restated for IFRS 16 under the adoption method applied. Comparative information has been re-presented to classify the Catering business as a discontinued operation.

Alternative Performance Measures

The Group presents its key financial analysis as the results of continuing operations before other items. The Directors believe this is useful for users of the financial statements to provide both a balanced view of, and relevant information on the Group's underlying financial performance. Accordingly, the Group separately reports impairment of goodwill, cost of restructuring programmes, acquisition and disposal costs (including the impairment and amortisation of acquisition-related intangible assets), gain or loss on business disposals and other exceptional items as 'Other Items'.

New accounting standards

IFRS 16 'Leases' became effective for the Group from 1 April 2019 and replaces the requirements of IAS 17 'Leases'. The Group has adopted IFRS 16 using the modified retrospective approach under which the cumulative effect of adoption is recognised through reserves, with comparatives continuing to be reported under IAS 17.

An asset representing the Group's right as a lessee to use a leased item, and a liability for the associated future lease payments, has been recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The cost of leases has been recognised in the consolidated income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the accounting for finance leases under IAS 17, but different to the accounting for operating leases, under which no lease asset or lease liability was recognised, with operating lease rentals charged to the consolidated income statement on a straight-line basis.

As a result of adopting the new accounting standard for the year ended 31 March 2020, the Group's profit before tax has decreased by £1.9m, and operating profit has increased by £1.2m. The reduction in profit before tax is the net impact of £3.1m of additional finance charges and £23.6m of additional depreciation, replacing £24.8m of operating lease rental charges. Finance charges under IFRS 16 are

front-loaded in the early part of the lease term and when using the modified retrospective approach to adoption, this resulted in the overall cost of leases being greater than operating lease rental charges would have been under IAS 17. This impact will unwind over the next few years as the remaining term of the leases in the portfolio becomes more balanced.

Net debt increased by £87.5m at 1 April 2019 as a result of the recording of the additional lease liabilities on the balance sheet. This was largely offset within net assets by an increase of £86.2m in right-of-use assets recorded in property, plant and equipment.

Financial performance

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

Continuing operations, £m	FY19/20	FY18/19	Change, %
Revenue	2,173.7	2,085.3	4.2%
Operating profit before other items	86.1	79.6	8.2%
Other items	(21.5)	(37.9)	
Operating profit	64.6	41.7	54.9%

Reported revenue from continuing operations of £2,173.7m represented an increase of 4.2% when compared to the same period last year. Excluding the benefit from the VSG acquisition, as expected, organic revenue was broadly flat year on year as revenue from new contracts was insufficient to mitigate the reduction in variable works in the second half of the year. As previously highlighted, the decline in variable works is as a result of the reduction in discretionary spend due to the uncertain economic environment surrounding Brexit and, more recently, the concerns around COVID-19.

Operating profit from continuing operations, before other items, improved by 8.2% to £86.1m (FY18/19: £79.6m). This resulted in a small improvement in operating margin to 4.0% (FY18/19 3.8%) as some significant contract wins and renewals were partially offset by an abnormally high number of lower margin contract resets, as well as the reduction in discretionary works in the second half of the year.

Other items from continuing operations, analysed further below, were a charge of £21.5m (FY18/19: £37.9m), reflecting the Group's ongoing focus on transformation, including acquisitions and disposals.

Operating profit from continuing operations including other items increased 54.9% to £64.6m (FY18/19: £41.7m), with the higher growth due to lower levels of other items in FY 19/20.

Continuing operations, £m	FY 19/20	FY 18/19	Change, %
Operating profit before other items	86.1	79.6	8.2%
Net finance costs	(16.2)	(13.7)	
Profit before tax before other items	69.9	65.9	6.1%
Tax before other items	(11.9)	(12.8)	
Profit for the year before other items	58.0	53.1	9.2%
Other items after tax	(17.5)	(30.5)	
Profit for the year	40.5	22.6	79.2%

Net finance costs were £16.2m in the year, including £3.1m additional finance cost charged on leases under IFRS 16. Before IFRS 16, finance costs are £13.1m (FY18/19: £13.7m).

Tax

Profit before tax before other items of £69.9m from continuing operations (FY18/19: £65.9m) resulted in a tax charge of £11.9m (FY18/19: £12.8m), representing an effective tax rate of 17.0% (FY18/19: 19.4%). Including other items, the tax charge for continuing operations was £7.9m (FY18/19: £5.4m).

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 £504.9m in the year ended 31 March 2020 (FY18/19: £529.3m).

The Group has taken advantage of the Government support offered under the 'Time to Pay' scheme, allowing Mitie to defer payment of £33m of tax (PAYE and VAT) which would have been due in March 2020. In addition, the Group has deferred additional tax due between April and June 2020, which together with the tax deferred from March 2020, is to be repaid in instalments with a final payment due on 1 April 2021.

Other items

Continuing operations, £m	FY 19/20
Project Forte	(10.6)
Project Helix	(3.6)
Acquisition and disposal related costs	(1.2)
Amortisation of acquisition related intangible assets	(2.3)
Other	(3.8)
Total other items before tax	(21.5)
Tax credit on other items	4.0
Other items after tax	(17.5)

Other items from continuing operations before tax were a charge of £21.5m. The largest component of the charge is Project Forte, a two-year programme launched in 2019 as part of the wider transformation programme, and primarily focused on re-engineering the Technical Services business to modernise the technology infrastructure.

Project Helix costs relate to finalising outsourcing and transformation activities across a number of functions including IS, HR and Procurement. Project Helix was completed in H2 19/20.

Acquisition and disposal costs include a net credit relating to the acquisition and integration of VSG, and costs relating to a number of other transactions. Amortisation of £2.3m is for intangible assets acquired by Mitie, and the remaining £3.8m includes restructuring costs related to other transformation projects across the Group designed to simplify Mitie, including rationalisation of the property portfolio.

The tax credit on these other items was £4.0m.

Discontinued operations

During the year, Mitie sold its Catering business to CH&CO, with the sale completing on 6 September 2019. The business has therefore been classified as a discontinued operation.

Discontinued operations contributed a profit after tax before other items of £2.3m (FY18/19: £10.6m). Other items after tax from discontinued operations were a credit of £47.7m (FY18/19: £2.3m charge) and include the £48.7m net gain on disposal of the Catering business as well as transaction costs relating to prior year disposals (Social Housing and Pest Control).

Earnings per share

Basic earnings per share before other items from continuing operations, increased by 8.8% to 16.0p. This is as a result of an improvement in profit before tax from higher operating profit and a reduction in the effective tax rate to 17%.

Balance sheet

	FY 19/20	FY 18/19
Balance sheet, £m	Post-IFRS 16	Pre-IFRS 16
Goodwill and intangible assets	329.5	344.5
Property, plant and equipment	110.8	29.0
Working capital balances	(176.0)	(216.9)
Net debt	(167.9)	(140.7)
Retirement benefit liabilities	(46.7)	(63.8)
Deferred tax	29.7	35.8
Other net assets/(liabilities)	1.1	(0.3)
Total net assets/(liabilities)	80.5	(12.4)

Overall the Group reported net assets of £80.5m at 31 March 2020 (FY18/19 net liabilities of £12.4m), with the increase largely due to the net gain on disposal of the Catering business.

Goodwill and intangible assets of £329.5m (FY18/19: £344.5m) were held on the balance sheet at 31 March 2020. The decrease is principally due to the reduction in goodwill following the disposal of the Catering business.

Property, plant and equipment and net debt have increased following the adoption of IFRS 16. Property, plant and equipment have increased to £110.8m in the year (FY18/19: £29.0m), which includes the opening IFRS 16 adjustment of £86.2m. Net debt has increased to £167.9m (FY18/19: £140.7m) which includes the opening IFRS 16 adjustment of £87.5m.

Retirement benefit schemes

Retirement benefit liabilities have decreased by £17.1m to £46.7m (FY18/19: £63.8m). The decrease in the deficit is principally due to a decrease in inflation since 31 March 2019.

The latest funding valuation of the Mitie Group defined benefit scheme as at 31 March 2017, indicated an actuarial deficit of £74.0m. The Group agreed a deficit recovery plan with the Trustee for further payments in instalments totalling £55.4m until 31 March 2025. The funding valuation of the pension scheme as at 31 March 2020 is underway.

Cash flow

	FY 19/20	FY 18/19
	Post-IFRS	Pre-
Cash flow, £m	16	IFRS 16
Operating cash inflow before working capital movements	105.0	39.5
Working capital movements	(33.2)	8.0
Operating cash flow	71.8	47.5
Lease payments including interest paid (reclassified under IFRS16)	(23.7)	-
Sub-total	48.1	47.5
Capex	(19.0)	(18.6)
Interest (excluding IFRS 16)	(11.9)	(12.2)
Tax	(6.4)	4.7
Free cash inflow	10.8	21.4

Operating cash inflow before working capital movements is largely driven by operating profit before other items of £86.1m and the add back of depreciation and amortisation. Other movements include a cash outflow from other items and some smaller cash flow adjustments relating to pensions and share-based payments.

Working capital

Working capital movements resulted in an outflow for the year of £33.2m.

There has been a £33m permanent working capital outflow from M&A in the year relating to a timing difference on the settlement of VSG transition payments, the settlement of various Social Housing liabilities, and the disposal of the Catering business. In addition, confidential invoice discounting (CID) reduced by £12m, and there was a £24m reduction in deferred income as Mitie sought to normalise the balance sheet. These outflows have been offset by the £33m HMRC Time to Pay tax payment deferral.

Capital expenditure

Capital expenditure has increased by £0.4m to £19.0m (FY18/19: £18.6m). The largest element of capital expenditure was software development, which included expansion of the data lake, operating system improvements and ERP upgrades. In addition, the nature of some of the recent project wins resulted in an increase in the value of assets acquired. The remaining costs were primarily related to property and equipment.

Net debt

£m	FY 19/20 Post-IFRS 16	FY 18/19 Pre-IFRS 16
Free cash inflow	10.8	21.4
M&A	64.2	43.5
Dividends	(14.4)	(14.4)
Other	(0.3)	2.3
Movement in net debt	60.3	52.8
Opening net debt pre-IFRS 16	(140.7)	(193.5)
Opening net debt adjustment for lease liabilities (IFRS 16 adjustment)	(87.5)	-
Opening net debt post-IFRS 16	(228.2)	-
Movement in net debt	60.3	52.8
Closing net debt pre-IFRS 16	n/a	(140.7)
Closing net debt post-IFRS 16	(167.9)	n/a

On a post-IFRS 16 basis net debt as at 31 March 2020 increased to £167.9m, of which £93.0m related to additional lease liabilities. Excluding these, pre-IFRS 16 net debt decreased by £65.8m to £74.9m, reflecting Mitie's strategy to strengthen the balance sheet and decrease leverage. £40.0m of private placement notes were repaid upon maturity in December 2019.

Average daily net debt for FY 19/20 decreased by £62.4m to £239.6m (FY18/19: £302.0m) on a pre-IFRS 16 basis. This includes average M&A net proceeds and offsetting measures to reduce off-balance sheet financing (paying suppliers faster and reducing invoice discounting).

Period-end Total Financial Obligations (TFO)

£m	FY 19/20	FY 18/19
Net debt pre-IFRS 16	74.9	140.7
Leases liabilities (IFRS 16)	93.0	-
Net debt post-IFRS 16	167.9	n/a
Supply chain finance	16.0	20.0
Customer invoice discounting	61.2	73.2
Operating leases	n/a	83.7
Pension deficit	46.7	63.8
Total Financial Obligations	291.8	381.4

Period-end Total Financial Obligations (TFO) have continued to decrease significantly, reflecting Mitie's strategy to strengthen the balance sheet and decrease leverage. This improvement has been partially helped by the HMRC Time to Pay Scheme through which Mitie has deferred £33m of tax payments at 31 March 2020, alongside reductions in the pension deficit.

Liquidity and covenants

As at 31 March 2020, the Group had £426.5m of committed funding arrangements (FY18/19: £466.5m). These comprised a £275m multi-currency Revolving Credit Facility (RCF) maturing in July 2021, and £151.5m of US Private Placement notes spread over two maturities: December 2022 (£121.5m); and December 2024 (£30.0m).

Mitie's two key covenant ratios are calculated on a pre-IFRS 16 basis. These are the leverage (ratio of consolidated total net borrowings to consolidated EBITDA to be no more than three times) and interest cover covenant (ratio of consolidated EBITDA to net finance costs to be no less than four times). As at 31 March 2020, the Group was operating comfortably within these ratios at 0.72x for leverage and 9.3x for interest cover.

Subsequent to the year end, and contingent on a successful Rights Issue, Mitie has agreed amended financial covenants with the holders of its US Private Placement Note and the RCF Banks to address any potential trading deterioration from COVID-19. In addition, the Banks have agreed a 17-month extension of the facility, providing liquidity of £250m through to 16 December 2022.

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

If the Rights Issue did not proceed, the RCF would not be extended and would terminate on 23 July 2021 and the other amendments would not be implemented.

The principal financial covenant ratios (leverage and interest cover) for the committed funding arrangements are tested every six months on a rolling 12-month basis. The FY 19/20 covenant calculations below are based on a measurement period from 1 April 2019 to 31 March 2020. A reconciliation of key items in the calculation is set out in the table below:

£m		FY 19/20 (R12M)	FY 18/19 (R12M)
Operating profit before other items		88.9	92.2
Add: depreciation, amortisation and impairment		43.9	20.8
Headline EBITDA		132.8	113.0
Deduct: covenant adjustments		0.3	(7.1)
IFRS 16 EBITDA adjustment		(24.8)	-
Consolidated EBITDA	(a)	108.3	105.9
Full-year effect of acquisitions & disposals		(1.7)	(2.3)
Adjusted consolidated EBITDA	(b)	106.6	103.6
Net finance costs		16.4	13.8
Less: covenant adjustments		(1.7)	(1.7)
IFRS 16 finance costs adjustment		(3.1)	-
Consolidated net finance costs	(c)	11.6	12.1
Interest cover (ratio of (a) to (c) must exceed 4.0x)		9.3x	8.8x
Net debt		167.9	140.7
Impact of hedge accounting & upfront fees		2.3	(3.0)
IFRS 16 net debt adjustment		(93.0)	-
Consolidated total net borrowings	(d)	77.2	137.7
Leverage (ratio of (d) to (b) must not exceed 3.0x)		0.72x	1.33x

Prompt payment regulations

New requirements, which came into force in September 2019, state that bidders for Government contracts worth over £5m per annum must demonstrate through their Payment Practices and Performance Regulations returns that they have paid at least 95% of supplier invoices within 60 days of receiving them. This impacts two Mitie legal entities, which actively bid for large Government contracts. These entities are in full compliance with Government contracting requirements for the six-month period ended 31 March 2020, reporting that over 97% of invoices were paid within 60 days (H1 19/20 97%).

Dividends

Dividends paid during the year totalled £14.4m. This comprised the FY18/19 final dividend of 2.67p per share at a cost of £9.6m paid in August 2019 and an interim dividend of 1.33p per share in respect of H1 19/20 paid in December 2019 costing £4.8m.

The Board has determined not to recommend a final dividend for FY19/20 due to the uncertainties arising out of the COVID-19 situation. More generally, the Board's intention is to hold the dividend flat in line with amounts paid in immediately preceding years until transformation is complete, when we will review the dividend policy.

Mitie has reached agreement with the holders of their US Private Placement notes and the revolving credit facility banks to amended financial covenants, details of which can be found in the Financial Review. In return, Mitie has agreed, among other things, restrictions to dividend payments which will continue to apply if leverage is above 3.0x net debt to EBITDA.

Andrew Peeler

Chief Financial Officer

Stakeholder engagement

Building constructive relationships with key stakeholders is critical to Mitie's business. The Group is focused on long-term success and creating sustainable value in the broadest sense.

Key stakeholders	How we engage	Key areas of interest	Our response and KPIs
Customers Mitie works with private and public sector (UK Government) customers. Through understanding customers' needs, Mitie offers value-added, innovative and cost-effective solutions, and builds enduring relationships.	• Ongoing management of customer relationships by senior leadership • Government is a regulator and often a customer for Mitie, so engagement ensures Mitie can help shape new policies, regulations and standards • NPS programme • Customer experience programmes • Participation in industry forums and events • Customer communications • Website and social media platforms • Meetings, webinars and briefings	• Customer satisfaction • Performance and efficiency • Technology, research and innovation • Reputation and brand • Sustainability performance • Governance and transparency • Vision and values • Social value • People and culture • Financial position • Quality and value for money	• Feedback from unsuccessful contract bids is analysed to improve win rates KPIs • 5% revenue growth from top 50 customers in FY 19/20 • Customer retention improved to 90% • Customer wins rate 63% • NPS improved 18 points to +30
Shareholders, banks, noteholders and media Mitie proactively engages with shareholders, banks, noteholders and journalists on an ongoing basis.	• Annual Report and Accounts • Annual General Meeting • Investor and News & Insights sections of the corporate website • Results presentations and post-results roadshows • Stock exchange announcements and press releases • Website and social media platforms • Regular and ad hoc enquiries, calls, meetings and interviews	• Financial performance • Strength and depth of management • Governance and transparency • Sustainability and social value • People and culture • Contracts, new products, technology, innovation	• Bi-annual roadshows • Corporate governance and Environment, Social and Governance (ESG)-focused meetings with institutional investors • CEO and divisional Managing Directors regularly give interviews to a number of publications KPIs • EPS improved from 14.7p in FY 18/19 to 16.0p in FY 19/20 • Net debt/EBITDA 0.7x and interest cover 9.3x

Employees
Mitie has 47,500 employees. The Group's success is underpinned by the way Mitie leads and engages with its people.

- HR core standards set the framework for employee engagement
- On-boarding and induction training and Learning Hub
- Annual employee Upload engagement survey
- 'You Said, We Did' campaign
- MiNet, internal communications and social media platforms
- Simplifying Mitie campaign
- Celebration Hub
- Townhall meetings and annual roadshow by senior management
- 'Grill Phil' channel to engage directly with the CEO
- 'Back to the floor' sessions for Group Leadership Team
- Recognition and reward programmes
- Annual individual performance reviews
- Health, safety and environment performance
- Reputation
- Employee development
- Talent pipeline and retention
- Career opportunities
- Diversity and inclusion
- Remuneration and reward, including Choices benefits platform

- Supporting women in STEM roles (Science, Technology, Engineering, Maths)
- Mitie Exceptionals is a group of volunteers across the Group who act as ambassadors for Mitie's values and behaviours
- Jennifer Duvalier, Non-Executive Director, has improved Board engagement with the workforce

KPIs

- All injury frequency rate decreased 14%
- Employee engagement increased to 46% in FY 19/20 from 45% in FY 18/19

Communities and environment
Mitie's employees touch the lives of others every day.

- Employee volunteering
- The Mitie Foundation
- Social media platforms
- Corporate website
- Local community events
- Electric fleet vision
- Future talent pipeline
- Local operational impact
- Health, safety and environmental performance

- Ready2Work
- Employer engagement days
- School, academy and college events
- Focus on key social value areas where Mitie can make a real contribution
- Plan Zero

KPIs

- Reduction in fuel and energy consumption 8%
- Reduction in carbon intensity 5% (tonnes/£m revenue)

Suppliers
Mitie works closely with suppliers to ensure a responsible supply chain.

- Supplier conferences and workshops
- Global supplier portal and notices to suppliers
- Corporate website
- Annual Report and Accounts
- The Mitie Foundation
- Responsible procurement
- Trust and ethics
- Prompt payment code
- Operational improvement

- Mitie encourages suppliers to work collaboratively to ensure continual improvement in operations and to deliver mutual benefit
- Only trade with suppliers that comply with Mitie's Procurement Policy and Supplier Social Value Policy

KPIs

- Trade creditor payment days were 50 days in FY 19/20

Non-financial information statement

We continually look for ways to make Mitie a responsible business and we actively engage with stakeholders to improve the Group's impact. In FY 19/20, Mitie followed the publication of its Social Value Report 2018/19 with Plan Zero, an ambitious, industry-leading pledge to reach net zero carbon emissions by 2025. Mitie's electric fleet continues to develop, with more than 350 electric vehicles (EVs) on the road and more than 320 renewable energy EV charge points installed. We continue to focus on social value and reducing our environmental impact.

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

9B Reporting requirement	10B Relevant policies ³	11B Annual report page reference
Environmental matters	Sustainability policy Procurement policy	Stakeholder engagement pages 45 to 46 Plan Zero / Environment pages 67 to 69 Social value pages 55 to 60
Employees	One Code: our code of conduct People policy Inclusion policy Health and safety policy Ethical business practice policy Sustainability policy Quality policy	Chief Executive's strategic review pages 17 to 23 Stakeholder engagement pages 45 to 46 Our people pages 49 to 54 Social value pages 55 to 60
Social matters	Sustainability policy	Chief Executive's strategic review pages 17 to 23 Social value pages 55 to 60 Stakeholder engagement pages 45 to 46
Human rights	One Code: our code of conduct Ethical business practice policy	Social value pages 55 to 60
Anti-bribery and anti-corruption	One Code: our code of conduct Ethical business practice policy E-learning module available for employees through the process repository (BMS) and Learning Hub	Social value pages 55 to 60 Our people pages 49 to 54 Stakeholder engagement pages 45 to 46
Suppliers	Procurement Policy Supplier Social Value Policy	
Business model		Business model pages 11 to 13
Non-financial KPIs		KPIs pages 24 to 26
Principal risks		Principal risks and uncertainties pages 77 to 91 Viability statement pages 92 to 94 Audit Committee report pages 131 to 140 The Board pages 95 to 130

³ Policies, statements and codes are available at www.mitie.com

Mitie Social Value and Responsible Business Charter

In September 2019, Mitie launched its first Social Value Report, in which I highlighted that all Mitie staff have a role to play in creating a brighter future for our people and our planet. This focus on Social Value, our people and our planet, is just one example of how we at Mitie deliver 'the exceptional, every day'.

Mitie's vision for Social Value is to lead the Facilities Management (FM) sector in creating social value through everyday operations, leaving a legacy for the communities in which we work to support a brighter future for all. Mitie will do this by having clear targets across its five pillars of Social Value, which are Employment, Responsibility, Community, Environment and Innovation; each backed up with a plan to deliver against these targets. We will embed Environmental, Social and Governance (ESG) considerations in every aspect of our business from strategy to supply chain management to delivering for our customers.

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

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

This Charter supports this drive, demonstrates Mitie's earnest commitment and provides transparency of our key activities.

Oversight and governance for this Charter is provided by the Social Value & Responsible Business Committee chaired by Baroness Croucher.

As of April 2020, Mitie has achieved a 'Low Risk' ESG rating of 13.0, on a scale from 0 to 100, from the highly-regarded ESG rating agency, Sustainalytics. Mitie was placed number one globally in the FM sector.

Phil Bentley
Chief Executive Officer

Our people – Making Mitie a great place to work

As a major UK employer with 47,500 colleagues, Mitie takes its responsibility towards its people seriously; they are its strength.

Everyone working at Mitie is taught our vision, which applies to individuals, the work they do and what we seek to achieve for our customers: **'The exceptional, every day.'** Our five core values underpin this overarching vision and help define the way we behave and carry out our business:

- 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

We continue to focus on making Mitie a great place to work. During FY 19/20 a wide range of people-focused initiatives have sought to further embed our 'One Mitie' culture, ensuring colleagues feel valued, heard and empowered.

Improving engagement

Upload: You Said, We Did

Mitie's annual employee engagement survey, Upload, is designed to produce feedback that can be acted upon to impact and improve the experience of working at Mitie. The results are subsequently reported in the You Said, We Did campaign, which in FY 18/19 saw the implementation of over 30 new initiatives, all as a direct result of employee feedback.

In March 2020, Upload was run for the third time. Mitie's employee engagement score for 2020 was 46%, which is up 1% from the 2019 score.

Amplifying the employee voice

While Upload continues to be Mitie's annual benchmark of employee engagement measurement, it is nonetheless a point-in-time score. New ways to gather feedback on an ongoing basis have been introduced so that any necessary improvements can be made in response to matters raised by employees.

'Grill Phil' is a way for employees to share questions and suggestions directly with Phil Bentley, Mitie's Chief Executive Officer. Each email to the dedicated Grill Phil address receives a personal response and is followed up to see that issues have been satisfactorily resolved, where possible.

Mitie's successful Frontline Focus programme continues, with senior leaders and Board members spending time with the frontline to gain insight, ideas and feedback directly from employees.

Jennifer Duvalier is Mitie's designated Non-Executive Director, responsible for overseeing Board engagement with the workforce. She champions the voice of Mitie employees at Board discussions and participates directly in employee engagement initiatives. During FY 19/20, Jennifer has spent time with frontline employees across the country, both in person and virtually. Jennifer's focus on the frontline will continue into FY 20/21, with an events schedule already in place.

The Simplifying Mitie campaign draws on the expertise in the business and encourages people to make suggestions that will improve processes and remove barriers to efficient working. The recently formed Quality Improvement Council (QIC) is also working to tackle processes, systems and data issues, and drive better use of technology. These initiatives recognise that people with the best suggestions are

those using the technology and observing processes every day. As a result of Simplifying Mitie feedback, 66 improvements have already been made, including the launch of a new supplier on-boarding portal, IT upgrades and a new purchase order template to simplify payment settlements.

Finally, a new exit interview process is providing data on how to keep Mitie's best talent and continue to improve the experience of working at Mitie.

Team Talk Live

Mitie aims for its leaders to be visible and accessible, however, with 47,500 employees across the UK, this is not easy.

In September 2019, the format of 2018's Executive Roadshow was extended to further increase its scope. This became Team Talk Live 2019, an opportunity for 4,000 colleagues to meet the executive team and hear more about Mitie's strategy. Held over five days in five locations, the packed schedule covered key initiatives and underlined the important role Mitie's people have in delivering its goals.

Quarterly 'Town Hall' updates continue to be run from the London HQ in the Shard. These are live-streamed and available to view after the event.

Celebrating the exceptional, every day

Mitie knows it is important to recognise and celebrate colleagues who deliver the exceptional, every day. Reward and recognition has therefore continued to be one of the key focuses during FY 19/20, as reflected by a number of initiatives.

Celebration Hub

Mitie's new online platform, Celebration Hub, makes it easier than ever for people to thank and congratulate each other, helping to embed a culture of achievement and recognition. Colleagues can log on from portable devices 24/7 to send e-cards and more. The hub also contains information about colleague benefits, long service awards and Mitie Stars. The latter awards scheme was reinvigorated in January 2019, and since then over £85,000 in cash prizes has been presented to worthy winners. In December 2019, a Mitie Stars awards ceremony was held, during which some outstanding acts were given the recognition they deserved. First, second and third prizes of £10,000, £5,000 and £2,500 were presented to the winners.

New initiatives include a new retirement process focused on recognition, as well as enhancements to maternity communications, which will keep colleagues on maternity leave better informed.

- Over 5,000 nominations for Mitie Stars
- Over £85,000 in cash prizes awarded
- Over 5,000 long service awards presented to celebrate milestones of five, 10, 20, 30, 40 and 50 years.

Attracting and retaining the best talent

In the 'War for Talent' recruiting and retaining the right people is more important than ever. Mitie's Talent Hub platform is an industry-leading talent and resourcing function to help find and keep the best people at all levels. Talent Hub supports the Mitie brand, underlining its reputation as a responsible employer. The hub also raises awareness of internal career paths open to the workforce. A variety of further initiatives are in place to ensure that a career at Mitie proves mutually beneficial.

Supporting our people

A continually evolving communications strategy, designed to speak to all five generations in the workplace, underpins Mitie's people activity. Its aim is to make sure people feel supported and proud to wear the Mitie badge.

Mitie empowers its managers to have conversations with their teams through learning and development. Mitie also provides communicative tools, such as the monthly Download briefing to be shared with teams. Mitie has expanded its established network of Mitie Exceptionals, a group of volunteers across the Group, who act as ambassadors and help cascade communications to frontline employees.

With most of its people managing remote and disparate teams, Mitie has invested in IT infrastructure to enable maximum efficiency. In FY 19/20, Mitie replaced 1,629 laptops, upgraded 7,547 devices to Windows 10 and increased the memory in 1,301 devices to improve performance. These improvements provided resilience when many people were forced to work from home as a result of the COVID-19 outbreak. A new bereavement policy has also been implemented, which is especially relevant in the context of COVID-19.

Mitie has invested in new frontline channels, such as Celebration Hub (see above) and the quarterly Exceptional magazine, which shares news and successes, and celebrates the exceptional work its colleagues deliver each and every day.

Maintaining contact with employees is proving especially important during the COVID-19 outbreak. Regular communications ensure colleagues are kept up to date and informed of protective measures so that they can protect not only themselves, but customers' people, and also keep businesses running.

Mitie's ongoing 'We're Nothing Without You' campaign is aimed at recognising frontline heroes who deliver, 'The exceptional, every day.' The campaign video, accompanying posters, and case studies showcase exceptional people living and breathing Mitie's vision and values.

Developing our people

Mitie is a people business. The skills, knowledge and behaviours demonstrated by colleagues make a real difference to the Group's business performance. It is vital that Mitie supports its employees to acquire the right skills and knowledge from day one of joining, and that it continues to develop and challenge them throughout their careers. Mitie's ambition is to capture the social way that people are learning today, providing its employees with the learning curriculum when they want it, in the format most convenient for them. To build on its Learning Hub technology and the apprenticeship strategy implemented in FY 18/19, Mitie has launched its full Learning & Development core offering, which is made up of five key pillars:

- **Licence to Operate** – Offers tailored training to enable colleagues to deliver, 'The exceptional, every day'.
- **Licence to Lead** – This management development programme equips managers with the tools they need to lead their teams the Mitie Way, helping to deliver exceptional performance. It explores the fundamentals of leadership, including absence management, disciplinaries and grievances, investigations, performance management, recruitment and selection. All managers are expected to be passionate about Mitie's business, ambitious and willing to learn.
- **Apprenticeships** – Provide practical learning, support and a nationally-recognised qualification, while participants work.
- **Academy Frameworks** – Learning and development to build competence in professional skills.
- **Talent Development** – Built in partnership with line managers to help shape future career paths and realise potential. Mitie's manager toolkit supports these important development conversations.

Group Leadership Team (GLT) Development Programme

The GLT is comprised of many of the most senior leaders in Mitie's organisation; investing in their development is essential. The GLT Development Programme was created to support these leaders in reaching their full potential and features four distinct phases.

Validate and Diagnose: Each leader identifies their personal development focus areas. They are encouraged to determine both strengths that they can leverage, as well as any areas preventing them from reaching their full potential.

Scope and Plan: A development plan is created, taking account of the unique aspirations and requirements identified in the first stage.

Develop and Grow: Leaders are required to move beyond the 'What?' and 'How?' of their personal development programme to put their plans into practice. A suite of learning resources, which can be tailored to specific requirements, interests, learning styles and work capacities, is at their disposal.

Review and Reset: At the end of each year, a talent review examines the status of personal development objectives. Leaders obtain extensive feedback via a 360-degree review process, allowing them to assess progress and decide on areas of focus for the year ahead.

Strategic Account Manager Academy

By identifying those who have the most potential to progress, Mitie can plan for the future needs of the business and make sure it has a healthy pipeline of people ready to step up to its most senior and business-critical roles.

Building on the success of its Sales Academy, Mitie's Strategic Account Manager (SAM) Academy was created with carefully selected resources to develop some of the Group's most senior leaders against the core requirements of their role. Each SAM receives an essential grounding within core business disciplines by enrolling on an Apprenticeship Levy-funded Chartered Manager Level Six Apprenticeship.

Apprenticeships

Mitie paid £5m into the Apprenticeship Levy scheme in FY 19/20 and had 573 apprentices as at 31 March 2020 working across its portfolio of contracts on over 50 apprenticeship routes, each tailored to the different businesses within Mitie.

Mitie takes an 'apprentice first' approach to training, partnering a number of specialist providers to ensure delivery of learning that meets the needs of the individual as well as the business. Mitie recognises the Government's target of 2.3% apprentices across the workforce: a target the Group expects to exceed.

Our diversity makes us stronger

Mitie's strategy is to create a great place to work by attracting and retaining a diverse workforce and fostering a truly inclusive culture where everyone can bring their true selves to work.

Mitie's focus is on women, ex-military personnel, those with a disability, people who identify as LGBT, those from a Black, Asian and minority ethnic background (BAME), and people over the UK retirement age of 66.

Mitie's employee networks continue to support its inclusive agenda through a calendar of events to raise awareness, actively promote understanding and provide support for Mitie people of all genders, ethnicities, sexual orientations, backgrounds, ages and disabilities.

During FY 19/20, Mitie relaunched both its BAME and women's networks. The past year also saw the launch of a new network to support armed forces leavers, veterans, and families and friends of the forces.

Mitie Employee Networks

- CHORD: ethnic minorities, particularly BAME (Black, Asian and Minority Ethnic) – sponsored by Jason Towse, Managing Director of Business Services. Mitie's CEO, Phil Bentley, is being 'reverse mentored' by a member of CHORD
- Mitie Women Can: gender equality – sponsored by Carlo Alloni, Managing Director of Technical Services
- Proud to Be: LGBTQ awareness – sponsored by Jasmine Hudson, HR Director – Group & Specialist Services
- Mitie Military: armed forces – sponsored by Charles Antelme DSO, Head of Defence
- Enable: disability awareness and support – sponsored by Simon Venn, Chief Government & Strategy Officer
- Generations: age awareness – sponsored by Peter Dickinson, Chief of Staff & General Counsel

Mitie is also now a signatory of the Disability Confident scheme with the Department for Work and Pensions and has committed to:

- Ensuring its recruitment process is inclusive and accessible
- Communicating and promoting vacancies
- Offering interviews to disabled people
- Anticipating and providing reasonable adjustments as required
- Supporting any existing employee who acquires a disability or long-term health condition, enabling them to stay in work
- One company-wide activity that will make a difference for disabled people

% of female Board members	50%
% of female employees	36%
% of women in STEM roles	20%
Number of employees over the current UK retirement age of 66	2,662

Don't just take our word for it...

Several awards and accreditations recognise Mitie's achievements in making a great place to work.

- Inclusive Top 50 UK Employers 2019/20, powered by Inclusive Companies. Mitie was placed sixth, moving up from 17th in 2018/19. The league table celebrates the most inclusive employers in the UK, shining a light on best practice across all strands of diversity: age, disability, gender, LGBT, race and faith / religion.
- Certified as a UK Top Employer by the Top Employer's Institute for the second year in a row. Employers who qualify have demonstrated that they lead the way in people-first HR practices.
- Silver Award in the Government's Defence Employer Recognition Scheme. Mitie is also a signatory of the Armed Forces Covenant.
- Recognised among Britain's Most Admired Companies, 2019.
- Finalists in Best Approach to Engagement Surveys, Engagement Excellence Awards, 2019.
- Shortlisted for Employee Engagement Award, Personnel Today Awards, 2019.

For updates on the Real Living Wage and Mitie Foundation, see Focus on Environment, Social and Governance on page 61.

Quality, Health, Safety and Environment (QHSE)

The QHSE team launched Mitie's LiveSafe programme in December 2018 to continually improve Quality and HSE performance. It is based on five core principles:

- All injuries and occupational illnesses are preventable
- Everyone is responsible for safety
- Safety is a condition of employment
- Everyone has the right to challenge anyone
- Never think you can't keep improving

More than a year later, the impact of the campaign is being clearly demonstrated in significant reductions in accident and incident rates. This shows a definitive cultural shift, with the importance of health and safety becoming embedded and reflected in workforce behaviours, along with widespread acceptance that safety is essential in order to be 'Exceptional, every day.'

Mitie's commitment to ensuring near misses and hazardous conditions are reported has also contributed to lowering the number of accidents. The practice of meticulously recording all relevant incidents is being embraced by the workforce and means potential accidents are frequently caught before things escalate, enabling risks to be mitigated.

Two key indicators demonstrate the extent of the progress made by Mitie. In FY 19/20 Lost Time Injury Frequency (LTIF) reduced by 34% and fleet Road Traffic Collision Frequency (RTCF) reduced by 24%.

LiveSafe is an ongoing programme and campaign with its own informative section on the intranet, where colleagues can access a wealth of QHSE-related information, including resources such as LiveSafe flashes, which allow learnings to be shared across the organisation. Mitie's efforts to keep its people safe are of greatest importance and will continue to be focused on further improving safety performance.

Promoting a healthy culture

Employee wellbeing is one of Mitie's priorities, with a commitment to promoting a culture of good mental and physical health throughout the workforce. To do so Mitie operates an Occupational Health and Wellbeing Strategy, which complies with Health and Safety Executive / health management best practice and is aimed at nurturing the wellbeing of colleagues.

The following health issues exist within the UK general population, and therefore throughout Mitie's workforce, and will be a key focus for Mitie over the next three years:

- Depression, stress and anxiety
- Weight and diet issues
- Drug and alcohol abuse
- Heart disease
- Diabetes types one and two
- Musculoskeletal issues
- Work-related ill health
- Driver health

To support its Occupational Health and Wellbeing Strategy, Mitie currently has approximately 50 Mental Health First Aiders in the business. The QHSE team will continue to drive Mitie's occupational health and wellbeing strategy with a specific focus on mental health.

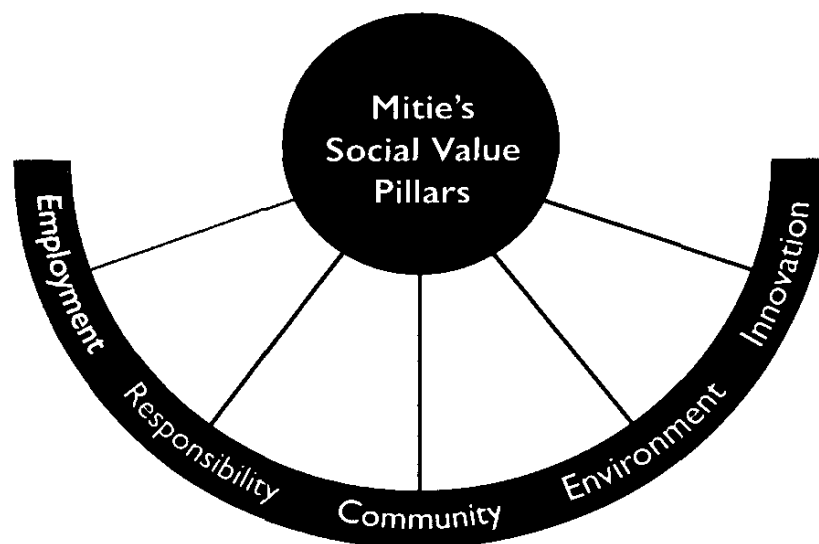
Delivering social value

Mitie takes great pride in its contribution to life in the UK and Ireland. Mitie grits roads in winter and helps keep offices cool in summer. Mitie looks after a wide variety of people, not only ensuring their workplaces are safe and clean, but treating detainees and arrestees with dignity. Mitie takes its responsibility as one of the UK's biggest employers seriously and recognises that it is only right to give back to the communities in which it works.

In March 2020, Mitie published a Social Value Charter, which followed on from the Mitie Social Value Report 2018/19. For the latter, a detailed review of the UN Sustainable Development Goals (SDGs), as well as the National Themes, Outcomes and Measures (TOMs), determined that Mitie's five social value pillars would be Employment, Responsibility, Community, Environment and Innovation.

The five pillars incorporate all of the UN SDGs and targets have been set against each, apart from Innovation, which supports the delivery of the others.

Mitie will report progress against each target, and where they are achieved early, or progress suggests this will be the case, they may be reviewed to make them more challenging and therefore maximise the corresponding sustainable benefit. Mitie has already done so under the Environment pillar with its recently launched Plan Zero commitment, having achieved the target of a 35% reduction in carbon intensity by 2020 on a FY 09/10 baseline a year early in FY 18/19.



Employment

As a major UK employer, Mitie can transform lives through providing rewarding employment and learning and development, which is available to all across its diverse workforce.

Mitie's approach to Employment aligns with the following UN SDGs:

- 1 – No Poverty
- 4 – Quality Education
- 5 – Gender Equality
- 10 – Reduced Inequalities

Commitments and goals

Mitie aims to create jobs, help people onto the career ladder to combat poverty and provide education and personal development, while reducing inequality. Milestone targets are in place for each financial year.

Targets:

- % of employees where Mitie control their salary paid Real Living Wage = 100% by FY 20/21
- % of employees who have been through an apprenticeship scheme = 5% by FY 24/25
- % of women on Mitie's Group Leadership Team and Executive Leadership Team = 35% by FY 22/23

Target area	Baseline (FY 18/19)	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
% of employees where Mitie control salary paid Real Living Wage	75%	100%				
% of employees through apprenticeship scheme	2.3	2.5	3.0	3.5	4.3	5.0
% of women on GLT & ELT	18%	20%	25%	35%		40%

Employment snapshot

In March 2020, Mitie's Engender network was relaunched as Mitie Women Can at the Shard, with HR Director Group & Specialist Services, Jasmine Hudson, and Managing Director of Technical Services, Carlo Alloni, as executive sponsors. Alongside presentations from the four co-chairs, Managing Director, Public Sector, Critical Infrastructure & Projects, Kath Fontana, gave a keynote speech, with the proceedings livestreamed to the rest of the business. The network's long-term goals include achieving 50:50 gender representation on the Group Leadership Team.

In February 2020, Mitie celebrated National Apprenticeship Week with daily articles on the intranet highlighting the outstanding contributions apprentices make to the business. The event was also a good opportunity to highlight the apprenticeships available to Mitie employees.

Responsibility

Mitie has an extensive supply chain providing goods and services. Mitie works hard to ensure all suppliers adhere to its supplier code of conduct and selects its supply chain according to how it can best support SMEs and social enterprises.

Mitie's approach to Responsibility aligns with the following UN SDGs:

8 – Decent Work and Economic Growth

12 – Responsible Consumption and Production

17 – Partnership for the Goals

Commitments and goals

Mitie's Responsibility targets are focused on increasing the percentage of Mitie's spend that goes to small and medium-sized enterprises (SMEs), and voluntary, charity and social enterprise (VCSE) suppliers. Mitie's Supplier Management Framework measures performance across a range of metrics,

including ethical and sustainable supply, with action plans in place to improve outcomes. Milestone targets are in place for each financial year.

Targets:

- % of spend with VCSE suppliers = this target will be set in FY 20/21. Mitie is working with the community interest company, Social Enterprise UK, to analyse supply chain spend in order to set a baseline and identify how to move more spend to VCSE suppliers.
- % of Mitie Group spend with SME suppliers = 33% by FY 24/25. Over 33% of Mitie's spend on public sector contracts is with SMEs and Mitie is committed to maintaining this.
- % of spend on Mitie's Supplier Management Framework = 40% by FY 24/25

Target area	Baseline (FY 18/19)	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
% of spend with VCSEs	Targets are being developed in FY 20/21					
% of spend with SMEs (Group: commit to maintain public sector % SME spend above 33% target)	27%	29%	30%	31%	32%	33%
% of spend on Supplier Management Framework	0%	28%	35%	37%	39%	40%

Responsibility snapshot

Increasing its spend with VCSE suppliers is a key part of Mitie's Responsibility targets. To this end, Mitie has signed up to Social Enterprise UK's Buy Social Corporate Challenge, which aims to increase corporate spend with social enterprise suppliers. Meetings have been scheduled to review Mitie's spend, create a baseline and set associated targets.

To better ensure all suppliers comply with its responsible supply chain requirements, Mitie recently launched a new supplier on-boarding platform through Tradex. The application can flag VCSEs and SMEs and reminds vendors to update accreditation or documentation which is due to expire, blocking organisations that fail to do so. This provides an additional guarantee that Mitie only trades with suppliers that comply with its Procurement Policy and Supplier Social Value Policy.

Community

As a major employer, Mitie plays an important role in communities across the UK. Mitie is committed to supporting charities and voluntary organisations, as well as the armed forces, veterans and their dependents. Mitie also supports employee wellbeing, with particular focus on mental health.

Mitie's approach to Community aligns with the following UN SDGs:

2 – Zero Hunger

3 – Good Health and Wellbeing

16 – Peace, Justice and Strong Institutions

17 – Partnership for the Goals

Commitments and goals

Mitie's targets in Community include the introduction of a paid volunteering day for all non-frontline staff in FY 20/21. Mitie is also committed to colleague health and wellbeing and will build on its already strong support for the armed forces. Milestone targets are in place for each financial year.

- Number of volunteer paid hours = 16,000 paid volunteering hours by FY 24/25
- Number of hours training delivered on improving Health and Wellbeing = 10,000 by FY 24/25
- Armed Forces Covenant / Recruitment = Targets are being developed in FY 20/21

Target area	Baseline (FY 18/19)	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
Number of volunteer paid hours	3,032	8,000	10,000	12,000	14,000	16,000
Number of hours training delivered on improving Health & Wellbeing	Not measured	2,000	4,000	6,000	8,000	10,000
Armed Forces Covenant/Recruitment	Targets are being developed in FY 20/21					

Community snapshot

In January 2020, Mitie's CEO, Phil Bentley, re-signed the Armed Forces Covenant at the Group's headquarters in the Shard. Phil was joined by Air Marshal Richard Knighton, Head of Finance for the Ministry of Defence, on behalf of the MOD. The occasion served to highlight Mitie's support of those who serve on the armed forces.

Mitie's commitment was further demonstrated by a new policy, which means that all employees who are armed forces reservists receive ten days' paid leave every year to support them in fulfilling service commitments. This represents a considerable improvement on the previous policy of five days' unpaid leave.

Environment

Mitie is ISO14001 Environmental Management accredited and has wide-ranging expertise encompassing the environment and sustainability. Mitie Energy is ISO50001 Energy Management accredited, while Mitie Waste has BS8001 for the Circular Economy. This expertise has culminated in Plan Zero, Mitie's initiative to reach net zero carbon by 2025. This industry-leading goal means Mitie will achieve net zero carbon emissions 25 years ahead of the UK Government's 2050 target.

Mitie's approach to Environment aligns with the following UN SDGs:

6 – Clean Water & Sanitation

7 – Affordable & Clean Energy

11 – Sustainable Cities & Communities

13 – Climate Action

14 – Life below Water

15 – Life on Land

Commitments and goals

Mitie's environmental targets are encapsulated in its Plan Zero commitment. Mitie will use its expertise to eliminate carbon emissions from power and transport, eradicate non-sustainable waste and enhance inefficient buildings to meet the highest environmental standards.

Milestone targets are in place for each financial year.

- Net carbon emissions (Tonnes, Scope 1 and 2) = 0 TCO₂e run rate by the end of calendar year 2025
- % of fleet zero carbon = 100% by the end of calendar year 2025
- % of waste not reused or recycled = 0% run rate by the end of calendar year 2025

Target area	Baseline (FY 18/19)	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
CO ₂ emissions (tonnes)	28,912	25,000	21,750	17,500	11,500	4,400
% of fleet zero carbon	0	15	30	45	65	85
Waste	Targets are being developed in FY 20/21					

Environment snapshot

With a huge rise in interest in sustainability, Mitie's Plan Zero initiative has been well received by colleagues across the organisation. A topical e-booklet, The Mitie Guide to Saving The World, was distributed to all employees via email, providing tips for reducing environmental impact, both at home and at work. The publication also set out the exciting plans in place to see that Mitie reaches net zero carbon emissions by 2025.

Innovation

Mitie is focused on innovating to find new technologies and ways of thinking that will support the Group in achieving targets across the organisation's four other social value pillars. Mitie is committed to clearly reporting progress and evidencing its knowledge, skills and performance in both customer bids and public communications. As well as delivering on its own targets, Mitie uses its expertise to support customers and wider business in achieving their own ambitious sustainability goals.

Mitie's approach to Innovation aligns with the following UN SDGs:

9 – Industry, Innovation and Infrastructure

17 – Partnership for the goals

Commitments and goals

In contrast to the other pillars, Mitie has not set specific targets for Innovation. This pillar is about introducing new knowledge and ways of thinking, as well as reporting on progress and building social value into bids. Instead Mitie has committed to supporting the achievement of targets in the other four pillars.

- In each future Annual Report Mitie will report progress against each of the milestone targets.
- Mitie will capture supplier innovation through its Supplier Management Framework to support delivery of both its targets and customers' targets.
- Mitie will evidence its capabilities and expertise in sustainability and social value in bids.

- Mitie will create dashboards and reporting to track and detail progress against targets and the wider measures of social value, including the National TOMs.

Innovation snapshot

One of the greatest challenges is the raw data required to develop a TOMs-based dashboard for social value reporting. Much of the information is not currently held within Mitie systems, and therefore additional harvesting of this data will be necessary if a TOMs dashboard is to be created.

In order to find a solution, part of the social value budget for FY 20/21 has been diverted from a separate project to fund two junior analysts: one to help develop a Mitie social value dashboard, the other to capture relevant best practice within Mitie, documenting this for bids and external communication.

Focus on Environment, Social and Governance

Mitie's commitment to 'The exceptional, every day' is clearly demonstrated in its approach to Environment, Social and Governance (ESG). These aspects of business are crucial to the planet, our people and our pocket; increasingly customers, employees and investors are focusing not only on the results organisations deliver, but on how they do business.

As of April 2020, Mitie has achieved a 'Low Risk' ESG rating of 13.0, on a scale from 0 to 100, from the highly-regarded ESG rating agency, Sustainalytics.

A 'Low Risk' ESG rating means the Company is unlikely to experience 'material financial impacts driven by ESG factors,' which include environmental policies, diversity and reporting standards. This score of 13.0 therefore demonstrates Mitie is not only a responsible corporate citizen, but a desirable organisation in which to invest.

Mitie's ESG activity, is aligned with its five social value pillars of Employment, Responsibility, Community, Environment and Innovation.

Employment

As a major UK employer of 47,500 people, Mitie takes its role in reducing inequality and promoting social mobility very seriously.

Real Living Wage

Mitie recognises that pay and reward plays an important part in making its people feel valued and engaged. In November 2019, the Living Wage Foundation granted Mitie Recognised Service Provider status. The accreditation acknowledges that Mitie has committed to end low pay and will always cost bids to offer customers the option to pay its employees the Real Living Wage of £10.75 in London and £9.30 across the UK.

Mitie's partner organisations therefore have the opportunity to decide if they will support payment of salaries that are based on the actual cost of living, taking housing, food, travel and other essentials into account. Mitie will always strongly encourage them to do so. In keeping with its commitments as a Recognised Service Provider, Mitie pays the Real Living Wage to all staff in head office and core functions.

Mitie Foundation

The Mitie Foundation exists to create life-enhancing opportunities for a diverse range of people, particularly those with barriers to employment, with the aim of aiding social mobility and supporting local communities.

Mitie Foundation initiatives seek to raise aspirations, change minds and dispel perceived barriers that, for a variety of reasons, might otherwise prevent certain candidates being considered for employment. By helping sometimes overlooked but enthusiastic participants into the workforce, the Mitie Foundation creates routes to sustainable employment, develops untapped talent and maximises the potential to enrich workforce diversity.

As a key contributor to Mitie's social value strategy, the Mitie Foundation's activities now align with three key social value pillars: Employment, Responsibility and Community. The Foundation recently welcomed Baroness Couttie as the new chair of the board: her expert input and leadership will be invaluable at this exciting time for the charity.

Throughout FY 19/20 the Mitie Foundation continued its award-winning Ready2Work initiative, providing a structured eight-week work programme for individuals facing barriers to employment. Six Ready2Work schemes were delivered in Essex, Leeds, London and Manchester, and the team was

delighted to see the continued trend of over 70% of candidates who complete the programme securing employment.

The Foundation's World of Work days also continue to be a popular way for potential candidates to gain experience of the work environment. Several such events were delivered to partner organisations, including The Foyer Federation charity, which supports homeless 16 to 25-year-olds. The Foundation has also developed school outreach programmes for students in economically deprived areas. These initiatives aim to develop young people's employability and raise career aspirations.

During FY 19/20 the Mitie Foundation team played an important role in securing Mitie's Disability Confident: Committed status. The Mitie Foundation is also finalising the BeyondBars scheme, which will help those serving a custodial sentence to improve their career prospects.

All Mitie Foundation initiatives encourage suitable candidates to begin apprenticeships to help develop their skills and future employment opportunities.

For updates on Mitie's Disability Confident: Committed status, Learning and Development, Apprenticeships and Diversity, see Our People: Making Mitie a Great Place to Work, starting on page 49.

Responsibility

Mitie has an extensive supplier base that includes goods suppliers, subcontractors and professional services firms. Given the Group's role in supporting many of the UK's leading businesses as well as the public sector, a responsible approach to business and supply chain is critical.

Policies and procedures

During FY 19/20, the Procurement team reviewed all supplier documentation to ensure it was valid, up-to-date and aligned to Mitie's responsibility-focused social value agenda. This led to updated documentation, including a new Procurement Policy, being published on Mitie's supplier portal. As part of the update, Mitie's first Supplier Social Value Policy was launched in January 2020, covering both the Supplier Code of Conduct and Sustainable Procurement Requirements.

Tradex

To improve the speed of setting up new suppliers, as well as ease of use for employees and supply chain partners, in March 2020 Mitie launched the new supplier on-boarding platform through Tradex. Mitie's suppliers now have access to an industry-recognised portal, which is used by over 17,000 organisations, making it the largest online construction-based trading hub in the UK.

Tradex ensures that all suppliers have agreed to Mitie's policies and procedures, as well as having necessary insurance and trade-specific certification. Supply partners are automatically reminded when insurance or certification is due to expire. If they fail to do so, the system will block them from gaining any new business until all their credentials are at the required standard and in date.

Tradex allows suppliers to view their invoice status online, meaning any issues can be promptly resolved. It also supports the reporting of spend with VCSE suppliers, SMEs and suppliers that have diverse boards.

Social enterprises and SMEs

Mitie remains determined to do more to support SMEs in its supply chain. The new on-boarding process makes it even easier for SMEs to register as a Mitie supplier, while the Procurement team continually reviews spend by market category and considers how to include SMEs in the procurement process.

Mitie has signed up to the Social Enterprise UK (SEUK) Buy Social Corporate Challenge. The objective is for a group of high-profile businesses to collectively spend £1bn with social enterprise suppliers.

SEUK is reviewing Mitie data to create a baseline of current VCSE spend and to identify opportunities to increase Mitie's spend in the sector.

Supplier management framework

Mitie launched its Supplier Management Framework (SMF) to develop its partnership with key suppliers. The framework provides a mechanism for scoring a supplier's performance and jointly reviewing it to create action plans which unlock new value for both parties. The SMF scores six areas of delivery: ways of working, innovation, service, ethical and sustainable supply, quality and cost.

As the SMF develops, a greater percentage of Mitie's spend is being brought into scope. As part of the ethical and sustainable supply metric, all SMF-managed suppliers will be scored and have their performance reviewed on meeting Mitie's social value policy, their carbon reduction plans, actions to reduce environmental impact, Modern Slavery Act compliance and innovations to support Mitie's Plan Zero and social value initiatives.

In FY 19/20, SMF incorporated 20% of Mitie's spend. This will increase year-on-year, cementing improvements in ethical and sustainable supply. In addition, all tenders run by the Procurement function now have a minimum 15% ethical and sustainable supply requirement.

Community

Mitie operates across the whole of the UK and is committed to being active in the communities it serves. The Group is particularly focused on providing volunteers to schools and charities, as well as supporting armed forces colleagues and looking after the health and wellbeing of its employees, and the wider community.

Volunteering

To ensure employees have the opportunity to support good causes, Mitie has committed to giving all non-frontline colleagues one paid volunteering day each year. Over 10,000 volunteering days will be available to benefit communities across the UK.

Mitie is currently contacting charities to agree collaboration opportunities. Education packs are also being developed, containing materials to support career development and employability sessions at local schools. Mitie's business units and core functions will be required to report on all volunteering undertaken, which will assist in maximising benefit to relevant good causes.

Health and wellbeing

Many of Mitie's environmental initiatives positively impact not only its employees, but the communities in which it operates. For example, the transition to an electric fleet will not only reduce carbon emissions, but the fine particulate matter and potentially harmful nitrogen oxides found in road traffic pollution.

A wide range of health and wellbeing-related material is available to colleagues on the Learning Hub. This has been accessed over 12,500 times since the Learning Hub went live, with 1,966 hours of relevant training completed.

Armed Forces

Mitie's commitment to the armed forces community was recognised with a Silver Award from the Government's Defence Employer Recognition Scheme in August 2019. This took account of Mitie's military network, encouragement of servicemen and women to join the business and active communication of HR policies to support veterans, reservists and military spouses. Mitie has also launched a dedicated armed forces career portal, designed for candidates from a military background to explore career opportunities.

Environment

Mitie's industry-leading Plan Zero commitment to reach net zero carbon emissions by 2025 demonstrates its dedication to the environment. Mitie was the first facilities management company to set such an ambitious goal, which is 25 years ahead of the UK Government's 2050 zero carbon target.

To broaden its environmental goals, Mitie has signed up to all three business-focused initiatives from The Climate Group, a leading non-profit organisation working to address climate change. In doing so Mitie became only the eighth company globally, and the first facilities management business, to sign to all three initiatives.

EV100: This scheme brings together companies dedicated to accelerating the transition to EVs and making electric transport the new normal by 2030. Mitie has gone even further by committing to a zero carbon fleet by 2025, as part of Plan Zero.

EPI100: This initiative brings together companies committed to doing more with less to improve their energy productivity. Mitie has pledged to double energy productivity over the next 25 years, measured by the amount of energy used per pound of revenue generated. However, based on its ambitious Plan Zero targets, Mitie expects to achieve this goal by 2025.

RE100: This is a global initiative to showcase companies committed to using 100% renewable power. Using the Renewable Energy Guarantee of Origin (REGO) scheme, Mitie switched to renewable energy in 2019, but now pledges to go even further. As electricity use increases with its transition to EVs, Mitie will move to purchasing energy via a subsidy free power purchase agreement (PPA).

The Climate Group initiatives align with Mitie's Plan Zero pillars to eliminate carbon and enhance inefficient buildings. A full assessment of waste across the business is being conducted by experts in Mitie Waste. Subsequent to the completion of the review, baseline and milestone targets will be set to align with the pillar pledging to eradicate non-sustainable waste. Mitie will also explore additional waste-related accreditations and initiatives.

Taskforce on Climate-Related Financial Disclosures

The Taskforce on Climate-Related Financial Disclosures (TCFD) was established by the Financial Stability Board as a means of coordinating disclosures by organisations in the financial sector relating to the impact of climate change. TCFD has published a series of recommendations on the disclosures which organisations should include in their reports. The areas covered are:

- Governance
- Strategy
- Risk management
- Metrics and targets

Below is Mitie's approach to these four areas.

Governance

The Board has oversight of climate-related risks and opportunities through the Social Value & Responsible Business Committee (SVRB Committee), chaired by independent Non-Executive Director, Baroness Couttie. The full SVRB Committee Terms of Reference are available at: www.mitie.com/investors/corporate-governance.

Mitie's Plan Zero steering group meets quarterly to oversee actions to mitigate climate-related risks and capitalise on opportunities. In addition, the Sustainability Working Group is led by experts from Mitie Energy, who adhere to both the ISO14001 Environmental Management and ISO50001 Energy Management systems. The Sustainability Working Group owns the Climate Change Risk Assessment

document, which is circulated to Mitie business units for input, in alignment with the ISO management systems, then to the SVRB Committee for approval.

Strategy

Mitie's climate-related risks are categorised as either transitional or physical, with detail provided on impact scale, consequences (including financial impact), probability and severity. Control measures are subsequently identified along with the priority horizon of short, medium or long-term.

Mitie's highest currently identified risks relate to disruption to travel due to climate-related events, higher costs associated with assets damaged through extreme weather and a reduction in investor confidence if Mitie does not take appropriate climate change action.

However, Mitie's business means that the opportunities presented by climate change outweigh these risks. Mitie has a wealth of relevant expertise:

- Energy productivity improvement
- Renewable energy procurement
- Transition to low carbon solutions, such as EVs
- Waste reduction, including circular economy solutions

Mitie is ideally placed to support customers and other organisations in their transition to a low-carbon business model. Scenarios which accelerate the need for climate action simultaneously increase the opportunity for Mitie; expertise and prompt action will be required by a range of businesses. Mitie has taken an industry-leading pledge to reach net zero carbon by 2025, as part of its Plan Zero initiative, and will capitalise upon the related revenue and profit opportunity. Mitie is observing a three-step approach of:

- Committing to challenging sustainability targets
- Leading the industry
- Delivering for customers

Risk management

Mitie is committed to building a resilient business, which is compliant to statutory carbon standards and observant of moral obligations to the planet.

By risk assessing the impact of climate change via the Climate Change Risk Assessment document, Mitie aims to ensure its business is adaptable to future challenges. As stated, Mitie Energy's sustainability experts adhere to ISO14001 and ISO50001, while Mitie Waste is BS8001 Circular Economy accredited.

The Plan Zero steering group and SVRB Committee review climate-related risks and opportunities that have been identified in the Climate Change Risk Assessment. They ensure suitable control measures are in place to minimise the risks, while commercial propositions and solutions are developed to take advantage of the opportunities. Any risks that remain, despite suitable control measures being in place, are submitted to the Mitie Enterprise Risk Management process.

Metrics and targets

Metrics which will be monitored to ensure Mitie reaches net zero carbon by 2025 include:

- Percentage of fleet that is zero carbon
- CO₂ emissions (Tonnes)
- Waste produced (Tonnes)
- Percentage of buildings that meet minimum efficiency standards

These metrics will be reviewed at the quarterly Plan Zero steering group and submitted to the SVRB Committee. Mitie's Scope One and Two emissions, together with relevant Scope Three emissions, are detailed in the Directors' Report. During FY 2021 Mitie will be introducing a third party verification process which will be to the ISO14064-3 standard.

Mitie is also investigating how to measure and track the energy, carbon and waste savings made on behalf of customers. Such metrics will illustrate the success Mitie has had in capitalising on the business opportunity to support customers as they transition to low carbon models.

Innovation

Mitie is constantly developing innovative solutions for its customers' needs. This approach is just as relevant to the delivery of social value.

Technology: Based in the Innovation Centre in Bracknell, Mitie's Strategic Operations Centre (SOC) receives data from over half a million building control points at 1,000 Mitie customer sites. The capability unleashed by data, software and experts, means Mitie can provide targeted solutions to building control issues. Instead of having to send an engineer to site, the SOC can resolve issues through a remote connection to the Building Management System, or through triage engineer consultation. By collaborating with the SOC and reducing the number of engineers sent to site, in one year a major customer saved 1,300 litres of diesel.

Group targets and dashboard: Group-wide social value targets have been agreed, with further targets to be finalised in H1 FY 20/21. Progress against the targets will be monitored by the SVRB Committee and reported in each annual report. The Mitie Group social value dashboard is in development and will have the capability to drill down into the data to create reports based on the relevant customer and business unit.

Bid support and documentation: Customers are applying an increasingly significant weighting to social value in bids. Mitie is therefore capturing case studies from account teams that demonstrate its social value excellence. These are stored in the bid library to support both renewal and new business submissions.

Supplier documentation: Organisations on the Mitie Supplier Management Framework are encouraged to share innovative products and solutions to improve Mitie's ability to deliver social value. Suppliers producing innovative ideas receive higher scores, increasing the likelihood of Mitie renewing their supply agreements.

Plan Zero / Environment

Mitie has a proud history of delivering on challenging environmental commitments. In 2010, Mitie pledged to reduce its carbon intensity by 35% by 2020. This target was achieved a year early, reaching a 37.4% reduction on the FY 09/10 baseline in FY 18/19.

Mitie takes a proactive approach to conducting business with the environment in mind and is therefore ideally positioned to support customers in achieving their own sustainability goals. Mitie offers in-house expertise in sustainability right across the business, including renewable energy, sustainable infrastructure, efficient buildings, waste reduction and electric vehicle fleet transition.

Mitie is committed to taking a leadership role in the fight against climate change, helping to deliver sustainable solutions not only for the facilities management sector, but UK business in general.

The reasons behind Mitie's approach can be summarised in the four Ps:

Planet – To benefit the planet, environment and people.

Policy – To ensure Mitie remains proactive and ahead of policy changes, rather than responding reactively and having to catch up.

People – To connect with customers, investors and colleagues, many of whom care deeply about sustainability.

Pocket – To heighten awareness that sustainable energy solutions, such as wind power, are generally cheaper than traditional fossil fuel-generated electricity, and that Mitie can support customers on their journey to zero carbon.

Plan Zero

In light of Mitie's progress in sustainability, in February 2020 Mitie launched Plan Zero, its commitment to reaching net zero carbon by 2025. This industry-leading initiative means Mitie will achieve net zero carbon 25 years ahead of the UK Government's 2050 target. To do so, efforts are focused on three main areas.

1. Eliminating carbon emissions from power and transport

Mitie will:

- Convert its fleet to zero emissions and power its electric vehicle (EV) charge points with green energy.
- Decarbonise its heating systems and use 100% renewable energy for its sites via a subsidy-free power purchase agreement (PPA).
- Increase its use of technology to reduce work travel to a minimum. Where travel is necessary, low carbon methods will be used.

2. Eradicating non-sustainable waste

Mitie will:

- Eliminate single-use materials by embracing the circular economy, including closed-loop paper recycling systems.
- Reduce its use of natural resources, only allowing items that can be recycled via the circular economy on site.

- Use natural, non-toxic and biodegradable cleaning products and champion the use of new innovations wherever possible, such as microfibre and surface coatings that reduce the amount of water required during cleans.

Enhancing inefficient buildings to meet the highest environmental standards

Mitie will:

- Always choose new offices with at least an 'Excellent' BREEAM rating and only re-sign leases on offices with an 'A' Energy Performance Certificate (EPC) rating.
- Enhance energy optimisation and use smart building technology to achieve maximum energy efficiency at all its sites.
- Improve biodiversity using initiatives that help ecosystems flourish, such as choosing plants which attract wildlife, or establishing 'bug hotels' that encourage insects to thrive outdoors.

Electric vehicle strategy

Since the launch of its electric fleet in December 2018, Mitie has made significant progress on reducing transport emissions.

Mitie has over 350 electric vehicles (EVs) on the road with more than 320 EV charge points installed across colleagues' homes, as well as Mitie and customer locations.

To support the Plan Zero commitment, Mitie stopped purchasing diesel cars from April 2020, while diesel vans will only be ordered if a suitable electric alternative is not available. Mitie is also engaging with innovative manufacturers to identify suitable EV replacements for its entire range of fleet vehicles. Cars are readily available but mid and large-sized vans are mainly still in development.

The transition to an EV fleet involves much more than purchasing suitable vehicles. Thought must also be given to charge points and heightening driver awareness and behaviour to ensure every journey is conducted at the greatest efficiency. Mitie's expertise in installing infrastructure, as well as managing a large and geographically disparate workforce, has aided the successful launch of its electric fleet. Mitie has deep experience of EV strategy development, which can be passed on to customers wishing to make their own switch from fossil fuel-powered transport to a zero-carbon fleet.

Mitie fleet CO2 emissions projection to FY 24/25

	Baseline (FY 18/19)	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25
CO ₂ emissions (tonnes)	28,912	25,000	21,750	17,500	11,500	4,400
% of fleet zero carbon	0	15	30	45	65	85

Aiming high, lowering impact

As detailed in the Mitie Social Value Report 2018/19, Mitie's sustainability targets broadly align with the UN's Sustainable Development Goals (SDGs), including:

6 – Clean Water and Sanitation

7 – Affordable and Clean Energy

11 – Sustainable Cities and Communities

13 – Climate Action

14 – Life Below Water

15 – Life On Land

The following sustainability-related accreditations have been achieved:

- Mitie has ISO14001 Environmental Management certification across the whole Group and this framework is used to establish and improve environmental performance.
- Mitie Waste is BS8001 Circular Economy certified.
- Mitie Energy is ISO50001 Energy Management System certified.

As these accreditations demonstrate, Mitie leads by example and can guide customers through the process of achieving their own certification. Mitie's Total Portfolio Review involves establishing baselines, improvement opportunities and milestone targets, with a blueprint for achieving net zero carbon. Mitie is currently conducting a full Group-wide waste assessment, utilising the expertise of colleagues in Mitie Waste. When the review has been completed, baseline and milestone targets for waste reduction will be set.

As of April 2020, Mitie has achieved a 'Low Risk' ESG rating of 13.0, on a scale from 0 to 100, from the highly-regarded ESG rating agency, Sustainalytics. Mitie was placed number one globally in the FM sector.

A 'Low Risk' ESG rating means the company is unlikely to experience material financial impacts driven by ESG factors, which include environmental policies, diversity and reporting standards. This score of 13.0 therefore demonstrates Mitie is not only a responsible corporate citizen, but a desirable organisation in which to invest.

Section 172(1) statement

The Board acknowledges the importance of forming and retaining constructive relationships with all stakeholder groups. Effective engagement with stakeholders enables the Board to ensure stakeholder interests are considered when making decisions and is crucial for achieving the long-term success of the Company.

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

Consequences of any decision in the long term

The Board holds an annual two-day meeting to consider the long-term strategy of the Group and is mindful that strategic decisions can, and do, have long-term effects on the Company and its stakeholders. An example of a decision made in FY 19/20 where the Board had regard to long-term implications is below.

Example: Board decision to dispose of Mitie's Catering business

Shareholders:

Mitie announced in August 2019 that it had entered into an agreement to sell its catering and hospitality business to CH&CO. The disposal continued Mitie's strategy of focusing and simplifying the Group's operations, with the proceeds of the sale being used to further strengthen Mitie's balance sheet and reinvest in Mitie's core business.

Customers:

The decision to sell Mitie Catering followed a strategic review of Mitie's business, focusing in particular on how to ensure that Mitie's customers benefit from the very best in catering choice and competitive pricing. The strategic review concluded that Mitie Catering's long-term future would be better served by being part of a larger specialist catering group.

When reviewing potential purchasers, the Board considered that CH&CO possessed the expertise and scale required to enhance the range of catering services that Mitie provides. By teaming up with CH&CO, the Board believed the additional scale and expertise would ensure the best choice and competitive pricing for Mitie's customers. The Catering business would also benefit from being part of a group which is solely dedicated to providing catering and hospitality services.

Accordingly, Mitie and CH&CO entered into a strategic partnership ensuring that the Gather & Gather catering offer remained exclusive to Mitie's customers as its only Integrated Facilities Management sector partner.

Employees:

At the time of the acquisition, management focused particularly on supporting Mitie's people and ensuring there was no disruption for customers throughout the transition. The staff and senior management team of Mitie Catering transferred to CH&CO to continue to run the business, providing continuity and support to all affected employees.

The Board believes it found Mitie Catering a home as part of one of the UK's most dynamic catering and hospitality businesses, where it can build on the success of the last seven years and continue to thrive in new and existing markets.

Further information on the consideration of decisions in the long term can be found on page 16 (Strategy), and Social Value/ESG sections (pages 55 to 60)

The interests of employees

Mitie has a number of mechanisms to engage with employees (see Our People: Making Mitie a great place to work on page 49) and the Board is committed to ensuring results from these are fed back so they can be considered in its decision making.

As the designated Non-Executive Director for workforce engagement, Jennifer Duvalier has been out and about meeting colleagues across the business to understand any current or emerging matters. She provides the Board with an update on her activities undertaken in respect of this role at every Board meeting (Further information on Jennifer's activities during FY 19/20 is included on page 112.

The Board also receives regular updates on employee related matters including learning and development, whistleblowing, rewards and benefits, MiReview appraisal outcomes, engagement activities and talent and recruitment.

Example: Board decision to open a new, larger Bristol office to allow the consolidation of separate Bristol offices

The Board noted feedback from employees based in Bristol regarding the quality of the former Bristol offices, and management reviewed a move to new, more modern premises. When the Board considered the office move it took account of the everyday impact for employees and undertook several surveys to determine the most appropriate location, reviewing local amenities and office facilities. Shortly after the move, CEO Phil Bentley visited the new office for Team Talk Live 2019 and the Board subsequently visited for a townhall session and lunch with employees in the new office to see how they were settling into the new environment.

Further information on the consideration of the interests of Mitie's employees can be found in the stakeholder engagement (pages 45 to 46), People (pages 49 to 54) and Social Value (pages 55 to 60) sections.

Fostering business relationships with suppliers, customers and others

Members of the Board attend numerous activities and events where they receive direct feedback from suppliers, customers and other stakeholders, such as supplier events and industry forums. For other engagement activities throughout the year, the Board receives regular updates through the Chief Executive Officer's update, business presentations or standalone Board papers.

Customers

Customers are at the heart of Mitie's business and therefore the Board considers that getting closer to customers and thus becoming more responsive to their needs, is important. To support this Mitie continues to invest in customer service and carries out a customer survey annually. See the NPS KPI on page 26 for details.

Example: The interests of customers were considered in the decision to dispose of the Catering business (see above).

Suppliers

The Board fully supports the new vendor on-boarding platform recently introduced which reduces the risk of engaging with non-compliant suppliers and makes it easier to communicate with existing suppliers. With suppliers in mind, the new system makes on-boarding easy and straight forward and provides the Board with the peace of mind that suppliers will be compliant, safe and meet the needs of customers.

Further information can be found in the Business model (pages 11 to 13) and Social Value sections (pages 55 to 60).

Impact of operations on the community and the environment

The Board supports the Company's continued focus on social value and reducing its environmental impact and is committed to taking a leadership role in the fight against climate change. More detail on the Company's approach to the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations is set out on page 64.

Example: Board decision to establish a Social Value & Responsible Business Committee

Social Value is an integral part of Mitie's DNA and through its extensive range of engagement mechanisms, the increasing focus on, and importance of, social value to all stakeholders has been a clear and consistent message.

In response to this, the Board agreed that Mitie should seek to unlock social value that creates positive economic, environmental and social impacts to ensure that the Group plays its part in delivering the exceptional, every day for its customers, people, and communities. In order to drive this initiative, and to provide the appropriate level of focus and governance around it, the Committee was formed (please see pages 161 to 163 for further details on the Committee).

The Chair of the Committee is Non-Executive Director, Baroness Coubrie, who provides a detailed update on the Social Value activities at every Board meeting, thereby assisting the Board in considering the impact of decisions on Mitie's Social Values agenda, customers, people and communities.

Further information on the consideration of the impact of operations on the community and environment can be found in the Social Value (pages 55 to 60) and Governance sections (pages 162 to 163).

Maintaining a high standard of business conduct

Culture:

The Board receives regular updates on culture, including the Mitie Exceptionals, an employee champions network, and LiveSafe, the safety culture development programme. More details on how the Board monitors culture, including risk management, ethics and whistleblowing, non-financial KPIs and alignment of remuneration and culture can be found in the Governance report starting from page 95.

Ethical business practice:

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

To support this, there are a wide range of procedures and training modules available including, modern slavery, whistleblowing, anti-bribery and anti-corruption, business expenses and entertaining and Mitie's One Code of conduct. Mitie's latest statement on Modern Slavery can be found at (<https://www.mitie.com/legal/modern-slavery-act/>).

Good governance

Details of how Mitie complies with the UK Corporate Governance Code can be found in the Governance report, starting on page 95.

Further information can be found in the Social Value section (pages 55 to 60) and Non-Financial Information statement on page 47.

Acting fairly between members

The Board undertakes a range of shareholder engagements during the year, both directly; Capital Markets day, roadshows, AGM, one-to-one meetings with the Company's largest shareholders, and indirectly through investor relations reports prepared for every Board meeting with regular share register updates. Topics discussed with investors include corporate governance matters, environment, human capital, corporate culture and the Board's long-term views on the business. More details on this engagement can be found in the Board report on pages 95 to 130.

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

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

Example: Board's declaration of an interim dividend

The Board declared an interim dividend of 1.33p in November 2019. When discussing the dividend, the Board considered the interests of investors, alongside several key financial and market factors and the level of the pension scheme deficit, when deciding the level of dividend to be declared.

Further information can be found in stakeholder engagement (pages 45 to 46) and the Governance report (pages 95 to 173).

Effective risk management

Our risk management approach

The Board and Executive Leadership Team (ELT) continue to review Mitie's approach to risk management to ensure it evolves in line with changes in the Group's risk profile. It is important that Mitie has a strong risk management culture and processes, as well as effective internal controls. Our 'One Mitie' Vision and Values, Enterprise Risk Management policy and framework of internal controls are key elements to promote this. Further information can be found in the Board report on pages 95 to 130.

Risk management structure

Mitie's risk management structure is designed to ensure a consistent approach to the identification, assessment, monitoring and management of risks across the business. This is set out in more detail below and in the Board report on pages 95 to 130.

Our risk management framework

Top down

Strategic risk management

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



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



- Execute strategic actions
- Report on key risk indicators

Board/Audit Committee

Executive Committee

Divisions

Bottom up

Operational risk management

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



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



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

Areas of focus

During the year Mitie has continued to standardise, simplify and improve its processes, governance and business structure, as well as enhancing associated IT systems, including:

- Further simplification of the organisational structure
- Devolution of a number of central functions to the divisions
- Launch of major IT system replacement projects – including Project Forte and Oracle to SAP
- Financial and operational process improvements across the business – including Quality Improvement Council (QIC)
- Further enhancement of cyber security controls across the business
- Improvements in HR systems
- Leveraging the outsourcing of the back-office finance transactional processes and IT support processes
- Launch of Plan Zero and creation of the Social Value and Responsible Business Committee
- Responding to the ongoing impact of the COVID-19 pandemic through multiple initiatives to ensure the continued operation and governance of the business

Risk appetite

The Board is responsible for defining clearly the level of exposure to risk Mitie is willing to take, and to ensure that the activities undertaken to achieve its strategic objectives are commensurate with this appetite. The Board is also responsible for monitoring the amount of risk being taken, and in support of this, sessions were undertaken with the Board and ELT to review the risks being taken and how they measure up against the defined risk appetite. All principal risks have a level of appetite set which helps determine the actions and resources required to mitigate them.

New and emerging risks

Mitie's internal and external environments are continuously scanned and monitored to ensure that any new or emerging risk is identified in a timely manner and responded to appropriately. This has been a particular focus during FY 19/20, with workshops run with the divisional leadership teams and the ELT, and then the risks presented to and endorsed by the Board. As a result of this process, three new risks have been added relating to the impact of COVID-19, the portfolio and social impact. These risks are set out in more detail on pages 77, 84 and 91 respectively.

Risk management responsibilities

Responsibility	Process
Board The Board has overall responsibility for the approach to risk management and internal control, including the annual assessment of the effectiveness of internal controls and the risk management framework.	Vision and Values statement and Code of Conduct approved by the Board and communicated to employees – setting tone at the top. The Board reviews the Group's strategy and sets the risk appetite for the Company. The Board sets the frequency and scope of its discussions on strategy, business model and risk. The Board through the Audit Committee reviews the effectiveness of internal controls and the risk management framework on a yearly basis. The Board reviews Principal Risks on a yearly basis. The Audit Committee, which comprises Independent Non-Executive Directors, reviews internal audit reports on a regular basis.

Responsibility	Process
Executive management Ownership and responsibility for operating risk management and controls are delegated to executive management.	Mitie's focus is to operate a 'Three lines of Defence' model for effective risk management and monitoring. First line of defence activities • Core set of business policies available on the Company's intranet – setting clear management expectations. • Maintenance of risk registers at business unit and function level. Risk registers maintained for major contracts. Second line of defence • An Enterprise Risk Management Policy is in place and available to employees. • An Enterprise Risk function is in place. • QHSE compliance functions operate to ensure adherence with the Company's QHSE policies. • Audit and risk committees operate at business unit level.
Internal Audit The Internal Audit function is responsible for providing assurance to the Audit Committee that the risk management, governance and internal controls processes are adequate and operating effectively.	Third line of defence Internal Audit acts as a third line of defence. • The Head of Internal Audit reports functionally to the Chair of the Audit Committee. • The Internal Audit function targets its work at areas of the business where risk management and internal controls are suspected of requiring improvement. In addition, the Internal Audit plan is linked with the Principal Risks to ensure adequate coverage of the risk areas. • The in-house Internal Audit team uses Grant Thornton as a co-sourced resource, where appropriate.

Principal risks and uncertainties

Risk 1: COVID-19

Failure to monitor, respond to and plan for the ongoing and any future impacts of the COVID-19 pandemic, in particular the effect on employees, customers and the supply chain, could result in severe consequences for the financial health and reputation of Mitie's business.

Impacts on strategic pillars: Customer, People, Cost, Technology

Change in year: NEW RISK

The COVID-19 pandemic has already had an unprecedented impact on businesses and economic activity across the world. Almost every business has seen uncertainty in revenues, supplies and employee availability. In common with most other businesses, Mitie has gone through a pattern of assessing the impact of the crisis, including the government imposed lockdown measures, seeking to establish new ways of working through the first phase and then starting to look at longer term plans once the UK lockdown starts to ease and business activity returns to more normal levels.

Whilst the business has taken measures to continue operating throughout the initial lockdown period, including utilising government support measures such as furloughing of staff, the uncertainty over the likely economic situation and business activity over the next 12 – 18 months makes cash forecasting and risk mitigation measures difficult. Given the nature of Mitie's business, the vast majority of the Group's operations are still continuing and supporting the colleagues engaged in these frontline activities has been the main priority, especially providing access to personal protective equipment. Ensuring the physical and mental wellbeing of all colleagues has been equally important.

It is important that Mitie continues to follow the advice from government and health organisations, and maintains dialogues with its clients and suppliers, as well as monitoring the liquidity and health of the business. As the pandemic passes through the next phases Mitie needs to closely monitor all the risks associated with business restarting and take effective mitigation actions on a timely basis.

Controls and mitigating actions

- Invocation of crisis management and business continuity plans
- Working groups established at business unit, functions and executive level to monitor ongoing impacts and direct actions – including weekly Board meetings
- Close working relationship with government through the Cabinet Office
- Coordinated support to critical infrastructure across the UK
- Regular dialogue with clients to understand their requirements
- Close monitoring of supply chain to ensure continuity of critical supplies
- Use of government support schemes
- Regular forecasting and reviews of revenue and cash
- Implementation of self-help measures, including overhead cost reduction programme, deferral of non-essential and uncommitted capital expenditure and a reduction in salaries of between 10% and 30% in relation to all employees earning £40,000 or more
- Decision not to recommend a final dividend in respect of FY 19/20
- Planned rights issue and associated agreements with the Group's lenders on covenants.

Future plans

- Ongoing monitoring of business operations over extended period
- Review of business structure and model over a variety of time frames and options

Risk 2: Funding

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

Impacts on strategic pillars: Customer, Cost, Technology

Change in year: INCREASED

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

There continues to be significant concern about the financial strength and viability of companies operating in the FM sector, following a number of high-profile financial and operational difficulties experienced by Mitie's competitors. Any actual or perceived weaknesses in Mitie's financial position could restrict the Group's access to finance or attract high interest rates.

Mitie has focused on maintaining strong financial discipline in the management of its working capital and investment decisions and on minimising its funding requirements. This has included working with the Group's back-office outsource partner to improve processes and efficiency.

The ongoing COVID-19 pandemic does not impact the availability of the Group's existing committed facilities but there is a risk that it affects Mitie's ability to raise further funding should the need arise.

Controls and mitigating actions

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

Future plans

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

Risk 3: Political

Uncertainty over the nature of the UK's future trading relationships with the European Union (EU) may adversely affect Mitie's market, as well as the availability of labour and materials.

Impacts on strategic pillars: Customer, People, Cost

Change in year: Amended risk – DECREASED

Mitie is exposed to uncertainties over the nature of the UK's future trading relationships with the EU following the transition period which commenced on 31 January 2020, the date on which the UK ceased to be a member of the EU. This may result in changes to the regulatory framework as well as, for example, restrictions in the supply of materials. In particular, new rules around immigration and rules around non-UK nationals working in the UK may adversely impact the supply of labour.

These changing relationships may also impact the decisions taken by both public and private sector clients on which activities should be outsourced and the amount of discretionary spend available for outsourcing activities. This may result in fewer opportunities for Mitie and have a consequential negative impact on the Group's financial performance.

It is important that Mitie is able to offer competitive, innovative and high-quality solutions to clients, and demonstrate the value it brings to them. Mitie also needs to carefully monitor and identify the most appropriate opportunities in both the public and private sectors.

Controls and mitigating actions

- Maintain blend of public and private sector clients
- Continue to leverage the most appropriate opportunities through the Crown Commercial Service frameworks to increase public sector contracts
- Dedicated Chief Government and Strategy Officer and team
- Regular reviews of sales opportunities by all business sales leaders
- Dedicated account managers to focus on growing integrated strategic accounts
- Focus on high-margin opportunities with growth potential
- Drive for greater customer retention and higher Net Promoter Scores through improvements in customer service
- Development of new and innovative service offerings

Future plans

- Maintain dialogue with key public and private sector clients to demonstrate the value offered by Mitie
- Invest, develop and deploy customer offerings, including technology, which can help in increasing customer retention

Risk 4: Data management

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

Impacts on strategic pillars: Customer, Cost, Technology

Change in year: Combined data management & cyber risk - INCREASED

An important risk for many companies is how people access/consume data, configure and test systems and adhere to processes, how they react to unusual or suspicious events. Although appropriate tools may be in place, if they are not used with appropriate skill and diligence it leaves an organisation exposed.

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

Mitie is continuing to invest in technology to improve the security of its business through alerting users of possible cyber-attacks or phishing attempts. A major step has been the upgrade of the Group's systems and hardware to meet the Government's Cyber Essentials Plus (CE+) requirements, which was achieved in June 2019. Additionally, Mitie's routine IT operations are now being undertaken by Wipro, a global and highly skilled outsource partner which has its own toolsets and experience in this area.

The migration of Mitie's IT systems to Microsoft Azure and Amazon Web Services cloud providers has also improved the business continuity and disaster recovery plans by leveraging their significant investments and expertise.

Mitie now has formal technical and procedural controls to ensure confidential and sensitive data is processed, transmitted and stored securely. These controls are deployed across the Group's IT systems and are subject to regular review and testing and help maintain compliance with the requirements of the General Data Protection Regulation (GDPR).

In general, the threat of cyber attack has increased in the UK retail and service sector due to companies adopting remote working and increased use of IT during the COVID-19 pandemic. Cyber criminals are adjusting their tactics to exploit the COVID-19 pandemic and are deliberately probing companies to find weaknesses in their IT systems and training of people. Mitie has already implemented a number of controls to further mitigate any possible system risks, for example the use of enhanced IT network monitoring tools and a new improved internet proxy, plus the people based risk has been addressed through employee education via regular communication.

Controls and mitigating actions

- Clear strategy to utilise leading edge cloud technology, delivering disaster recovery and business continuity improvements
- Outsourcing of routine IT operations to a highly skilled partner organisation, Wipro, to improve resilience and controls and maintain data standards
- Adoption of Microsoft and Wipro cyber toolsets and proactive monitoring and management of cyber threats
- Continued alignment with CE+ requirements, and Information Security Management System (ISMS) in place, processes consistent with ISO 27001 standards

- Internal processes and controls for all systems changes to ensure cyber best practice and GDPR compliance
- Upgrades to legacy systems to reduce complexity and improve management information
- Rationalisation and upgrade of ERP systems and infrastructure
- Centralised information security team and dedicated data privacy officers in place
- Cyber insurance policy
- Regular communications to employees to highlight IT risks and expected behaviours

Future plans

- Upgrade of the Technical Services operational and financial systems to improve security and efficiency
- Continue to leverage the existing toolsets to the fullest extent across the whole of the Mitie estate, removing niche legacy solutions

Risk 5: Health, Safety and Environment

Failure to maintain appropriately high standards in health, safety and environmental management may result in harm to employees, client staff or members of the public, and consequential fines and reputational damage.

Impacts on strategic pillars: Customer, People

Change in year: INCREASED

Mitie is committed to maintaining the highest levels of health, safety and environmental (HS&E) standards. The services which Mitie delivers could potentially present an increased risk of a health and safety incident involving its employees, client staff or even members of the public. Mitie's activities also carry a risk of damage to the environment. It is essential that these risks are managed in a highly diligent and effective manner.

At all levels in the organisation, safety is Mitie's number one priority. Mitie ensures that all risks are properly assessed and managed, its staff are trained and expectations of how they perform their work are clearly explained, and adherence to health and safety standards is regularly monitored. If these risks are not managed appropriately, they could lead to harm to individuals and damage to the environment, and consequently prosecution, fines and significant damage to Mitie's reputation.

The very high standards set by Mitie have been especially important during the COVID-19 pandemic, with a high focus on ensuring employees have access to personal protective equipment in performing their roles, as well as ensuring the highest health and safety standards are maintained for clients and the public.

Controls and mitigating actions

- A comprehensive Quality, Health, Safety and Environment (QHSE) strategy in place and under continual review for effectiveness
- Major cultural HS&E programme, LiveSafe, continuing, with clear rules, engagement and training for staff
- Regular training and communication delivered throughout the Group, in accordance with the LiveSafe principles
- Certified H&S management system to OHSAS18001 and environmental system to ISO14001
- Transition from OHSAS health and safety management system to ISO45001
- Deployment of an improved incident recording, monitoring and reporting system
- Regular HS&E reviews conducted at divisional and Group level
- Clear and standardised KPIs introduced to monitor progress and improvements
- Targeted QHSE procedural audit programme introduced
- Themes and root causes monitored from the results of audits to target specific actions, including training

Future plans

- LiveSafe e-learning training programme to be launched which sets out HS&E expectations including 'stop the job' supported by key safety message from the Chief Executive Officer, Phil Bentley
- LiveSafe Managers and Supervisors course introduced which includes H&S culture development model and proactive H&S management
- Introduction of Quality Culture programme looking into Cost of non-Quality and ensuring the right person is in the right place at the right time
- QHSE function to be 'Plan Zero Champions' as part of the Plan Zero programme to promote strategy and good practice in environmental management

Risk 6: Regulatory

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

Impacts on strategic pillars: People, Technology

Change in year: UNCHANGED

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

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

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

Controls and mitigating actions

- Regular monitoring of legal and regulatory changes by Group functions including Company Secretariat, Legal and QHSE
- Specialist legal and QHSE expertise aligned to business units
- Code of Conduct communicated to all employees
- Independent Expolink whistleblowing system available to all employees to report any concerns
- Group-wide policies updated for changes to laws and regulations and maintained in the online Business Management System (BMS)
- Regular and thorough internal and external regulatory audits
- Training and awareness materials communicated to employees via Mitie's digital Learning Hub and monitoring of completion performed, especially for mandatory courses

Future plans

- Ongoing review of BMS to update policies and procedures

Risk 7: Portfolio

Failure to maintain a diverse portfolio of clients and contracts. If the Group is overly reliant on a small number of contracts or exposed to a particular sector, Mitie's financial performance may be significantly adversely impacted by any business failure or disruptive events impacting a specific sector.

Impacts on strategic pillars: Customer, Technology

Change in year: NEW RISK

Whilst Mitie's business activities are almost exclusively located within the UK, services are offered to a wide and diverse variety of clients across both public and private sectors from central government to finance and professional services organisations. Mitie has a number of larger, and mainly IFM, contracts, where a wide variety of services are undertaken across substantial estates.

If Mitie has a substantial amount of revenue concentrated into a small number of large contracts, then the loss of even one of these would have a significant impact on its business. This could equally occur if Mitie's client base became focused on a particular sector that was to undergo a downturn.

Mitie's aim is to grow its portfolio of customers across both private and public sectors to ensure it has a balance of risk and opportunity and is not over reliant on a small number of customers from a narrow sector. Increasing the Group's exposure to activities in the public sector is a key objective for FY 20/21.

Controls and mitigating actions

- Executive management bid committee approval for all significant new and existing bids
- Sales and CRM teams focused on developing pipeline across all major sectors
- Improved CRM capabilities with active relationship management
- Improved sales and pipeline management information to track and measure growth, wins and losses
- Win/loss analysis to improve sharing of learnings and win rates
- Appointment to Crown Commercial Services frameworks FM RM3830 and Security RM6089
- Appointment to the Prison Operator Services framework
- Chief Government & Strategy Officer to coordinate all interfaces with the Cabinet Office
- Focus on high-margin opportunities with growth potential, for example technology-led solutions
- Drive for greater customer retention and higher Net Promoter Scores, through improvements including customer feedback and effective action planning
- Development of new and innovative service offerings

Future plans

- Continue to pursue suitable opportunities on the Crown Commercial Services frameworks
- Implementing the Mitie way of selling and retaining work and developing and sharing best practice
- Accelerating value creation through a greater understanding of customers' needs
- Target emerging markets
- Continue to engage with opportunities that have scope for innovative solutions
- Continue activities around thought leadership events

Risk 8: Market share

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

Impacts on strategic pillars: Customer, People, Technology

Change in year: Combined market share and market sentiment risks – UNCHANGED

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

Additionally, there is also the possibility of a new entrant, potentially with a stable process environment and significant financial strength, disrupting the market by deploying a new low cost business model for FM, potentially through a technology platform, which would challenge the structure and approach of the existing organisations, including Mitie. This would also potentially significantly erode Mitie's market share and decrease new opportunities.

Some Mitie business areas are still manual process driven and inefficient. Therefore, it is important that Mitie continues to prioritise the transformation of its business, particularly improving processes and simplifying business structure, focus on minimising costs and develop innovative solutions for clients. Through such initiatives, including Project Forte, Mitie will be able to deliver genuine value for current and future clients.

Controls and mitigating actions

- Continued focus on simplifying business processes and structure to transform business areas such as Project Forte in Technical Services
- Investment in new and innovative technologies
- Focus on client relationships and Net Promoter Score
- Deployment of strategic account managers for key contracts
- Regular reviews of the sales opportunities arising
- Standard processes and tools for sales and CRM teams

Future plans

- Successfully execute Project Forte, thereby improving IT systems and processes in Technical Services
- Continue to develop public sector opportunities and portfolio
- Develop new intelligence report network for key clients
- Increase activities around thought leadership events
- Enhance overall company profile through the British Security Industry Association and the Security Industry Authority

Risk 9: Structural complexity

Mitie has traditionally not leveraged its technology, resulting in complex manual processes and an organisational model with variability in documentation and application of internal controls and a misaligned cost base. Failure to deliver major process and system improvement programmes successfully could lead to lower benefits than anticipated, higher costs and weaknesses in operational processes and controls.

Impacts on strategic pillars: Customer, People, Cost, Technology

Change in year: DECREASED

The historical business and organisational model adopted by Mitie has resulted in a large number of unnecessary complexities, including multiple and inconsistent processes and controls, with variable documentation, isolated IT systems, and unclear organisational and reporting structures. These complexities have required a disproportionately high cost base in order to maintain them.

In order to ensure that Mitie continues to simplify, standardise its business, improve performance and control costs, it has commenced programmes to replace IT systems and enhance processes, predominantly through Project Forte within Technical Services. The programmes contain a number of initiatives designed to upgrade key operating and financial systems, and improve and optimise business processes, controls and operating structures.

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

Controls and mitigating actions

- Board and Executive Leadership Team (ELT) sponsorship and regular monitoring of Project Forte and Oracle to SAP programmes
- A newly created Quality Improvement Council (QIC), tasked to review and simplify end to end processes and integration of existing systems
- Continued investment in and benefits delivery from the QIC programme
- Experienced programme managers to establish an overall programme management office, with effective governance, controls, monitoring mechanisms and reporting
- Experienced staff members dedicated to the programme to allow focus on the improvement 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
- Integration of systems, for example SuccessFactors now integrated with WVP+, Smart Recruiters, Microsoft Active Directory and Mipayslips

Future plans

- Continued identification of additional areas of process improvements

Risk 10: Incident at client site

A high-profile incident or accident occurring at an FM client site, or a location operated by the Care & Custody business, as a result of negligent staff actions, inconsistent vetting or ineffective training and communications for staff, could have a significant impact on Mitie's reputation and current and future contracts.

Impacts on strategic pillars: Customer, People, Cost

Change in year: UNCHANGED

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

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

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

Controls and mitigating actions

- Custodial operations working within Standard Operations Procedures (SOP), bespoke to each site for the Care & Custody business
- Contingency plans are regularly tested and compliance to SOPs regularly audited for Care & Custody sites
- Health and safety strategy – LiveSafe programme continues as part of the strategy
- Certified H&S management system to OHSAS18001 and environmental system to ISO14001
- Transition to new ISO45001 health and safety management system
- Effective vetting programme tailored to the individual risks of each client and site
- Tested business continuity and crisis response plans
- Comprehensive training plans on safety, security and risks
- Regular updates to staff on new safety and operational requirements
- Internal and external compliance audits
- Standardised and comprehensive investigation process
- Themes and root causes monitored from the results of audits to target specific actions, including training
- *Critical Engineering and Technical Assurance (CETA) team created in Technical Services to help manage high-risk contracts*
- Technical Appointments framework used in Technical Services to ensure the correct capability/resources are deployed on customer sites/contracts to help mitigate risks

Future plans

- Review and enhancement of business continuity and crisis response plans, to include specific learnings from the ongoing COVID-19 pandemic response
- LiveSafe e-learning training programme to be launched setting out HS&E expectations
- LiveSafe Managers and Supervisors course introduced which includes proactive H&S management, driving behaviours and coaching and communication skills training
- Introduction of Quality Culture programme aligned to the LiveSafe programme
- Incident management process to be implemented in Technical Services

Risk 11: Employees

Inability to recruit, retain and reward suitably talented employees, as well as failure to implement appropriate development plans and simple, consistent processes across the business and cultivate a One Mitie culture, could result in employees being disengaged and negatively impact the Group's operational and financial performance.

Impacts on strategic pillars: People

Change in year: DECREASED

It is important for the success of its business that Mitie continues to recruit, develop, motivate and retain talented individuals. If it is unable to do so there will be an adverse impact on the profitable and successful delivery of the Group's contracts, and Mitie will be limited in its ability to win future opportunities and grow the business.

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

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

An important element of the culture is continuing to promote a 'One Mitie' way of operating and collaborate effectively across the business. This will give greater consistency in processes and controls, ensure staff are engaged positively in change initiatives and allow for seamless movement of staff across the Group.

Controls and mitigating actions

- HR structure streamlined and partially devolved to business units
- Consistent HR resourcing process and system across the Group
- Online training and development hub
- Simplified approach and consistent process to both temporary and permanent recruitment
- Launch of new induction programme, mandatory for new starters
- Regular communications from leadership team – including ELT country-wide roadshow
- Specific plans developed to address results of employee survey
- Competitive remuneration, terms and conditions
- Regular employee offers
- Training and development programmes for senior leadership
- Developed talent identification, management and development plans
- Succession plans in place for critical roles, especially for senior leadership
- Clear performance management framework

Future plans

- Further enhance online HR and training systems
- Salary benchmarking to be undertaken
- New competency framework to be developed
- A banding and grading framework to be introduced to align and integrate talent and reward management programmes across Mitie

Risk 12: Contract losses

Failure to produce bids for contracts which are competitive, financially viable and have a balanced approach to risk, and/or deliver on contract obligations may damage client relationships, which may lead to failure to win new work or cancellation of contracts resulting in financial losses.

Impacts on strategic pillars: Customer, People, Cost, Technology

Change in year: UNCHANGED

In order to deliver consistent and profitable growth, it is important that Mitie continues to bid for and secure contracts at acceptable margins. It is also essential that contracts are successfully mobilised and delivered. In order to achieve this, Mitie must monitor and control costs, deliver on its contract obligations and meet client expectations.

Mitie needs to develop competitive bids, which provide a fair balance of risk and reward, that is properly reflected within the contract terms and conditions. Mitie's offering needs to be compelling and innovative and provide a balance between cost and margin pressure, which is a key feature of the FM sector. It is also important to make sure Mitie has the skills and resources available to successfully execute on its contracts.

Once contracts have been mobilised, Mitie needs to closely monitor a relevant set of Key Performance Indicators (KPIs) to ensure it is delivering on the contract obligations and communicating with clients to understand if they are satisfied with the Group's performance. It is also important to thoroughly assess and agree any variations to the contract services and terms and amend the KPIs accordingly.

If Mitie is unable to deliver the services as agreed in its contracts, it could negatively impact the Group's customer relationships and reputation and lead to legal disputes and termination of contracts. This would then lead to potentially failing to retain existing clients or secure new contracts, with a detrimental effect on Mitie's financial performance.

Controls and mitigating actions

- Executive management bid committee approval for complex bids
- Robust risk assessment of bids
- Detailed contracting guidelines developed and rolled out
- Clear delegated authorities register
- Sales and CRM teams focused on bidding at acceptable margins and contract terms
- Sales Academy in place to train sales teams
- Use of specialist mobilisation teams for complex contracts
- Strategic account management
- Risk registers in place for large-scale contracts
- KPI/SLA formal reviews with customers
- Improved CRM capabilities with active relationship management
- Focus on Net Promoter Score
- Review of any loss-making contracts to ensure learnings are identified and applied to future bids

Future plans

- Develop Mitie way of selling services and retaining customers
- Developing and selling new products

Risk 13: Social impact

Failure to consider appropriately the environmental and social impact of Mitie's business and its activities may create a negative perception with employees, clients, investors, government and the general public. This could lead to failures in securing and retaining contracts and sources of funding, as well as impacting negatively on the Group's reputation.

Impacts on strategic pillars: Customer, People, Technology

Change in year: NEW RISK

It is very important that Mitie understands and monitors the social and environmental impact of its business activities, and takes into consideration the views of employees, clients, suppliers, investors and the wider public on these matters. The role that businesses play in society is now, more than ever, being closely monitored by a number of groups and several measures and indices have begun to be utilised. These are increasingly being used in decisions to award contracts, and to drive investment and funding decisions.

As a business Mitie needs to make sure it is a valued member of society and minimises its impact on the environment. Failure to do so may affect its reputation and financial performance, through inability to attract suitably skilled employees, failure to maintain and grow the business and fines for non-compliance with relevant legislation.

Controls and mitigating actions

- Launch of Plan Zero to reduce carbon emissions, with a target of Net Zero Carbon by 2025 which is 25 years ahead of the UK government's target of 2050
- Conversion of fleet vehicles to electric – Mitie already has more than 350 EVs on the road and over 600 additional EVs on order
- Social Value & Responsible Business Committee of the Board as well as a Plan Zero steering group
- Targets in place for Mitie's four social value framework pillars
- Active apprenticeship scheme across the Group
- Mitie Foundation
- Key policies in place including ethical business conduct and sustainability, as well as Code of Conduct
- Learning and People Hubs to support employees' development and wellbeing

Future plans

- As part of its Plan Zero commitment Mitie will continue to convert its fleet to zero carbon
- Review performance against social value targets and drive for ambitious but achievable goals

Viability statement

The Group's principal markets and strategy are described in detail in the Strategic Report on pages 2 to 94.

The key factors affecting the Group's prospects are:

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

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

In making this statement, the Directors have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This includes the availability and effectiveness of mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on pages 122 to 126, are considered.

As set out in the Chief Executive's strategic review (pages 17 to 23), the COVID-19 pandemic is having an impact on Mitie's business. In some instances, this has led to an increase in demand for Mitie from critical services, such as supermarkets, on-line retailers, COVID-19 NHS Nightingale hospitals and testing centres. Conversely, discretionary variable work and engineering projects, including painting and roofing, have seen a significant slowdown, and many offices and retail outlets have been closed during lockdown impacting Mitie's revenues.

In this context, the three-year plan has been revised to take account of the expected impact of COVID-19. In undertaking its viability assessment, the Directors have used this revised three-year plan as the base case.

The base case assumes that COVID-19 will have an adverse impact on revenue of approximately 20% for the first six months of FY 20/21, before beginning to recover, with Technical Services being most significantly impacted given its higher proportion of discretionary variable work and projects compared with the other divisions. The base case also assumes a deterioration in gross margin and a reduction in cash flow associated with slower payment by customers.

The base case also factors in the actions being taken in response to the anticipated revenue reduction, to mitigate the profit and cash flow impacts including the furloughing of employees, cost saving initiatives to reduce overheads, deferral of non-essential costs and uncommitted capital expenditure, pay reductions for the Board and higher earning employees for a period of time, deferral of tax payments and no final dividend being recommended for FY19/20.

Given the uncertainties related to COVID-19 in terms of the duration and depth of impact, a Reasonable Worst Case (RWC) downside scenario was also considered as part of the viability assessment. This RWC downside scenario assumed a second and no less severe period of disruption, resulting in COVID-19 having an adverse impact on revenue of approximately 35% for FY 20/21 before beginning to recover. The RWC downside scenario also assumed a net negative cashflow impact on

working capital of approximately £140m, excluding the tax deferred under HMRC's Time to Pay scheme. Further mitigation actions that would be taken in this scenario were also factored in.

As a result of uncertainty related to COVID-19, the Group is announcing its intention to launch an underwritten rights issue to raise £201m before transaction costs, amendments to its financial covenants and a resizing to £250m and extension of the maturity date of its revolving credit facility to 16 December 2022.

Approval of the resizing and extension of the maturity date of its revolving credit facility, and the covenant waivers, are conditional on the rights issue being approved by shareholders at the General Meeting on 13 July 2020. The underwriting of the rights issue is also conditional on shareholder approval.

Even in the event that the rights issue is not successful and shareholder approval is not received, if the base case is achieved the Group would still have sufficient liquidity to continue to operate as a going concern, albeit there would be the need to seek covenant waivers from the lending banks, or consider other sources of long term funding. The Group would also not be in a position to withstand significant downside.

Based on the Covid-19 assumptions, projections for viability purposes have been made using prudent assumptions:

- Modest revenue and margin growth beyond FY21;
- A gradual normalisation in working capital;
- Settlement of existing provisions according to our best estimates together with funding costs for ongoing transformation activities;
- No changes to group structure; and
- No additional capital beyond current committed debt facilities.

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

Our revised £250m revolving credit facility and £121.5m of US Private Placement notes mature in the forecast period. The Directors consider it reasonable to assume that the revolving credit facility, operated for general business purposes, will be refinanced on materially similar terms. The Group also utilised £61m of invoice discounting at 31 March 2020, 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 working capital outflow required to cause a breach of leverage covenant, in combination with the reduced revenue scenario.

	Scenario	Principal risks
1	Loss of major contract – lost revenue and operating profit in all future periods	7,9,13
2	Major client insolvency – lost revenue, operating profit and cash flow, plus one-off costs equivalent to 3 months' revenue	n/a
3	Major working capital outflow - £100m	2,13
4	10% revenue reduction	3,4,5,6,7,8,9,10,12,13
5	Margin erosion	3,4,5,8,9,10,11,12
6	Reverse stress test – revenue loss and working capital outflow in combination to covenant breach	n/a
7	COVID-19 downside scenario	1

In each of scenarios 1 to 5 and 7, the Group was able to continue operating within debt covenants and liquidity headroom. 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, overhead cost savings and reductions in cash distributions or raising equity.

Scenario 6 required such an extreme set of factors in unison that it is considered to be a remote likelihood and therefore does not represent a realistic threat to the viability of the Group. In reaching the conclusion of remote the Directors considered the following:

- Current trading is performing above the base case;
- The reverse stress test scenario would require a decline of approximately 30% in FY 20/21 against the base case, which is considered to be very severe given the high proportion of Mitie's revenue that is fixed in nature;
- Given the significant economic impact of the first period of disruption caused by COVID-19, and the need to restart national economic activity, any impact from a second period of disruption is now expected to be less severe; and
- In the event that results started to trend significantly below the base case, there are additional mitigation actions available to management that would be implemented, which are not factored into the reverse stress test scenario.

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 to 31 March 2023.

However, the requirement to obtain formal shareholder approval at the General Meeting on 13 July 2020 indicates that material uncertainty exists over going concern in relation to the rights issue. Further details of the going concern assessment are set out in Note 1 to the financial statements. If the rights issue were to be successful, this would remove the material uncertainty.

The Strategic report on pages 2 to 94 of Mitie Group plc, company registration number SC019230, was approved by the Board of Directors and authorised for issue on 25 June 2020.

It was signed on its behalf by

Phil Bentley
Chief Executive Officer

Andrew Peeler
Chief Financial Officer

Governance

Chairman's introduction to governance and the Board

Overview

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

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

UK Corporate Governance Code and statement of compliance

The Board welcomes the introduction of the UK Corporate Governance Code July 2018 (the Code), which applied to the Company as a company with a premium listing on the London Stock Exchange with effect from 1 April 2019. The Code can be found on the Financial Reporting Council's website at www.frc.org.uk. The structure of the governance section of this Annual Report follows that of the Code. Pages 103 to 127 provide details of Mitie's governance framework and how we have applied the Code's principles and complied with its provisions. Additional details can be found throughout this Annual Report. Relevant sections of the Code are applied to Mitie's subsidiary companies where appropriate.

I confirm on behalf of the Board that throughout the year ended 31 March 2020 the Company complied with all the requirements of the Code.

Stakeholder engagement and Section 172 statement

As a Board, we remain committed to best practice corporate governance, stakeholder engagement and the long-term delivery of sustainable shareholder value. Effective engagement enables the Board to ensure stakeholder interests are considered when making strategic decisions. In the Annual Report and Accounts 2019, we reported that a stakeholder 'map' had been collated, detailing the Group's key stakeholders along with the engagement mechanisms in place. This has been reviewed during FY 19/20 and the Board remains confident that it remains fit for purpose. Please see page 45 for more details.

The stakeholder map has supported the Board's inclusion of the required Section 172 statement within this Annual Report. Accordingly, I am pleased to draw your attention to the Section 172 statement set out on page 70 which details the Board's approach to decision making and how Mitie seeks to maintain its relationships with stakeholders. Further, the statement provides information on how outcomes from stakeholder engagement reach the Board and specific examples of key decisions made by the Board during FY 19/20 including how stakeholder views were considered and the impact of those views on the decision made.

Jennifer Duvalier continues to act as the Company's designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce. Jennifer has undertaken several initiatives during the year to establish communication channels with the workforce ensuring that the views of those on the frontline are heard and understood. Jennifer provides the Board with an update at each Board meeting so that these views are regularly voiced at Board-level and can be incorporated into the Board's decision-making process. Between meetings, notes from Jenny's visits are made available to the Board via the electronic board portal.

Board composition

On 2 January 2020 we welcomed Andrew Peeler to the Board as Chief Financial Officer to replace Paul Woolf. Further details on Andrew's appointment can be found on page 129.

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

External Board evaluation

The Board is committed to ensuring upmost effectiveness and has engaged an independent consultant, Belinda Hudson, to conduct an external Board evaluation. Due to COVID-19, the evaluation will now take place in FY 20/21 and will assess the effectiveness of the Board as a whole, its Committees and individual members. The outcomes and future objectives from the evaluation will be shared in Mitie's *Annual Report and Accounts FY 20/21*.

Derek Mapp

Chairman

Board biographies

Derek Mapp

Non-Executive Chairman

Board Committees

Chairman of the Nomination Committee

Date of appointment to the Board

9 May 2017

Other current appointments

Derek is Chair of Informa plc and private company Imagesound Limited. Derek also has several other private business interests.

Past roles

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

Skills and experience

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

Phil Bentley

Chief Executive Officer

Board Committees

None

Date of appointment to the Board

1 November 2016

Other current appointments

None

Past roles

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

Skills and experience

- Executive and non-executive experience with FTSE 100 companies for over 19 years
- Significant strategic and commercial experience at both national and global level
- Extensive executive and leadership experience from across industry
- Extensive financial, audit and risk management systems experience
- Accountant by profession, with a master's degree from Oxford University and an MBA from INSEAD, Fontainebleau

Andrew Peeler

Chief Financial Officer

Board Committees

None

Date of appointment to the Board

2 January 2020

Other current appointments

Andrew is director and chair of the Finance Committee of Fair Finance, a leading micro finance social enterprise.

Past roles

Andrew was Chief Executive Officer of Yodel from January 2018 to September 2019, having previously been Chief Financial Officer from September 2017. Prior to this he held several senior executive and board positions in Europe, America and Australia including with Bupa, Premier Foods, Cadbury Schweppes and Unilever.

Skills and experience

- A well-regarded leader with broad commercial and financial experience
- Strong operational and strategic oversight and execution
- A proven track record in business expansion and transformation
- Qualified as a chartered global management accountant

Nivedita Krishnamurthy Bhagat

Independent Non-Executive Director

Board Committees

Member of the Nomination Committee

Member of the Audit Committee

Date of appointment to the Board

1 June 2017

Other current appointments

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

Past roles

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

Skills and experience

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

Baroness Couttie

Independent Non-Executive Director

Board Committees

Chair of the Social Value & Responsible Business Committee

Member of the Nomination Committee

Member of the Audit Committee

Date of appointment to the Board

15 November 2017

Other current appointments

Baroness Couttie is a member of the House of Lords and party whip. She is also a member of the House of Lords European Union Committee and EU Services Sub-Committee.

In addition to this, Baroness Couttie is a Commissioner with the Guernsey Financial Services Commission and a member of their Investment Committee and Audit Committee. Baroness Couttie also chairs The Mitie Foundation.

Past roles

Baroness Couttie led Westminster City Council from 2012 to 2017. She joined the Council in 2006 and has previously served as Cabinet Member for Finance, Cabinet Member for Housing and Deputy Cabinet Member for Children's Services. Baroness Couttie was also a member of the Polling and Digital Media Select Committee from 2017 to 2018, and a member of the Greater London Authority Crime Reduction Board from 2012 to 2014.

Prior to progressing her career in public service, Baroness Couttie was a director at Citigroup after she left Schroders, where she headed up its principal finance business. She was also previously Chief Executive of both Cornerstone Communications and PR Consultants.

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

Skills and experience

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

Jennifer Duvalier

Independent Non-Executive Director

Board Committees

Chair of the Remuneration Committee

Member of the Nomination Committee

Date of appointment to the Board

26 July 2017

Other current appointments

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

Past roles

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

Skills and experience

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

Mary Reilly

Independent Non-Executive Director

Board Committees

Chair of the Audit Committee

Member of the Nomination Committee

Member of the Remuneration Committee

Date of appointment to the Board

1 September 2017

Other current appointments

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

Past roles

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

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

Skills and experience

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

Roger Yates

Senior Independent Director

Board Committees

Member of the Nomination Committee

Member of the Audit Committee

Member of the Remuneration Committee

Date of appointment to the Board

1 March 2018

Other current appointments

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

Past roles

Roger started his career in asset management at GT Management in 1981 and held positions of increasing seniority at Morgan Grenfell, LGT and Invesco. He served as Chief Executive of Henderson Group plc from 1999 to 2008 and as Chief Executive of Unicredit's asset management arm, Pioneer Investments. Roger's non-executive roles have included F&C Investments, IG Group plc, Electra Private Equity plc and JPMorgan Elect plc.

Skills and experience

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

Peter Dickinson

Chief of Staff, General Counsel & Company Secretary

Board Committees

Member of the Social Value & Responsible Business Committee

Date of appointment

6 March 2017

Other current appointments

None

Past roles

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

The Code: Board leadership and company purpose

Governance at a glance

Company purpose

As detailed on page 2 of the Strategic report, the purpose of the Company is to use expertise, care, technology and insight to create amazing work environments, helping its customers be exceptional, every day.

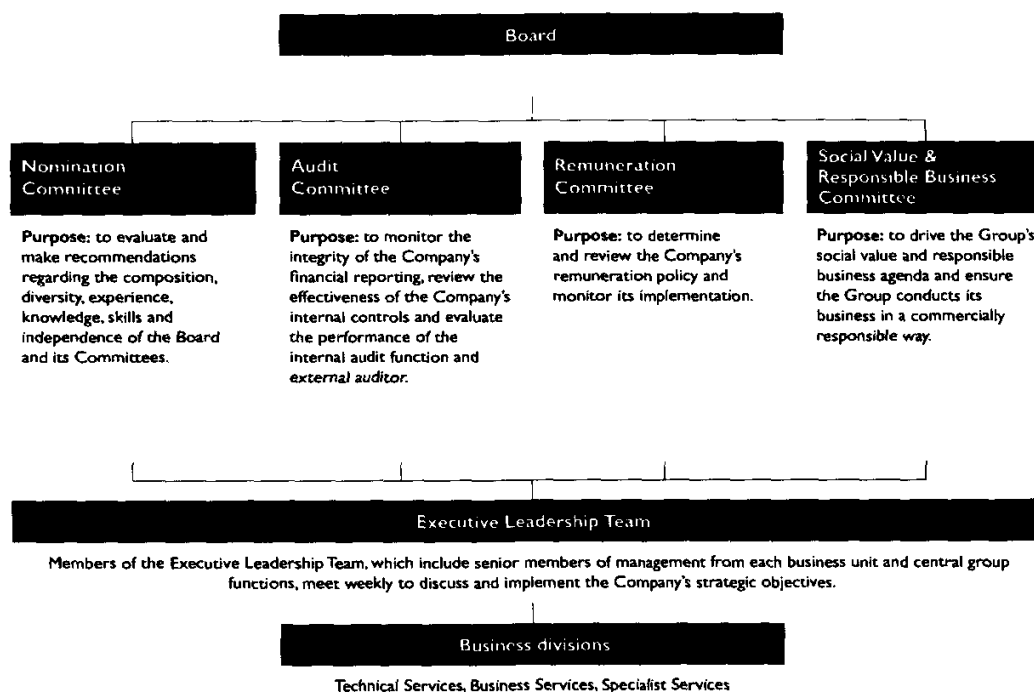
Purpose of the Board

The purpose of the Board is to provide leadership and direction to the Group's management within a framework of controls which enable risk to be adequately assessed and managed. The Board is responsible and accountable to shareholders for the sustainable long-term success of the Company. The purpose of each Committee that the Board has delegated parts of its responsibilities to is summarised below and set out in more detail in each Committee's report.

Governance framework

The Company's formal governance framework underpins the Company's operations. In addition to the four Board Committees detailed below, the Board has a Disclosure Committee which meets on an ad hoc basis (further detail can be found on page 164) and an informal Bid Committee. The Bid Committee comprises of the Chief Executive Officer, Chief Financial Officer, Chief of Staff, General Counsel & Company Secretary, Chief Government & Strategy Officer and members of the sales team. The Bid Committee meets weekly to consider any material bid submissions and to determine whether such bids meet the Group's financial, commercial and legal objectives.

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



Read more:

Board	Pages 103-127
Nomination Committee	Pages 128-130
Audit Committee	Pages 131-140
Remuneration Committee	Pages 141-161
Social Value & Responsible Business Committee	Pages 162-163

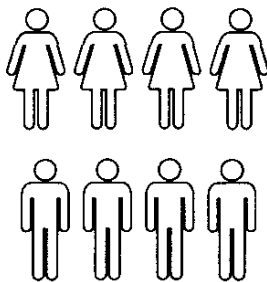
Membership of Board Committees

Position	Name	Nomination Committee	Audit Committee	Remuneration Committee	Social Value & Responsible Business Committee*
Chairman	Derek Mapp	Chair	–	–	–
Executive Directors	Phil Bentley	–	–	–	–
	Andrew Peeler**	–	–	–	–
	Paul Woolf**	–	–	–	–
Independent Non-Executive Directors	Nivedita Krishnamurthy Bhagat	Member	Member	–	–
	Baroness Couttie	Member	Member	–	Chair
	Jennifer Duvalier	Member	–	Chair	–
	Mary Reilly	Member	Chair	Member	–
	Roger Yates	Member	Member	Member	–

* Membership of the Social Value & Responsible Business Committee includes senior management as detailed on page 162.

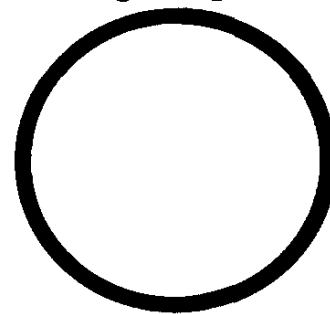
** Andrew Peeler was appointed to the Board on 2 January 2020 and replaced Paul Woolf.

Gender diversity



● Female	4
● Male	4

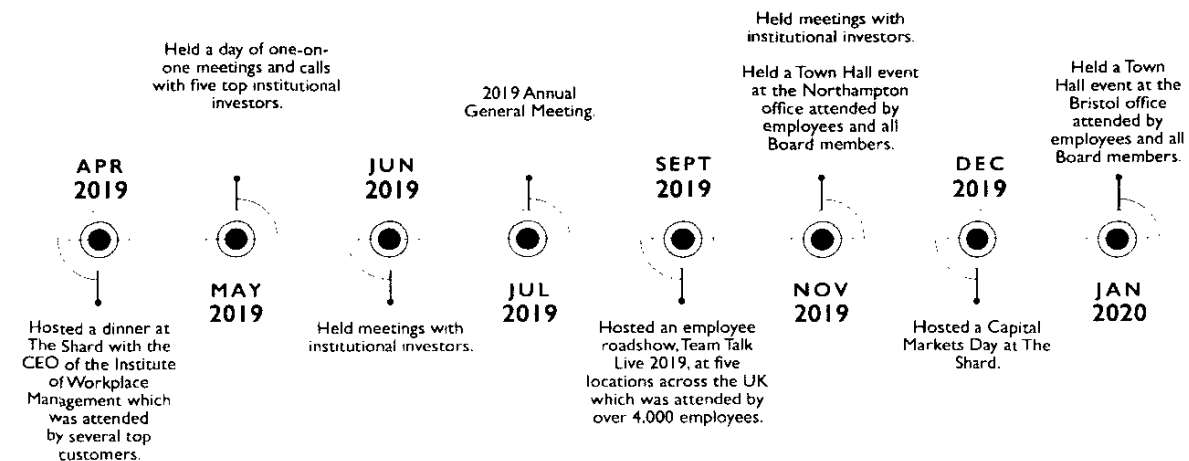
Director age range



● 41-50 years	1
● 51-60 years	3
● 61-70 years	4

Board activities: Stakeholder engagement

Members of the Board attended several stakeholder events during FY 19/20 as detailed below.



The Code: Board leadership and company purpose (continued)

Setting strategy

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

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

- Market overview
- Customer trends
- Competitor environment
- Investor sentiment and shareholder returns
- Divisional business strategies
- Finance
- People and talent

An offsite strategy day was held in September which all Directors attended. On the day, the Board discussed the Group's strategic methodology and recommendations, target operating model and execution risks.

How governance contributes to the delivery of strategy

Details of how opportunities and risks to the future success of the business have been considered and addressed, and the sustainability of the Company's business model can be found in the Strategic report on page 11. Mitie's governance framework underpins the delivery of strategy and can be found on page 104. An overview of Mitie's strategy in action can be found on page 16.

Boardroom discussions

The Board held seven scheduled meetings during FY 19/20. Individual Director attendance at each meeting and a timeline setting out stakeholder related events attended by members of the Board can be found on pages 114 and 105. Other Board activities during FY 19/20 include those set out below. In undertaking their duties, the Directors act in a way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders as a whole, having regard also to other stakeholders.

Strategic pillar:

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

Corporate transactions

The Board debated and approved the:

- Acquisition of Global Aware
- Sale of the catering business and agreement to enter a strategic partnership with CH&CO.

COVID-19

At its March 2020 meeting the Board discussed the operational impacts of COVID-19 and the measures needed to ensure Mitie's businesses would be able to continue to operate with minimal disruption and deliver essential services to clients. The Board has held weekly update calls on this since the end of FY 19/20.

Net Promoter Score

A Net Promoter Score survey was conducted, the results of which were discussed by the Board at its June 2020 meeting. The survey involved 1,000 clients being asked how likely they were to recommend Mitie to a friend or colleague.

People: Create a 'great place to work' for our employees

Employee engagement

The Board received and discussed the results of the March 2019 employee engagement survey, Upload, and agreed actions to be taken. Regular updates on employee related matters, including learning and development, rewards and benefits, MiReview appraisal outcomes and talent and recruitment, were also received and discussed.

COVID-19 At its March 2020 meeting the Board discussed the impacts of COVID-19 on employees, including on their health and safety, and employee views communicated through 'Grill Phil'. The Board has held weekly update calls on this since the end of FY 19/20.

Social value The Board established a formal Social Value & Responsible Business Committee in June 2019. The Committee reviewed the operating model for social value within Mitie, which includes five social value pillars: Employment, Responsibility, Community, Environment and Innovation. Baroness Courtie provided a verbal update at every Board meeting. Read more on pages 162 to 163.

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

SAP implementation The Board was regularly updated on the project to move Engineering Services off the Oracle finance platform onto SAP. Implementation of SAP is expected to bring better control as it allows greater automation and control of transaction processes. This project was paused in March 2020 for six months for reasons set out in the Strategic Report.

COVID-19 At its March 2020 meeting the Board discussed measures to be taken to preserve the financial strength of the Group in light of developments in the COVID-19 outbreak. The Board has held weekly update calls on this since the end of FY 19/20.

Results and dividends The Board reviewed and approved the half-yearly financial report and Annual Report and Accounts and associated dividends.

Budget The Board delayed the review and approval of the Group's budget for FY 20/21 from its March 2020 meeting to its June 2020 meeting to allow the impacts of COVID-19 to be more fully considered.

Technology: Embed technology into the heart of our offering

Project Forte The Board was regularly updated on Project Forte, the digital transformation and modernisation of the technology infrastructure for Engineering Services. This project was paused in March 2020 for six months for reasons set out in the Strategic report.

Technology suite The Board was updated on developments with its Connected Workspace technology solutions, including with live demonstrations. The Board also visited Mitie's Global Security Operations Centre in Northampton.

Standing agenda items:

Committee and Designated NED updates	At every Board meeting a verbal update was provided by the chair of each Board Committee. Updates included: • Overview of the Committee meeting • Recommendations from the Committee requiring approval by the Board • Employee views from the frontline voiced by Jennifer Duvalier in her role as the Company's designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce
Chief Executive Officer's update	At every Board meeting the Chief Executive Officer presented a paper on topics such as: • Financial highlights • Business development • Sector considerations • Customers • Sales • Divisional updates
Chief Financial Officer's update	At every Board meeting the Chief Financial Officer presented a paper on topics such as: • Financial performance of the Group • Finance structuring review • Finance modernisation
Company secretarial and legal updates	At every Board meeting the Chief of Staff, General Counsel & Company Secretary presented a paper on topics such as: • Whistleblowing • Material litigation • Modern Slavery Act Statement • Task Force on Climate-related Financial Disclosures; • GDPR • July 2018 UK Corporate Governance Code • Companies Act 2006 Section 172 considerations

	• Other governance and regulatory highlights
QHSE update	A paper on QHSE matters was prepared for every Board meeting on topics such as: • Key indicator statistics • Any significant incidents/accidents • Quality and assurance • QHSE strategy • Reportable and recordable events
Investor relations, corporate affairs and internal communications	An investor relations report was prepared for every Board meeting on topics such as: • Appointment of new brokers • Share price performance • Shareholder engagement • Share register analysis • Sector news • Investor feedback • Media coverage • Internal communications

Culture at Mitie

Culture at Mitie is underpinned by its purpose and promises.

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

Promise to our customers: A trusted partner creating exceptional environments for your customers and people, adding value every day.

Promise to our colleagues: A place to work where you can thrive and be your best every day.

All Directors lead by example and promote the desired culture.

How the Board assesses and monitors culture

Mitie's core values help define the behaviours of its people and underpin its vision of **The Exceptional, Every Day**. An important element of Mitie's culture is establishing a 'One Mitie' way of operating across the business. The 'One Mitie' way leads to consistent, high quality and relevant information flows across the business (see more on Mitie's values on page 49).

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

Ethics, whistleblowing, fraud and bribery

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

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

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

All reports are copied to the Deputy General Counsel, to ensure transparency and enable any trends across different divisions and functions to be identified and addressed. An update on whistleblowing

activity is provided to the Board at every Board meeting and to the Executive Leadership Team as appropriate. The update to the Board includes details of incident reports received in the period between meetings, together with aggregated details of all reports received since the launch of the service in September 2017.

QHSE/Livesafe

The health and safety of its people is the highest priority for Mitie as a business. Mitie is constantly striving to develop a zero-harm workplace. Coordinated by Mitie's QHSE team, the LiveSafe programme was launched in December 2018. This highlights the importance of workplace safety and was developed out of the need to constantly improve QHSE performance across the business. In FY 18/19 a non-financial QHSE KPI was introduced to the Group's reporting; the all injury frequency rate (see page 26).

Measuring culture

Board members have been on several site and office visits during FY 19/20, as well as attending Team Talk Live 2019, a roadshow at five locations across the country. These visits enabled Board members to experience Mitie's culture first-hand, respond to questions and seek feedback from employees.

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

Alignment of remuneration and culture

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

Details on the Company's approach to investing in and rewarding its workforce are set out on pages 49-54 and Mitie's Real Living Wage commitment on page 61.

Views of employees

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

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

Date	Action
March 2019	2019 Upload engagement survey launched. The survey is open to all employees and can be completed through several different mediums to enable maximum participation.
June 2019 – October 2019	Survey results were presented to the Board at its meeting in June 2019. The Board agreed proposed next steps and a plan for the year to address the areas identified.
	As the designated Non-Executive Director for workforce engagement, Jennifer Duvalier has worked closely with management on the results of the survey, meeting numerous times in FY 19/20 to discuss progress on planned activities. Jennifer has also been out and about meeting colleagues across the business to understand any current or emerging matters. Jennifer provides the Board with an update on her activities undertaken in respect of this role at every Board meeting. More information on Jennifer Duvalier's activities during FY 19/20 is included on page 112.

November 2019	The 'You Said, We Did' campaign was launched to highlight the work done by management between June and November to address the five key areas of focus identified from the Upload survey results. The campaign, which was communicated to employees via Mitie's various communication channels, identified the initiatives introduced as a direct response to employee feedback, including; the publication of Mitie's first Social Value Report; the launch of the 'One Mitie' approach to Learning and Development; the formation of a Quality Improvement Council to tackle processes, systems and data issues; a new Communications Hub; the Team Talk Live events covering new locations across the UK; the new 'Celebration Hub' for employee recognition; and a new communications process for maternity leave.
December 2019 - March 2020	Periodic updates on the 'You Said, We Did' campaign initiatives were communicated to all employees, actively encouraging them to respond to the updates with further feedback on how the initiatives were progressing and their thoughts on the impact the plans were having, both positive and negative. This allowed management to review, consider and shape the initiatives to ensure they continued to effectively address the initial feedback received during the Upload survey. At the March 2020 Board meeting, the Board discussed the importance of the 'Employee Voice in the Boardroom' including a review of the approach taken in FY 19/20 and the programme of office and site visits planned for FY 20/21. Having regular updates ensures that the needs of employees are considered leading to informed decision making.

Stakeholder engagement mechanisms and Section 172 statement

The Board acknowledges the importance of forming and retaining sound relationships with all stakeholder groups. Accordingly, the Board reviewed and discussed the Group's key stakeholders along with the engagement mechanisms in place to ensure they support effective, two-way communication. These are kept under periodic review to ensure on-going effectiveness. The Board maintains a stakeholder map which is used to support the Board's reporting requirements under Section 172 of the Companies Act 2006. More details on the Group's stakeholder engagement mechanisms can be found on page 45. Details of stakeholder activities undertaken by the Board can be found on page 105 and by Jennifer Duvalier in her role as designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce on page 112.

This is the first time Mitie has been required to publish a Section 172 statement detailing how the Board has engaged with the Group's stakeholders and approached decisions made during the year. Mitie's Section 172 statement can be found in the Strategic report on pages 70-73.

Dialogue with shareholders

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

In May 2019, Mitie held a day of one-on-one meetings and calls with five top institutional investors. The purpose of this direct engagement was for the Non-Executive Directors to meet with large institutional shareholders with a cumulative holding of 41% of the Company's shares and foster a discussion around corporate governance matters, environment, human capital, corporate culture and the Board's long-term views on the business.

In June 2019, following publication of the FY 18/19 results, meetings were held with institutional investors in London, Edinburgh, Chicago and New York.

In July, the 2019 Annual General Meeting was held in London. Retail shareholders had an opportunity to hear from senior management and the Board on the Group's performance, transformation and long-term strategy. All Directors in post at the time attended the 2019 Annual General Meeting. At the meeting all resolutions were passed with more than 90% of the votes cast in favour.

In September 2019, Mitie engaged with existing and potential investors at three Support Services investor conferences: UBS's Business Services conference; J.P. Morgan Cazenove Pan-European Small/Mid Cap Conference; and Stifel's UK Business Services and Industrials conference. The opportunity was taken to show the breadth and depth of knowledge and expertise at Mitie by inviting the Director of Group Finance and Finance Director of Technical Services to take part in meetings.

In November 2019, following publication of the HY 19/20 results, meetings were held with institutional investors in London and Edinburgh, and conference calls with investors in Chicago, Boston and New York.

In December 2019, a Capital Markets Day was held at The Shard, accompanied by a live webcast, and was attended by institutional investors from London and Continental Europe.

In January 2020, the Company appointed new corporate brokers, J.P. Morgan Cazenove and Jefferies International, to support Mitie in communicating its transformation story and accelerated value creation vision to shareholders, other stakeholders and the wider investment community.

The Board is regularly kept informed of investor feedback, stockbroker updates and detailed analyst reports. A Board report is prepared by the Head of Investor Relations for every Board meeting as set out under Boardroom discussions on page 106. The Chairman is responsible for ensuring that the Board is made aware of any issues or concerns of major shareholders, and the Chairman and Senior Independent Director are available to meet with shareholders upon request. Committee chairs seek engagement with shareholders on significant matters related to their area of responsibility.

2020 Annual General Meeting

Mitie is closely monitoring the impact of the COVID-19 pandemic and public health concerns in the United Kingdom and elsewhere. Mitie currently intends to hold its Annual General Meeting (AGM) on 28 July 2020 at 11.30am at Level 12, The Shard, 32 London Bridge Street, London SE1 9SG. However, given the UK Government's current guidance on social distancing and restrictions on public gatherings, it will not be possible for shareholders to attend the AGM in person unless both the COVID-19 situation and the UK Government's guidance has changed by the date of the meeting.

The Board very much regrets that, as things currently stand, it will be necessary to restrict attendance at the AGM, but the health and wellbeing of employees, shareholders and the wider community in which the Company operates is of paramount importance to the Board. The Board strongly encourages shareholders to appoint the chairman of the AGM as their proxy and provide voting instructions in advance of the meeting in accordance with the instructions explained in the Notice of AGM.

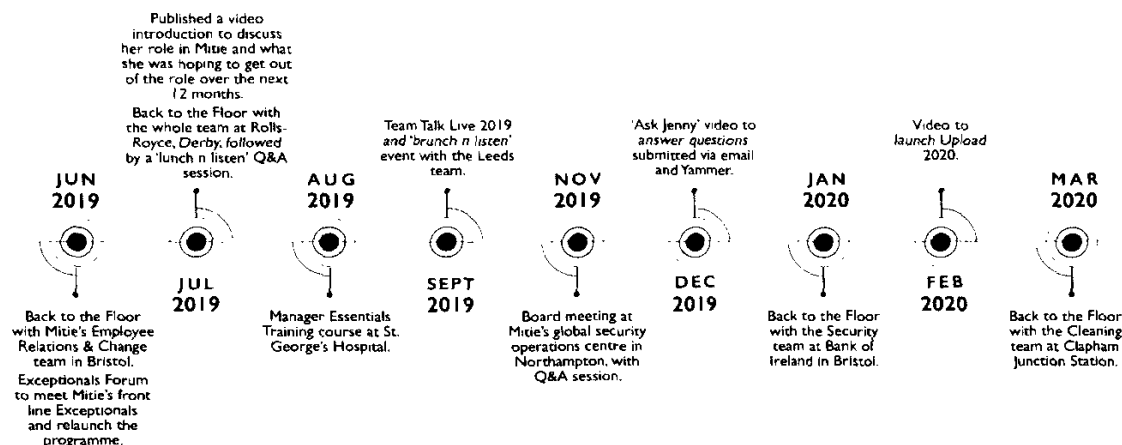
Resources for shareholders and other stakeholders

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

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

Designated NED

Jennifer Duvalier is Mitie's designated Non-Executive Director responsible for oversight of the Board's engagement with the workforce. Jennifer carried out a full programme of activities during FY 19/20 to encourage employees to share their views.



Conflicts of interest

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

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

Executive Directors are entitled to retain fees earned from any external appointments. Phil Bentley did not hold any external positions during FY 19/20. Andrew Peeler is a director and chair of the Finance Committee of Fair Finance, a micro finance social enterprise. Paul Woolf did not hold any external positions whilst he was on the Board.

External positions held by the Chairman and Independent Non-Executive Directors are detailed in their biographies on pages 97-102.

Noting of Directors' concerns

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

The Code: Division of responsibilities

Board composition

Chairman:	Derek Mapp
Executive Directors:	Phil Bentley Andrew Peeler (from 2 January 2020) Paul Woolf (until 2 January 2020)
Senior Independent Non-Executive Director:	Roger Yates
Independent Non-Executive Directors:	Nivedita Krishnamurthy Bhagat Baroness Couttie Jennifer Duvalier Mary Reilly

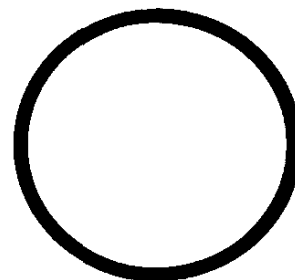
Biographies of all Directors can be found on pages 97-102.

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

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

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

Director independence



● Chairman	1
● Executive	2
● Independent	5

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

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

Matters reserved for the Board

A schedule of key matters and responsibilities that are to be dealt with exclusively by the Board is maintained and regularly reviewed. The schedule was last updated in January 2020.

The key responsibilities of the Board include:

- Approve the Group's long-term objectives and commercial strategy
- Establish the Group's purpose and values and satisfy itself that these, its strategy and culture are aligned
- Review performance in light of the Group's strategy, objectives, business plans and budgets
- Approve the half-yearly report and annual report
- Approve the annual budget, treasury policies and dividend policy
- Review the effectiveness of the Group's risk and control processes

- Approve all material acquisitions, material disposals, material contractual and other operational matters
- Ensure adequate succession planning for the Board and senior management
- Undertake a formal and rigorous review annually of its own performance and that of its Committees and individual Directors
- Make arrangements for dialogue with shareholders, canvassing shareholder opinion and engagement with shareholders in relation to any shareholder resolution which is opposed by more than 20% of the votes cast

Board Committees

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

Nomination Committee	Pages 128-130
Audit Committee	Pages 131-140
Remuneration Committee	Pages 141-161
Social Value & Responsible Business Committee	Pages 162-163

Director attendance at meetings of the Board and its Committees

Position	Name	Board	Nomination Committee	Audit Committee	Remuneration Committee	Social Value & Responsible Business Committee*
Chairman	Derek Mapp	7/7	4/4	–	–	–
Executive Directors	Phil Bentley	7/7	–	–	–	–
	Andrew Peeler**	2/2	–	–	–	–
	Paul Woolf**	5/5	–	–	–	–
Independent Non-Executive Directors	Nivedita Krishnamurthy Bhagat	7/7	4/4	6/6	–	–
	Baroness Couttie	7/7	4/4	6/6	–	3/3
	Jennifer Duvalier	7/7	4/4	–	3/3	–
	Mary Reilly	7/7	4/4	6/6	3/3	–
	Roger Yates	7/7	4/4	6/6	3/3	–

* The Social Value & Responsible Business Committee was established at a meeting of the Board held on 4 June 2019.

** Andrew Peeler was appointed to the Board on 2 January 2020 and replaced Paul Woolf.

Division of responsibilities

Chairman

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

- Lead and chair the Board, Nomination Committee and shareholder general meetings
- Ensure overall effectiveness of the Board in all aspects of its role
- Ensure regularity and frequency of Board meetings
- Set Board agendas, taking into account the issues and concerns of all Board members
- Ensure appropriate delegation of authority from the Board to executive management
- Demonstrate objective judgment
- Promote a culture of openness and debate
- Ensure that Directors receive accurate, timely and clear information

- Manage the Board to ensure sufficient time is allocated to promote healthy discussion and open debate, supported by the right level and quality of information to assist the Board in reaching its decisions
- Facilitate the effective contribution of Non-Executive Directors and encourage active engagement by all members of the Board
- Ensure constructive relations between the Executive Directors and Non-Executive Directors
- Hold meetings with the Non-Executive Directors without the Executive Directors present
- Ensure that new Directors participate in a full, formal and tailored induction programme
- Ensure that the performance of the Board, its Committees and individual Directors is evaluated at least once a year and act on the results of such evaluation
- Maintain sufficient contact with major shareholders to understand their issues and concerns
- Ensure that the views of shareholders are communicated to the Board

Senior Independent Director

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

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

Non-Executive Directors

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

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

Chief Executive Officer

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

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

Chief Financial Officer

In his role as Chief Financial Officer, Andrew Peeler's responsibilities include:

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

Chief of Staff, General Counsel & Company Secretary

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

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

Board meeting process

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

Each Board meeting agenda is produced using items from the yearly meeting planner agreed by the Chairman at the start of each financial year, actions arising, project progress updates and any governance or regulatory changes. Matters may also be added to the agenda at the request of a Board member or in response to emerging issues. Focus is given to timings for each item to ensure that sufficient time is allocated for effective discussion and debate.

Board meeting materials and other relevant information is distributed to all Directors via a secure electronic portal not less than five clear calendar days prior to the meeting. This ensures there is sufficient time to review the matters which are to be discussed and to seek any clarification ahead of the meeting.

Guidelines, templates and training is provided to authors of Board materials. This ensures all our people have the right level of experience and expertise which is maintained through appropriate training and development, helps to embed our culture of high standards of achievement, compliance to Mitie values and good governance and control.

An important element of Mitie's culture is ensuring that the Group has a 'One Mitie' way of operating and collaborating effectively across the business. This gives greater consistency in processes and controls around information which in turn ensures that the content of Board materials is consistent, of high quality and relevant to effectively aid discussion and seeks to appropriately consider the impact, views and needs of key stakeholder groups and the likely consequences of decisions in the long term.

At Board meetings, the Chairman utilises his skill and experience to bring Board members together and to encourage all Board members to voice their opinions and gives everyone time and space to ensure their view is heard and to contribute to the decision-making process. Alongside Board papers and materials, relevant areas of the business are invited to present their items to the Board thus providing the opportunity for Board members to probe and question further.

Advice of the Company Secretary

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

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

Director external appointments and time commitments

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

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

The Nomination Committee conducts an annual review of Directors' time commitments, further details of which can be found on page 130.

The Code: Composition, succession and evaluation

Board effectiveness

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

Outcomes from the internal FY 18/19 Board evaluation and actions taken are detailed in the Nomination Committee report on page 129.

The Board has engaged an independent consultant, Belinda Hudson, to conduct the FY 19/20 Board evaluation. The outcomes and future objectives from the evaluation will be shared in Mitie's Annual Report and Accounts 2021. Belinda does not have any known connection with the Company or any individual Directors.

Individual director contribution

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

Further details of each Director's skills and experience is set out in their biographies on pages 97-102.

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

The collective skills and experience of individual Directors support the work of the Board, and there is clear alignment between their respective competencies and the Group's strategy. Board discussions

further benefit from the diversity of approach taken by each Director due to their individual background, career development and training.

Director tenure

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

Re-election of Directors

In accordance with the Code and the Company's Articles of Association, all Directors are subject to election or re-election by shareholders. At the 2019 AGM each Director in post at the time stood for re-election and was re-appointed by shareholders. At the 2020 AGM Andrew Peeler will stand for election and all other Directors will stand for re-election.

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

The terms of appointment for Non-Executive Directors and service contracts for Executive Directors are ordinarily available for inspection at the Company's registered office, head office and at the Annual General Meeting. These locations are currently closed due to Government restrictions as a result of the COVID-19 pandemic. Documents will be available for inspection in these locations when restrictions are lifted.

Director induction process

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

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

Andrew Peeler's induction included the above as well as meetings with the Non-Executive Directors and a detailed hand-over from Paul Woolf.

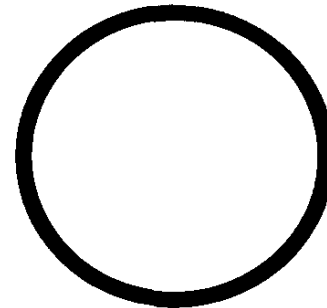
Board training and development

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

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

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

Director tenure



● 0-1 year	1
● 1-3 years	6
● 3-6 years	1

The Board Handbook is subject to regular review and was last updated in early 2020.

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

Online training is also available to all Directors on topics such as the Bribery Act 2010, GDPR, Criminal Finance Act 2017 and anti-slavery. Additionally, as detailed on page 51, during FY 19/20 Mitie launched a new Learning & Development core offering. Mitie's new Licence to Operate training is available to all Directors, and Licence to Lead training is available to the Chairman and Executive Directors.

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

Nomination Committee

The Nomination Committee Report on pages 128-130 contains information on the Company's compliance with Provision 23 of the Code.

Diversity and inclusion

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

Female employees account for c.36% of the workforce and 18% of the Executive Leadership Team and Group Leadership Team combined.

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

The Group's approach to business is underpinned by a belief that all individuals should be treated fairly and have access to equal opportunities. To attract, recruit, develop and retain the very best people at all levels, Mitie is committed to respecting and embracing talent and working to support a culture that is inclusive and reflective of Mitie's visions and values. In recognition of the Group's diversity-related initiatives and achievements, Mitie has won several awards and accreditations as detailed on page 53.

Mitie has a Group-wide Inclusion Policy, the objectives of which include that:

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

In implementing the policy, Mitie:

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

Mitie has six employee diversity networks, details of which can be found on page 52. The networks host a variety of face-to-face and virtual events and contribute to online platforms designed to interact and share ideas.

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

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

Mitie is a signatory of the Disability Confident scheme with the Department for Work and Pensions. Details of the Group's commitments under the scheme can be found on page 53.

Further details of the Group's commitment to diversity can be found on page 52 and on the website: **www.mitie.com**.

The Code: Audit, risk and internal control

Board accountability and assurance

Risk management approach

Mitie has continued to strengthen its approach to governance, risk management and internal control during FY 19/20, building on the improvements introduced in prior years. Further simplification of the organisational structure has taken place, including the sale of the Catering business, the rationalisation of central functions, several process and systems improvement initiatives and development of the outsourced back-office finance transactional processes and application maintenance IT processes. The Group-wide delegated authority register (DAR), which sets out the accountabilities and authority to take decisions on specific matters within defined financial limits, is now embedded in processes and systems at levels from the Board to divisional leadership. Authority levels are also in place within divisions and are consistent with the approach taken in the Group DAR. This approach helps to disseminate clearly the appetite of the Board to key risks. This structure ensures a consistent approach to acceptance and management of risk across the business and provides the Board with greater visibility of how effectively risks are being managed.

During FY 19/20, the Mitie Way project has been established to develop standard methodologies for all elements of the contract lifecycle. This will help ensure a common approach to bidding, mobilisation, contract management and demobilisation. It will also allow for a greater understanding and comparison of the risks across all major contracts and help to enhance internal controls.

Improvements in IT systems have continued to bring the business onto consistent platforms, with the launch of major operational and financial systems enhancement programmes, mainly in the Technical Services division. These programmes will help ensure further the reliability and accuracy of management information as well as providing greater visibility of the effectiveness of internal controls. The work of the Internal Audit function targets areas of the business where risk management and internal controls are suspected of requiring improvement, which has helped to improve the risk and control frameworks. The Group has an externally hosted whistleblowing line, and all reports are reviewed, investigated and action taken as appropriate. This also enhances the identification of risks.

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

Risk culture

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

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

Risk identification and assessment

The Board carries out robust assessments of the Company's principal risks, including emerging risks. In doing so, the Board takes both internal and external perspectives into account to ensure the risk identification process is thorough. The internal view takes into account factors such as the changing and developing business profile, operational processes, technology and people, while the external view includes the economic environment, political factors and sector and geographical risks. During FY 19/20, the ELT and Board have given specific consideration to external risks which may disrupt the Group's strategy. 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 assessments are based on a '5 x 5' scale ranging from minimal to catastrophic, with any risks falling into the Group's upper limits having mandatory mitigation plans with the expectation that these risks are managed down to acceptable levels.

Risk mitigation

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

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

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

Risk monitoring and review

Risk registers are formally reviewed twice a year. Principal risks to the business and associated mitigation plans are then presented to the Board 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 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 77-91. It should be noted that other risks are identified as part of the risk management process, but these are not considered to have a material impact on the Group's overall ability to achieve its business objectives.

The Audit Committee confirms that this risk management process has been in place throughout FY 19/20 and remains in place up to the date of approval of the Annual Report. However, as described, the process is continuing to evolve and will be subject to review and improvement.

Internal controls

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

The system covers both monitoring and oversight controls at business unit level, comprising business leadership review and direction, and detailed process controls and control activities, which are embedded in business processes. A comprehensive framework of internal controls has been under development in FY 19/20 which has involved reviewing, improving and documenting internal controls across the Group and helping to raise awareness at all levels within the organisation of the importance of effective controls.

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

The Audit Committee conducts a review of the effectiveness of the systems of risk management and internal control annually. This review is supported by a report from the Head of Internal Audit and includes a control assessment exercise undertaken by the Internal Audit function in conjunction with the business leadership teams. The review focuses on the key internal controls which manage the risks faced by the business. The Audit Committee also considers the results of the work completed by the Internal Audit team, which are reported to it in regular updates. These reports continue to identify a large number of internal control weaknesses as the internal audit work plan is targeted at areas known, or suspected to have, weak or ineffective internal controls. Remedial action plans developed by management to address any control weaknesses found are monitored by the Audit Committee to ensure timely closure of the actions. Further detail on this can be found in the Audit Committee report on page 137.

Internal Audit

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

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

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

Going concern statement

In adopting the going concern basis for preparing the financial statements, the Directors have considered the Group's business activities as set out on pages 11 to 44 as well as the principal risks and uncertainties as set out on pages 77 to 91, including the Reasonable Worst Case downside scenario and reverse stress testing outlined on pages 92 to 94.

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

However, the requirement to obtain formal shareholder approval at the General Meeting on 13 July 2020 indicates that material uncertainty exists in relation to the rights issue, that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern. If the rights issue were to be successful, this would remove the material uncertainty. Further details of the going concern assessment are set out in Note 1 to the financial statements on page 192.

Viability statement

The statement is detailed in full on pages 92 to 94.

In accordance with the Code, the Directors have assessed the viability of the Group over the three-year period to 31 March 2023 taking into account its current position and the potential impact of the principal risks set out in the Strategic Report. Based on this assessment the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 March 2023.

However, the requirement to obtain formal shareholder approval at the General Meeting on 13 July 2020 indicates that material uncertainty exists over going concern in relation to the rights issue. Further details of the going concern assessment are set out in Note 1 to the financial statements on page 192. If the rights issue were to be successful, this would remove the material uncertainty.

Fair, balanced and understandable

In accordance with Provision 27 of the UK Corporate Governance Code, the Directors confirm that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. When arriving at this position the Board was assisted by various processes including the following:

- The Annual Report and Accounts is drafted by senior management with overall coordination by Group Finance to ensure consistency across the relevant sections
- A review is undertaken to assess the consistency of the Annual Report and Accounts with internally reported information and investor communications, and to assess the balance between reported measures and alternative performance measures
- Reviews of drafts of the Annual Report and Accounts are undertaken by the Executive Directors, the Chief of Staff, General Counsel & Company Secretary, other senior management and the external advisors

- The final draft is reviewed by the Audit Committee prior to consideration by the Board

Details of the basis on which the Company generates and preserves value over the longer term and the strategy for delivering the Company's objectives are set out in the Strategic report. An explanation by the Directors of their responsibility for preparing the Annual Report and Accounts can be found on page 172.

The Code: Remuneration

Remuneration policies and practices

The Company's remuneration policies and practices are designed to support strategy and promote long-term sustainable success. The Remuneration Report on pages 141 to 161 contains information on the Company's compliance with the Code provisions relating to remuneration.

Nomination Committee report

Nomination Committee members

At the date of this report and throughout FY 19/20 the Nomination Committee comprised:

Chairman*	Derek Mapp
Committee members	Nivedita Krishnamurthy Bhagat
	Baroness Couttie
	Jennifer Duvalier
	Mary Reilly
	Roger Yates

*The Senior Independent Director chairs the Committee in circumstances where it would be inappropriate for the chairman of the Board to chair the Committee.

All members of the Nomination Committee are considered independent in accordance with the Code.

Nomination Committee meetings

The Nomination Committee met four times during FY 19/20. The attendance of individual Committee members can be found on page 114.

Key purpose of the Nomination Committee

The Nomination Committee evaluates the skills and characteristics required by the Board and its Committees. In doing so, the Committee considers the challenges and opportunities facing the Group and the expertise and diversity required for the future. This ensures membership of the Board and its Committees continue to remain appropriate.

Key responsibilities of the Nomination Committee

The key responsibilities of the Nomination Committee include:

- Regularly review the structure, size and composition (including the skills, experience and knowledge required) of the Board compared to its current position and make recommendations to the Board with regard to any changes
- Ensure plans are in place for an orderly succession to Board and senior management positions and oversee the development of a diverse pipeline for succession
- Consider the length of service of the Board as a whole so that membership of the Board is regularly refreshed
- Identify and nominate, for approval by the Board, candidates to fill board vacancies as and when they arise
- Keep under review the number of external directorships held by each Non-Executive Director;
- Review the results of the Board performance evaluation process that relate to the composition of the Board
- Keep the Board Inclusion Policy under review to ensure its effectiveness and alignment with best practice

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

Key activities during the year

Composition

During FY 19/20 the Nomination Committee reviewed the results of the internally led Board performance evaluation conducted for FY 18/19 that relate to the composition and leadership of the Board and each of its Committees. The Committee is satisfied that the composition and diversity was appropriate throughout the year. In reaching its determination, the Committee had particular regard to the integrity, skills, knowledge and experience of the Directors and the size and nature of Mitie's business.

Internal Board evaluation process

Outcomes from the internally led evaluation conducted for FY 18/19 were reviewed at the June 2019 Nomination Committee meeting and Board meeting and are set out below.

Process followed for FY 18 / 19 evaluation		Outcomes	Action taken
	Identify areas of focus	In an increasingly socially aware world, an opportunity had been missed for Mitie to develop and show case its social value agenda.	In June 2019 Mitie established a Social Value & Responsible Business Committee chaired by Baroness Countie and launched its five social value pillars. Further details can be found on pages 55 to 60 and 162 to 163.
	Circulate questionnaire		
	One-to-one meetings	Non-Executive Directors thought it would be beneficial to visit business divisions more often.	Board meetings during FY 19/20 were held at three different Mitie office locations. Town Hall events as detailed on page 105 were held alongside two of these.
	Anonymise meeting notes		
	Produce findings and actions		
	Board discussion	A more detailed understanding of Mitie's competitors and their strategies would be of value.	A competitor deep dive was held as part of the Board strategy day in September 2019.
		All Directors agreed that Mitie had a cohesive Board and mutual respect around the Boardroom table.	No changes to the composition of the Board were considered necessary.

Succession planning

The Board recognises the importance of succession planning and Board refreshment and maintains succession plans for the Board and senior management.

During FY 19/20, the Nomination Committee discussed succession planning at two of its meetings. This focused primarily on succession planning for the position of Chief Financial Officer and other senior finance roles following the announcement in September 2019 of Paul Woolf's intention to leave the Group on 28 January 2020.

All appointments to the Board are subject to a formal, rigorous and transparent appointment process, and are made based on merit and objective criteria. The appointment process followed for the position of Chief Financial Officer is detailed below.

1	Candidate requirements	A detailed candidate profile setting out required capabilities and experience was agreed.
2	Search	The process to appoint the new Chief Financial Officer was led by the Chief Executive Officer with The Inzito Partnership appointed to facilitate the process.* The Chief Executive Officer considered a list of diverse candidates. A shortlist of candidates was invited for interview.

3	Interviews	First round interviews were held with the Group HR Director, second round with the Chief Executive Officer and third with the Chairman and Audit Committee Chair. Feedback from the interviews was shared with the Board.
4	Announcement	The relative merits of each candidate were discussed, and it was agreed that Andrew Peeler should be proposed to the Board for appointment. The Board approved Andrew's appointment as Chief Financial Officer effective 9 December 2019 and Executive Director effective 2 January 2020.

*The Inzito Partnership had no other connection with the Company or individual directors.

Other succession planning measures include the Group Leadership Team Development Programme and Strategic Account Manager Academy. These help to ensure the business develops a diverse pipeline of talented individuals ready to step up to senior and business-critical roles. Further detail can be found on page 51.

Director external appointments and time commitments

The Nomination Committee reviewed the time commitments of Non-Executive Directors to ensure that there were no concerns regarding overcommitment. This review considered the number of appointments, their scope and the size and type of company in which the role is held, the views of major shareholders and the latest published guidelines and recommendations.

Diversity and inclusion

Mitie has a Board Inclusion Policy which recognises the importance of the Board's membership reflecting diversity in its broadest sense. The policy also sets objectives including to:

- Ensure its membership reflects a combination of demographics, skills, experience, race, age, gender, educational and professional backgrounds which provide a range of perspectives, insights and challenges needed to support good decision making and reflects the diverse workforce at Mitie
- Maintain a balance so that a minimum of 30% of the Directors are women, provided this remains consistent with the skills and diversity requirements when a new appointment to the Board is sought
- Support and monitor activities to increase the percentage of senior management roles held by women and other under-represented groups across Mitie

It is the Board's intention that female representation on the Board be maintained at a level higher than the 33% recommended by the Hampton-Alexander review, although it is recognised that there may be periods of time when the balance falls below this during the search and recruitment process. The Committee is pleased to report that 50% of the Board are female.

Audit Committee report

Report from the Audit Committee Chair

As Chair of the Audit Committee I am pleased to present my report to shareholders.

This was another year of good progress with further improvements made by the Group to strengthen the internal control environment, improve the accuracy of financial reporting, and ensure consistency of application of accounting policies across the Group, including:

- The further standardisation of controls across the divisions, both in terms of financial reporting processes and in relation to complex accounting topics. On revenue recognition, new templates were developed to assist with the practical application of IFRS 15 on the assessment of new contracts and contract modifications. The roll out of the templates was accompanied by training led by Group Finance, which helped to embed a deeper understanding of the Group's accounting policies within the divisions, and to ensure consistent application in practice.
- The strengthening of the divisional finance teams is now largely complete, with experienced professionals in the key leadership roles within those teams, which has helped to accelerate the adoption of best practice and standardisation of controls. There is now a stronger sense of finance community across the Group, with regular interactions between the Group and divisional finance teams.
- The Internal Audit team is now fully staffed, with the addition of further senior team members during the year. The team is now capable of delivering all engagements on the annual audit plan, except those that require specialist skills, such as IT processes, where external support is utilised. The audit plan was developed through a comprehensive review of the risks facing the business, but was adapted during the year to reflect significant events, such as the sale of the Catering business, and also system, process and organisational improvement activities.
- The successful implementation of IFRS 16 'Leases', which was complex given the number of properties and vehicles employed across the Group. This required the development of new tools and processes, as well as updated policies, which were rolled out together with training for the divisions.

“This was another good year of progress, with further improvements made to strengthen the internal control environment”

Towards the end of the financial year, the COVID-19 outbreak started to have an impact on Mitie's business, both in terms of the delivery of services to customers and the way in which the Group operated. The year-end reporting process was conducted in this environment, with teams working remotely. Whilst this did present some challenges, with rigorous planning and regular communication, both within Mitie's finance teams and with the external audit teams, I am pleased to say that the year-end reporting has maintained the high standards required and has been delivered in a robust and transparent manner.

The decision was taken to delay the date of reporting results, partially recognising the need for additional time to ensure that the quality of the reporting and audit did not suffer as a result of the more challenging conditions, but also due to the additional complexities associated with the items outlined in note 34 to the financial statements 'Events after the reporting period'.

The business is undertaking a major transformation, which continued during the year. This was reflected in the nature of some of the matters presented for consideration by the Audit Committee,

which were often complex and judgemental. These judgements also had to be assessed in the context of the COVID-19 pandemic, which added another layer of complexity in some areas. The current transformation is now in its second and final phase, which was scheduled to complete by the end of FY 20/21. However, the COVID-19 pandemic has caused some workstreams to be put on hold and, as a result, the transformation will likely now complete in FY 21/22.

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

- Monitoring the approach taken by management to embed a deeper understanding of the Group's revenue recognition accounting policies within the divisions, and to ensure consistent and appropriate application in practice
- Assessing the judgements made by management in respect of the acquisition and disposals made by the Group. In particular the Audit Committee has assessed management's approach to, and assumptions made in respect of, the disposal of the Catering business, the completion accounts processes in respect of the acquisition of Vision Security Group Limited and the disposals of Mitie Pest Control Limited and the Social Housing business, together with the provisions made for legacy liabilities retained by the Group as part of the disposal of the Social Housing business
- Challenging management's judgements in relation to areas potentially impacted by COVID-19, such as the estimate of deferred contingent consideration for the Catering business disposal, testing the carrying value of goodwill for impairment, the adequacy of provisions for the recoverability of debtors, the recoverability of deferred tax assets in relation to losses and the evaluation of potential onerous contract provisions
- Considering the classification of certain costs within Other Items and associated disclosure, by reviewing the framework of controls around the assessment by management, and challenging the nature of the costs, to ensure the result is that a reader of the Annual Report and Accounts is provided with an improved understanding of the underlying results of the business
- Considering the process followed by management to assess the impact of the adoption of IFRS 16 'Leases', and embed the accounting requirements of this standard into the Group's monthly reporting processes
- Challenging the approach taken by management to support the going concern and viability statements set out on pages 125 and 92 to 94 respectively, taking into account the potential impacts of COVID-19

Further detail regarding the Audit Committee and its work can be found on pages 133 to 140.

In conclusion, the Audit Committee can provide positive assurance to the Board that the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable, and provides shareholders with sufficient and appropriate information to enable an assessment of the Group's position and performance, business model and strategy. As Chair of the Audit Committee, I will be available at the 2020 AGM to answer any questions about the work of the Audit Committee.

Mary Reilly
Chair of the Audit Committee

Audit Committee Report

Audit Committee members

Mary Reilly was appointed as Chair of the Audit Committee on 31 July 2018, having been a member of the Committee since 1 September 2017. Mary has a wealth of experience as a non-executive director and chairing audit and risk committees. She has extensive relevant and recent accounting, finance and management experience. Mary's full biography can be found on page 100.

At the date of this report, and throughout FY 19/20, the Audit Committee comprised independent Non-Executive Directors who are all considered appropriately experienced to fulfil their duties.

Chair	Mary Reilly
Committee members	Nivedita Krishnamurthy Bhagat Baroness Couttie Roger Yates

Frequency of Audit Committee meetings

The Audit Committee met six times during FY 19/20. For the Directors' attendance, see table on page 114. Invitations to attend meetings are normally extended to the Group's external auditor, the Chairman, the Chief Executive Officer, the Chief Financial Officer, other members of the Board, the Director of Group Finance, the Group Financial Controller, and the Head of Internal Audit.

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

Key purpose of the Audit Committee

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

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

Key responsibilities of the Audit Committee in relation to financial reporting

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

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

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

Significant issues considered by the Audit Committee during the year

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

The Audit Committee considered the significant matters set out below, and in all cases considered to what extent these judgements could be impacted by COVID-19. Papers were presented to the Audit Committee by management, setting out the relevant facts, material accounting estimates, and the judgements associated with each item. The external auditor provided a paper setting out its views on each area of judgement.

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

Revenue recognition

Due to the complexity and scale of many of the Group's contracts, revenue recognition continues to be an area of focus for the Audit Committee. The Audit Committee has received updates from management throughout the year on changes implemented to embed a deeper understanding of the Group's accounting policies within the divisions, and to ensure consistent application in practice. These changes included the development of new templates to assist with the practical application of IFRS 15 on the assessment of new contracts and contract modifications.

The Audit Committee has also reviewed and discussed papers by management on specific areas of revenue recognition where judgement is required, including long term private finance initiative (PFI) lifecycle contracts.

Evaluation of the gain on disposal of the Catering business

During the year, the Group disposed of its Catering business, which resulted in a gain on disposal. Management made judgements to determine the relevant net assets and costs associated with the disposal, and also estimated the value of the deferred contingent consideration receivable.

The Audit Committee has considered papers prepared by management explaining the judgments made and setting out the basis for the estimate of the deferred contingent consideration receivable, which the Audit Committee discussed in the context of the impact that COVID-19 is having on the catering sector.

Assessment of the outcome of completion accounts

During FY 18/19 the Group completed the disposal of Mitie Pest Control Limited and the Social Housing business, and the acquisition of Vision Security Group Limited. All these transactions included a completion accounts process for the final determination of the consideration due.

The completion accounts for the Social Housing business and Vision Security Group Limited were finalised during FY 19/20, and the process for Mitie Pest Control Limited made progress but is ongoing.

The Audit Committee has considered papers prepared by management detailing the current status of negotiations and management's assessment of the likely outcomes.

Provisioning for legacy contractual liabilities

Under the terms of the disposal of the Social Housing business, the Group retained liability for certain contractual issues for completed contracts. Management has made judgements to arrive at the provisions recorded in the financial statements.

The Audit Committee has considered papers prepared by management setting out the basis for these judgements.

Valuation of goodwill

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

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

The cash flow forecasts used in the review were derived from the most recent strategic forecast, which was updated to reflect the expected impacts of the COVID-19 pandemic on the business. This forecast was reviewed and approved by the Board. The Board also considered a downside scenario, which recognised the difficulties in forecasting in these unprecedented times.

Management concluded that there was no impairment using either the updated forecast or the downside scenario. The Audit Committee has considered papers prepared by management and has challenged the assumptions and methodology applied to assess the carrying value of goodwill.

The need for provisions in respect of potentially onerous contracts

As part of the year-end process, management performs a review of contracts to assess whether any contracts may be onerous over the remaining term of the contract, and therefore may require an onerous contract provision. The COVID-19 pandemic was specifically considered as part of this review, both in terms of the short-term impacts, but also the potential longer-term impacts.

The Audit Committee has reviewed the information provided by management, as well as the views expressed by the external auditor, and has challenged the bases for conclusions on key contracts.

Adoption of IFRS 16

The Group adopted IFRS 16 'Leases' from 1 April 2019. The Audit Committee has considered papers prepared by management in respect of the impact of the adoption of IFRS 16, and the disclosures made in Notes 1 and 24 to the consolidated financial statements.

The Audit Committee is satisfied that the disclosures made within the financial statements in respect of IFRS 16 are sufficient to gain a proper understanding of the impact on the Group of the changes in the measurement and accounting for leases brought onto the balance sheet as a result of the adoption of this new standard.

Other material accounting judgements

Management has continued to operate the structured process for the identification of material accounting judgements made, which are assessed at both a divisional and Group level, in arriving at the results. The judgements with a significant actual or potential impact upon the Group's results are presented to the Audit Committee for consideration.

In addition to the matters outlined above, the Audit Committee has also considered papers prepared by management in respect of the following matters:

- The recoverability of trade receivables and accrued income, with specific challenge from the Audit Committee related to the potential impacts of the COVID-19 pandemic
- Provisioning for, and disclosure of contingent liabilities related to, the Group's participation in multi-employer pension schemes
- Disclosures in respect of other contingent liabilities
- The recoverability of deferred tax assets, and in particular related to losses where recoverability may be impacted by the effects of the Covid-19 pandemic
- Provisioning for commercial settlements, disputes and other contractual liabilities

Allegations of fraud

In instances where allegations of fraud were reported, the Audit Committee ensured that these were investigated urgently by Internal Audit. The resulting papers drafted by Internal Audit, summarising the issues, conclusions and recommendations, were reviewed and discussed by the Audit Committee. The Audit Committee then supported the implementation of any required actions, aimed at preventing future occurrence of similar issues.

Use of Alternative Performance Measures (APMs)

The Group's performance measures continue to include some measures which are not defined or specified under IFRS. The Audit Committee has considered presentation of these additional measures in the context of the guidance issued by the European Securities and Markets Authority (ESMA) and the Financial Reporting Council (FRC) in relation to the use of APMs, challenge from the external auditor, and the requirement that such measures provide meaningful insight for shareholders into the results and financial position of the Group.

In particular the Audit Committee challenged the classification of certain costs within Other Items, ensuring that there is a robust framework of controls around the assessment, and that the classification and disclosure is appropriate, with the aim of providing a reader of the Annual Report and Accounts with an improved understanding of the underlying results of the business. This was achieved through the review by the Audit Committee of detailed papers prepared by management throughout the year, setting out each category of Other Items, analysing the costs reported within each category and documenting the rationale as to why these costs were both incremental to business as usual and directly related to the category.

The Audit Committee challenged as to whether any costs had been rejected from the Other Items category, based on the framework of controls around the reporting of Other Items. Management confirmed that £0.5m of costs had been rejected and reclassified back to underlying results as a result of these reviews, and the divisions now regularly engaged with Group Finance to discuss whether potential Other Items costs would qualify under the group policy.

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

A reconciliation of the APMs to the equivalent IFRS measures is provided in the Appendix – Alternative Performance Measures on pages 253 to 254.

Review of the Group's going concern and viability statements

The Audit Committee has reviewed the Group's assessment of going concern. The base case forecast used for this assessment factored in the expected impact of the Covid-19 pandemic, and a Reasonable Worst Case downside scenario was also assessed which assumed a second and more severe period of disruption.

The Audit Committee also reviewed the Group's viability assessment over a period of three years to 31 March 2023, which considered a range of scenarios that were based on the potential financial impact of the Group's principal risks and uncertainties and the specific risks associated with the Covid-19 pandemic.

The Committee concluded that the assumptions used in both these assessments were appropriate. The Committee has also reviewed the Group's reverse stress test and challenged management as to the likelihood of any such scenario occurring, to assess whether it was reasonable to assume that the likelihood of any such scenario was remote. Factors that were considered include the current trading performance compared with the base case, the extent of revenue decline that would be required, current expectations as to the severity of any second period of disruption in relation to COVID-19 and further mitigation actions available to management. The Committee received regular updates on the steps taken by management to secure liquidity for the likely duration of the Covid-19 pandemic and the following recovery period.

The Committee noted that the resizing and extension of the maturity date of the revolving credit facility, and the covenant waivers, were conditional on the rights issue, and challenged management as to the level of certainty that would exist at the date that the annual report was approved. It was concluded that, given the requirement to obtain formal shareholder approval for the rights issue at the General Meeting on 13 July 2020, a material uncertainty existed at the date of approval of the annual report in relation to the rights issue, and hence the Group's ability to continue as a going concern and that this should be disclosed. This disclosure is set out in note 1 to the financial statements on page 192. If the rights issue were to be successful, this would remove the material uncertainty.

The more detailed assessment of the Group's long-term viability is set out in the Viability Statement on pages 92 to 94.

Internal Audit

During FY 19/20 Internal Audit continued to expand its focus on a wide variety of risk areas, with the audit plan considering the effectiveness and consistency of internal controls in four main areas: important Group-wide processes; major contracts; individual business units; and strategic projects. The plan was developed through a comprehensive review of the risks facing the business and the associated mitigating processes and controls. Internal Audit work is now mainly delivered by a dedicated in-house team, with specialist support provided by Grant Thornton in areas such as IT processes.

Areas of focus in the FY 19/20 audit programme have included:

- A review of the processes and controls in the construction of bids for new contracts, which included a follow up of points raised previously to ensure they had been fully addressed
- An audit of the contract management processes for a key account focusing on the governance processes and mobilisation of the contract
- An audit of the effectiveness of key internal controls within in the Fire and Security Systems business, which forms part of the Business Services division
- Post-implementation reviews of the outsourcing of back-office finance and IT support processes.

The Internal Audit plan is reviewed regularly by the Head of Internal Audit to ensure it reflects the latest risk profile of the business. Consequently, although the plan was initially presented to and approved by the Audit Committee in March 2019, there were a number of additions and changes made during FY 19/20, which were discussed with the Chair of the Audit Committee and agreed by the Audit Committee. These amendments reflected the sale of the Catering business, as well as continued system, process and organisational improvement activities which affect the internal control environment.

Regular updates were provided to the Audit Committee throughout FY 19/20 by the Head of Internal Audit. These focused on the results of the audit work undertaken and developments in the internal control environment, highlighting areas where improvements in risk, governance and control processes were required. There continued to be a number of control weaknesses identified in audits which in part reflect the Internal Audit plan focusing on areas where control improvements are known or suspected to be required.

Through the regular updates from the Head of Internal Audit, the Audit Committee also monitored the progress by management in completing actions to address the findings from internal Audit reports. There has been some progress in ensuring the actions are closed by the agreed completion date, however this remains an important area of focus for the Audit Committee, and management is required to provide an explanation if planned closure dates are missed.

Senior Accounting Officer update

The Chief Financial Officer presented a paper to the Audit Committee detailing the processes in place to ensure that the relevant controls had operated effectively during the year, thereby supporting signature of the Senior Accounting Officer certificate. The Audit Committee considered this paper and was satisfied with the approach taken by management.

External audit

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

External auditor effectiveness

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

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

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

Non-audit services provided by the external auditor

The Group has a non-audit services policy, approved by the Audit Committee, that ensures the external auditor remains independent and objective throughout the provision of its independent audit services and when formulating its audit opinion. This non-audit services policy is underpinned by principles that ensure that the external auditor does not:

- Audit its own work
- Make management decisions for the Group
- Create a conflict of interest

- Find itself in the role of advocate for the Group

The Group non-audit services policy that was effective during FY 19/20 identified the types of non-audit services that were prohibited and was consistent with the FRC's Revised Ethical Standard 2016. Under this policy, the Chief Financial Officer was required to approve any permitted non-audit services with fees up to £50,000, and fees above this level required approval from the Audit Committee. A report of all non-audit services performed by the external auditor during FY 19/20, irrespective of value, was submitted to the Audit Committee.

A summary of the fees paid to the external auditor for FY 19/20 is set out in Note 6 to the financial statements, including fees for audit-related services of £71,000, primarily related to the review of the half-yearly financial report, and fees for non-audit services of £5,000 that were permitted under the Group non-audit services policy. The Audit Committee considered reports from both management and the external auditor, none of which raised concerns about external auditor independence. The Audit Committee confirms that the requirements of the Group non-audit services policy have been met throughout FY 19/20.

The Group non-audit services policy has been updated to reflect the requirements of the FRC's Revised Ethical Standard 2019, which became effective from 15 March 2020 and further limits the types of non-audit services that external auditors can provide. Under the revised requirements, permitted services are largely those required by law or regulation, loan covenant reporting, other assurance services closely related to the audit or annual report, and reporting accountant services. The Audit Committee confirms that the updated Group non-audit services policy is consistent with the FRC's Revised Ethical Standard 2019.

Post year end, the Audit Committee approved non-audit services from the external auditor related to UK reporting accountant work and US SAS 72 work, required as part of the Rights Issue. The estimated fees for this work were £625,000.

Appointment and reappointment of the external auditor

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

Scott McNaughton was the lead partner for BDO on the audit of Mitie for the year ended 31 March 2020 and was the lead partner for the previous two years.

During FY 19/20, the Audit Committee also considered the findings of the FRC's Audit Quality Review on BDO's audit of Mitie for the year ended 31 March 2018, which was published on 26 June 2019. In particular, the Audit Committee reviewed how BDO had addressed the points raised, and how these had been incorporated into the audit approach for the year ended 31 March 2020.

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

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

Assurance

In accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the Code, the Board performs a formal annual assessment of the operation and effectiveness of the Group's 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 and divisional leadership level to ensure that control improvements are implemented appropriately and that they are effective. The Head of Internal Audit assesses the application of control environment improvements and attends Audit Committee meetings to provide regular updates on the effectiveness of the Group's internal control environment and the results of the internal audit work undertaken.

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

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

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

Review of whistleblowing processes

Part of the Audit Committee's role is to ensure that appropriate procedures are in place in relation to whistleblowing. Mitie has continued to operate its independent whistleblowing service via an independent third-party provider. An update on whistleblowing activity is provided to the Board at every Board meeting.

Directors' remuneration report

Statement from the Remuneration Committee Chair

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 March 2020.

The report is split into three main parts:

- **Executive remuneration at a glance.** This sets out a summary of our approach, including how we intend to operate under our policy and remuneration outcomes during the year
- **The Annual Report on Remuneration.** This provides more detail on the above, as well as setting out other remuneration-related disclosures
- **Summary of our policy.** Our existing policy was approved by 99.7% of shareholders at the 2018 AGM and I would like to thank shareholders for their continued support. No changes are proposed to our policy this year and a summary of the policy has been included on pages 145-147. The full Policy approved at the 2018 AGM is available on our website (www.mitie.com/investors/corporate-governance) and in the Annual Report and Accounts 2018

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

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

Remuneration decisions and outcomes

In respect of all remuneration outcomes, achievement against the measures and targets is described in more detail in the Annual Report on Remuneration. Furthermore, the Committee challenged itself to ensure that bonus and LTIP outcomes were appropriate in the round and was comfortable that the associated remuneration outcomes were appropriately commensurate with both organisational and individual performance. The Committee therefore considers that the policy operated as intended.

Salary and fees

With regard to fixed pay, it has been agreed that salaries for the Executive Directors will not be increased for FY 20/21 and so will remain £900,000 for the Chief Executive Officer (CEO), Phil Bentley (since appointment in November 2016) and £400,000 for the Chief Financial Officer (CFO), Andrew Peeler (since he joined Mitie in December 2019).

In March 2020 Mitie announced a number of actions that it was taking to mitigate the impact of the COVID-19 pandemic on its business. As part of the Group's cost saving measures the Non-Executive Directors and CEO, and the Executive Leadership Team (including the CFO) have volunteered 30% and 20% reductions in their fees/salaries respectively for at least six months from April 2020.

FY 19/20 bonus

Following the end of the year the Committee assessed outcomes with respect to operating profit, organic revenue growth, reduction in receivables, strategic objectives and individual performance. Performance for the year was strong and the resulting formulaic outcome was an annual bonus of 65% of the maximum. However, taking into account the impact of the COVID-19 pandemic and the decision

to not recommend a final dividend for FY 19/20, Phil Bentley proposed that no bonus be paid and the Committee supported his decision.

Andrew Peeler, who joined Mitie in December 2019, was not eligible for a bonus linked to FY 19/20 performance.

2016 LTIP awards

Following his appointment, Phil Bentley received a Long Term Incentive Plan (LTIP) award in November 2016. This award vests subject to the extent to which annual bonus targets were achieved for FY 17/18, FY 18/19 and FY 19/20. Notwithstanding that the FY 19/20 bonus has been waived as explained above, the Committee determined that the bonus targets had been achieved in respect of FY 19/20 and accordingly this award will vest in full. Taking into the account the decision to not recommend a final dividend for FY 19/20 Phil Bentley has agreed that he will not sell shares from this award until such time as the Company resumes payment of dividends (other than in respect of settling any taxes due). Further details are given in the Annual Report on Remuneration.

2017 LTIP awards

The Committee assessed the outcome of the July 2017 LTIP awards granted under the plan against four performance measures: Earnings Per Share (EPS) growth; Relative Total Shareholder Return (TSR); strategic objectives; and cash conversion. Following a review of performance against targets, the Committee determined that 53% of the award would vest. This is described in more detail in the Annual Report on Remuneration.

Incentives approach for FY 20/21

For FY 20/21 the Committee is intending to operate the annual bonus using the same broad framework that was used for FY 19/20. However, taking into account the uncertainty created by the COVID-19 pandemic the Committee will keep the bonus framework under review to ensure that the measures and targets are appropriate in the context of the Group's wider performance. The maximum bonus opportunity for Phil Bentley will be unchanged at 160% of base salary.

The Committee reviews the LTIP framework annually to ensure that it continues to support the Group's strategy. For the 2020 LTIP we will continue to use the current framework of 50% adjusted EPS and 50% cash conversion. Awards will be granted in due course but, given the uncertainty around the long-term impact of COVID-19 on the business, it is not possible to set meaningful three-year targets at this time.

Therefore, the Committee intends to delay setting targets until later in the financial year at which time it expects to have a better understanding of the long-term effects of COVID-19 on the business. Once set the targets will be disclosed in our stock exchange announcement detailing the grants. Phil Bentley will be granted an award of 200% of base salary. However, the Committee is mindful of shareholder guidance around 'windfall gains' and has full discretion to ensure that the level of any vesting outcome is appropriate based on the overall performance of the Group and the shareholder experience.

Andrew Peeler's remuneration arrangements for his role as CFO are set out in the section below.

Board changes

Following the announcement on 11 September 2019 that Paul Woolf would be leaving Mitie effective 28 January 2020, it was announced on 29 November 2019 that Andrew Peeler was appointed Chief Financial Officer with effect from 9 December 2019. Andrew Peeler was subsequently appointed to the Board on 2 January 2020 and Paul Woolf resigned from the Board on the same date.

Andrew Peeler's 12-month contract includes the following main terms: base salary of £400,000; maximum bonus of up to £200,000 (50% of base salary) tied to role-specific objectives for FY 20/21; and

no LTIP award for FY 20/21. Andrew has not taken up the offer of a pension/pension cash allowance in line with that of the wider workforce.

Details of Paul Woolf's departure terms are set out in the Annual Report on Remuneration on page 156.

The Remuneration Committee

The members of the Remuneration Committee are all Non-Executive Directors and are listed in the table on page 105. During the year ended 31 March 2020, the Committee met three times. For the Directors' attendance, see the table on page 114.

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

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

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

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

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

Corporate governance developments

The Committee noted with interest corporate governance developments during the last two years. In particular, the UK Corporate Governance Code July 2018 (the Code) introduced a number of requirements which applied to the Company from 1 April 2019.

The Committee considered the revisions brought about by the Code and made a number of changes to be compliant with the revised principles and provisions relating to remuneration:

- The Committee reviewed the pension arrangements for the Executive Directors and agreed that any new Executive Director hire will have benefits in line with that of the wider workforce
- The Committee reviewed the existing shareholding requirements for the Executive Directors which, combined with existing bonus deferral and post-vesting holding periods, are considered sufficiently robust – however, the Committee intends to directly review this as part of its renewal of the Remuneration Policy that will be put to shareholders at the 2021 AGM
- The Group's incentive arrangements provide the Committee with the ability to override formulaic outcomes and enable recovery or withholding of sums or share awards in specific circumstances
- The Committee considers the wider workforce's pay increases before considering increases for those within its remit.

Pension benefits

The Committee gave careful consideration to the pension arrangements in place for the Executive Directors and how these compare to those available to the wider workforce. In-line with the Code any new Executive Director hire will be offered pension benefits in line with that of the wider workforce.

Phil Bentley was appointed in 2016 and his pension arrangements are in-line with the Remuneration Policy that was in place at the time. The Committee does not propose to make any changes to his pension arrangements at this time.

However, the Committee will continue to monitor market practice with respect to pensions and will review pension arrangements again as part of its broader review of the Remuneration Policy during FY 20/21, prior to its submission to shareholders for approval at the 2021 AGM.

Post-employment shareholding requirements

The Committee has also considered the new requirement introduced under the Code for remuneration committees to develop formal policies for post-employment shareholding requirements.

The Committee is comfortable that Mitie's existing provisions (deferral of 50% of the bonus into shares for two years, additional two-year holding period for LTIP awards to ensure a five-year time horizon, existing shareholding guidelines of 200% of salary), coupled with leaver provisions, represent a sufficiently robust policy at this time.

However, as with pension arrangements, the Committee is committed to reviewing its approach on post-employment shareholding guidelines as part of its broader review of the Remuneration Policy during FY 20/21, prior to its submission to shareholders for approval at the 2021 AGM.

Engagement with shareholders

Shareholder consultation on remuneration arrangements is a continuing process. We will be initiating a broad consultation with shareholders as part of our review of the Remuneration Policy during FY 20/21, prior to its submission to shareholders for approval at the 2021 AGM.

Conclusion

We will be seeking approval for the Directors' remuneration report (advisory vote) at the 2020 AGM. I welcome your views and feedback on the report.

Jennifer Duvalier

Chair of the Remuneration Committee

jennifer.duvalier@mitie.com

Key features of our remuneration policy

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

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

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

Key principles of the policy

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

1 Reward should be aligned with the shareholder experience

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

2 The majority of the package should be performance-related

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

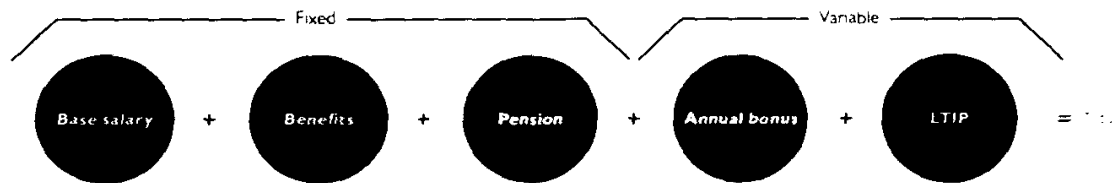
3 The policy should be comprehensive and simple

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

The Committee will be undertaking a broader review of the Remuneration Policy during FY 20/21, prior to its submission to shareholders for approval at the 2021 AGM. During its review of the Remuneration Policy, the Committee will take into account the updated UK Corporate Governance Code including making an assessment of the policy against the principles of clarity, simplicity, risk, predictability, proportionality and alignment to the Company's culture.

Summary of remuneration policy

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



Executive incentives and link to strategy

The following table sets out how the intended measures across the incentive plans for FY 20/21 support the Group's strategy and KPIs:

	Sustained and renewed profit growth	Quality client base	Strong cash-generative business	Strategic targets
Annual bonus	☑ 35% operating profit	☑ 35% organic revenue growth		☑ 30% strategic objectives
LTIP	☑ 50% adjusted EPS		☑ 50% cash conversion	

Note: details of the annual bonus targets will be disclosed in next year's report.

All employee incentive arrangements

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

Executive remuneration at a glance

Summary of how we intend to operate our policy for FY 20/21

This table summarises the approach for remuneration arrangements for Executive Directors (Phil Bentley as CEO and Paul Woolf as outgoing CFO) for FY 19/20 under the policy approved by shareholders at the 2018 AGM, alongside how the Committee intends to apply the policy in FY 20/21. Andrew Peeler's remuneration arrangements as CFO are set out separately on page 150.

At a glance	FY 19/20	FY 20/21
Base salary	CEO: £900,000 CFO: £430,000	CEO: £900,000 As part of the Group's COVID-19 cost saving measures the CEO has volunteered a 30% reduction in his salary for at least six months from April 2020.
Maximum bonus opportunity	CEO: 160% of salary CFO: 120% of salary	CEO: 160% of salary
Bonus deferral	50% of bonus deferred into shares which vest after at least two years	50% of bonus deferred into shares which vest after at least two years
Bonus performance measures – mix	70% financial, 30% strategic	70% financial, 30% strategic
Bonus performance measures – metrics	Financial: organic revenue growth, operating profit Strategic: reduction in receivables, individual, other strategic Mix: 35% organic revenue growth, 35% operating profit, 10% reduction in receivables and 10% each on individual objectives and other strategic targets	Financial: organic revenue growth, operating profit Strategic: to be agreed at a later point Mix: 35% organic revenue growth, 35% operating profit, and 30% strategic targets
Maximum LTIP opportunity	CEO: 200% of salary CFO: 150% of salary	CEO: 200% of salary
LTIP performance measures	50% adjusted EPS and 50% cash conversion	50% adjusted EPS and 50% cash conversion Given the uncertainty around the long-term impact of COVID-19 on the business, it is not possible to set meaningful three-year targets at this time. Therefore, the Committee intends to delay setting targets until later in the financial year at which time it expects to have a better understanding of the long-term effects of COVID-19 on the business. Once set the targets will be disclosed on the Company's website.
LTIP holding period of two years after vest	Shares released after at least five years (vesting after three years plus two-year holding period)	Shares released after at least five years (vesting after three years plus two-year holding period)
Share ownership requirements	200% of salary	200% of salary
Malus and clawback provisions	As per policy approved by shareholders at 2018 AGM	As per policy approved by shareholders at 2018 AGM

Summary of remuneration outcomes for the year ended 31 March 2020

The following provides a summary of incentive outcomes and the single total figure of remuneration for Executive Directors. In respect of all remuneration outcomes, achievement against the measures and targets is described in more detail in the Annual Report on Remuneration. Furthermore, the Committee challenged itself to ensure that bonus and LTIP outcomes were appropriate in the round and was comfortable that the associated remuneration outcomes were appropriately commensurate with both organisational and individual performance.

Annual bonus in respect of FY 19/20

Based on assessment of performance against the targets set at the start of the year a formulaic bonus of 65% of the maximum was payable to Phil Bentley. However, taking into account the impact of the COVID-19 pandemic and the decision not to recommend a final dividend for FY 19/20, Phil Bentley recommended that no bonuses be payable for FY 19/20 and the Remuneration Committee supported his decision.

Andrew Peeler, Chief Financial Officer, who joined Mitie in December 2019, is not eligible for a bonus linked to FY 19/20 performance.

2016 LTIP awards

Following his appointment, Phil Bentley received a Long Term Incentive Plan (LTIP) award in November 2016. The performance conditions for this award are linked to the achievement of annual bonus targets in respect of FY 17/18, FY 18/19 and FY 19/20. 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. The bonus targets that applied for FY 17/18 were deemed to have been met and those for FY 18/19 were met as set out in last year's report. The Remuneration Committee determined that the bonus targets had been achieved in respect of FY 19/20 and accordingly this award will vest in full and is included in the single total figure of remuneration. The award is subject to a post-vesting holding period, with 50% of the shares being released in June 2020, 25% in November 2020 and 25% in November 2021. However, taking into account the decision to not recommend a final dividend for FY 19/20 Phil Bentley has agreed that he will not sell shares from this award until such time as the Company resumes the payment of dividends (other than in respect of settling any taxes due).

2017 LTIP awards

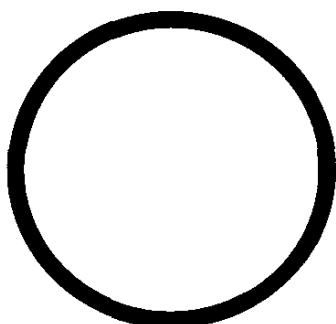
The Committee assessed the outcome of the July 2017 LTIP awards granted under the plan against four performance measures: Earnings Per Share (EPS) growth; Relative Total Shareholder Return (TSR); strategic objectives; and cash conversion. Following a review of performance against targets, the Committee determined that 53% of the award would vest. The Committee considers this outcome to be appropriate based on performance over the three-year period. The award is subject to a post-vesting holding period, with 50% of the shares being released in July 2020, 25% in July 2021 and 25% July 2022.

Single figure for FY 19/20

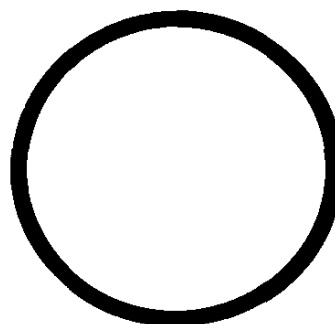
The table below reports a single figure of total remuneration for each of the Executive Directors for the financial year ended 31 March 2020 and their comparative figures for the financial year ended 31 March 2019.

Note: Andrew Peeler joined the Board as Chief Financial Officer on 2 January 2020 and the information in the single figure of total remuneration only reflects his period as an Executive Director. Paul Woolf resigned from the Board on 2 January 2020 and his figure is only for the period he was a Director.

Phil Bentley

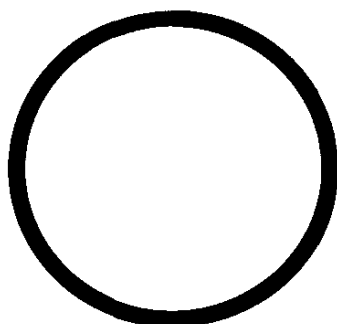


£	2020
● Salary	900,000
● Benefits	27,508
● Pension	180,000
● Bonus	-
● LTIP	1,540,961
Total	2,648,469

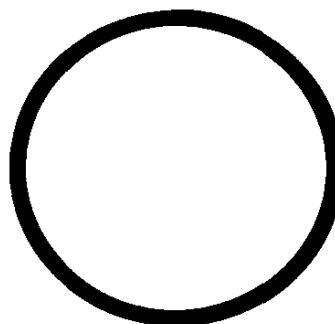


£	2019
● Salary	900,000
● Benefits	25,406
● Pension	180,000
● Bonus	1,143,542
● LTIP	-
Total	2,248,948

Paul Woolf

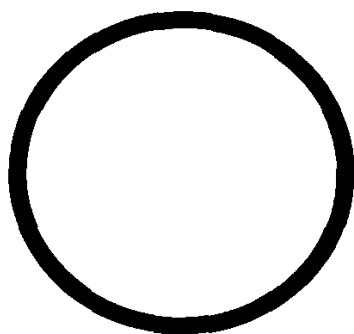


£	2020
● Salary	324,058
● Benefits	1,467
● Pension	32,406
● Bonus	-
● LTIP	-
Total	357,931



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

Andrew Peeler



£	2020
● Salary	98,551
● Benefits	-
● Pension	-
● Bonus	-
● LTIP	-
Total	98,551

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

Annual Report on remuneration

Executive Director remuneration (subject to audit)

The table below reports a single figure of total remuneration for each of the Executive Directors for the financial year ended 31 March 2020 and their comparative figures for the financial year ended 31 March 2019.

	Year	Salary	Benefits ²	Pension ³	Annual bonus ⁴	LTIP ⁵	Total
Phil Bentley	2020	£900,000	£27,508	£180,000	£0	£1,540,961	£2,648,469
	2019	£900,000	£25,406	£180,000	£1,143,542	£0	£2,248,948
Andrew Peeler ¹	2020	£98,551	£0	£0	£0	£0	£98,551
	2019	£0	£0	£0	£0	£0	£0
Former Director Paul Woolf ¹	2020	£324,058	£1,467	£32,406	£0	£0	£357,931
	2019	£430,000	£1,716	£43,000	£404,609	£0	£879,325
Total Remuneration	2020						£3,104,951
	2019						£3,128,273

Notes:

1. Andrew Peeler was appointed to the Board as Chief Financial Officer on 2 January 2020 and the information in the table for 2020 above confirms his earnings as an Executive Director from that date. Paul Woolf resigned from the Board on 2 January 2020 and the information in the table for 2020 above confirms his earnings as an Executive Director to that date.
2. Benefits relate to the cost to the Group of private medical cover, car allowance and financial/tax planning advice.
3. The pension benefit disclosed above comprises cash allowances in lieu of pension contributions for Phil Bentley of 20% of salary. Andrew Peeler has not taken up the offer of a pension/ pension cash allowance in line with that of the wider workforce.

4. 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 2020 was determined is provided on pages 152 and 153.

5. The LTIP figure disclosed above for Phil Bentley is in respect of the 2016 and 2017 LTIPs and has been valued, in-line with the regulations, using the average share price of the last three months of FY 19/20 (124.89p). The LTIP figure based on the average share price for May 2020 (71.90p) would be £887,142 which is more representative of the current share price. The share price used for the single figure table is below the share price at the respective grant dates of the LTIP awards and therefore none of the amount in the table above is attributable to share price appreciation. Further information about how the level of the vesting was determined is provided on pages 154 to 156.

Non-Executive Director remuneration (subject to audit)

The fees for the Non-Executive Directors for the financial year ended 31 March 2020 and their comparative figures for the financial year ended 31 March 2019 are set out below:

	2020 £'000	2019 £'000
Derek Mapp	225	225
Nivedita Krishnamurthy Bhagat	52	52
Baroness Couttie ¹	59	52
Jennifer Duvalier	60	57
Mary Reilly	60	57
Roger Yates	59	59
Total²	515	502

Notes:

1. Baroness Couttie assumed the role of Chair of the Social Value & Responsible Business Committee from 4 June 2019.

2. All amounts were paid in cash and no other benefits were received in the year. The total fees for 2019 reported in the Annual Report and Accounts 2019 was £567,000 and the difference between this figure and the total for 2019 shown in the table is attributable to Non-Executive Directors, Jack Boyer, Larry Hirst and Mark Reckitt who stepped down from the Board during FY 18/19.

Base salary and benefits

Commencing 1 November 2016, the annual base salary for Phil Bentley is £900,000. The review of Phil's base salary in April 2020 resulted in no change in base salary.

Commencing 13 November 2017, the annual base salary for Paul Woolf was £430,000. The review of Paul's base salary in April 2019 resulted in no change. Commencing 9 December 2019, with no review planned, the annual base salary for Andrew Peeler is £400,000.

Benefits are as described in the notes to the Executive Director remuneration table on page 150. No changes in benefits are planned for the year ending 31 March 2021.

The Non-Executive Director fees were last reviewed by the Board in March 2019. For the year ending 31 March 2021 they would ordinarily remain as follows:

	2020 £'000	2019 £'000
Chairman fees ²	225	225
Non-Executive Director core fees ³	52	52
Additional fees:		
Senior Independent Director	7	7
Chair of a Committee	8	8

Notes:

1. The core fees of £52,000 per annum paid to each Non-Executive Director (including the Chairman) would ordinarily total £312,000 for the year ending 31 March 2021. Total fees including additional duties would ordinarily amount to £516,000 for the year ending 31 March 2021 (£515,000 actual for the year ended 31 March 2020).
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 chairman or a member of other Committees.
3. For Non-Executive Directors, individual fees comprise the core fee and additional supplemental fees for the Senior Independent Director and for chairing Committees to reflect the greater responsibility and time commitment required.

In March 2020 Mitie announced a number of actions that it was taking to mitigate the impact of the COVID-19 pandemic on its business. As part of the Group's cost saving measures the Non-Executive Directors and the CEO, and the Executive Leadership Team (including the CFO) have volunteered 30% and 20% reductions in their fees/salaries respectively for at least six months from April 2020.

Annual Bonus Plan

Awards in respect of the year ended 31 March 2020 were considered under the Annual Bonus Plan. Phil Bentley was eligible for a maximum bonus opportunity of 160% of base salary. Paul Woolf was originally eligible for a maximum bonus opportunity of 120% of base salary but ceased to be a Mitie employee on 28 January 2020 and as a result was no longer eligible to receive a bonus under Mitie's Annual Bonus Plan for the year ended 31 March 2020. Andrew Peeler joined Mitie on 9 December 2019 and was not eligible for a bonus in respect of the year ended 31 March 2020.

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

The Group performed strongly in respect of the year ended 31 March 2020, including delivery of £86.1m of operating profit before other items. As set out in the table below the formulaic outcome for the annual bonus was 65% of the maximum. However, taking into account the impact of the COVID-19 pandemic and the decision to not recommend a final dividend for FY 19/20, Phil Bentley proposed that no bonus be paid and the Committee supported his decision.

The performance ranges have been adjusted for the impact of acquisitions and disposals during the year and the out-turn has been assessed by comparing the reported FY 19/20 results for continuing operations with the adjusted performance ranges.

Performance measure	Weighting	Adjusted performance range	Out-turn
Operating profit¹	35% of the award	£77.0m threshold £81.1m target £85.2m maximum	The out-turn was £86.1m resulting in an outcome of 100% of the maximum for this element, being 35% of the maximum bonus opportunity.
Revenue²	35% of the award	£2,126m threshold £2,192m target £2,257m maximum	The out-turn was £2,173.7m resulting in an outcome of 44% of the maximum for this element, being 15% of the maximum bonus opportunity.
Reduction in receivables	10% of the award	£10-50m improvement	The out-turn was £8m resulting in an outcome of 0% of the maximum for this element, being 0% of the maximum bonus opportunity.
Other strategic targets	10% of the award	n/a	The Committee considered performance against the strategic objectives set out below and determined that the out-turn was 70% of the maximum for the CEO, being 7% of the maximum bonus opportunity.
Individual objectives	10% of the award	n/a	The Committee considered performance against the individual objectives set out below and determined that the out-turn was 80% of the maximum for the CEO, being 8% of the maximum bonus opportunity.

Notes:

1. Operating profit before other items from continuing operations.
2. Revenue from continuing operations.

The other strategic targets and individual objectives set for the CEO were as follows:

CEO

Strategic targets	
Strategy	Drove business development agenda, with a focus on exiting non-core businesses and adding technology capability Built on strengthening relationships with public sector clients Developed and implemented strategy for Cleaning and Waste
Individual objectives	
Customers	Improved customer Net Promoter Score by 18% Embedded unitary account management
People	Improved employee engagement score by 1% Implemented training programmes to develop talent in the Group
Technology	Retrenched the Connected Workspace program to drive the digital transformation journey
CSR	Expanded the CSR proposition and continues to lead the Group's Plan Zero position.

As set out above, although the formulaic bonus outcome was 65% of maximum, Phil Bentley recommended that no bonus be paid in respect of FY 19/20 due to the impact of the COVID-19 pandemic, and the decision to not recommend a final dividend for FY 19/20, and the Committee supported his decision.

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	28%	56%	112%	0%	0%	24%	48%	0%	0	0	0

Bonus FY 20/21

The Annual Bonus Plan will be operated on similar terms for the year ending 31 March 2021. Phil Bentley's maximum bonus opportunity for FY 20/21 will remain at 160% of base salary. His award 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.

Taking into account the uncertainty created by the COVID-19 pandemic the Committee will keep the bonus framework under review to ensure that the measures and targets are appropriate in the context of the Group's wider performance. As above, details of the targets will be disclosed in next year's report. Andrew Peeler's bonus arrangement is capped at 50% of base salary and is tied to role-specific objectives for FY 20/21 relating to his role as Chief Financial Officer.

LTIP awards granted in 2019 (subject to audit)

On 25 June 2019, the following conditional LTIP awards were granted to the Executive Directors:

Award	Type	Number of shares ¹	Face value (£'000)	% of salary	Performance conditions	Performance Period	% vesting at threshold
Phil Bentley	Performance LTIP Jun 19	1,176,470	1,800	200%	Performance conditions are set out in the table below	Three financial years ending 31 March 2022	25%
Paul Woolf ²	Performance LTIP Jun 19	421,568	645	150%			

Notes:

1. Number of shares was calculated based on the closing middle market price of 153.0p on the last trading day before the date of grant.
2. Paul Woolf ceased to be a Mitie employee on 28 January 2020 and his award subsequently lapsed.

LTIP awards granted in 2019 are subject to two performance measures, adjusted EPS and cash conversion. These awards will vest in 2022 conditional on performance against the following measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2022)
Earnings Per Share (EPS) growth	50% of the award	5% – 10% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 5% pa. If EPS growth is equal to 5% pa, 25% of the award will vest. If Mitie achieves EPS growth of 7.5% pa, 70% of the award will vest. If EPS growth of 10% pa or more is achieved, all the awards will vest. Between 5% and 7.5% and 7.5% and 10%, the proportion of awards vesting will be determined on a linear sliding scale basis.
Cash conversion	50% of the award	80% – 90% pa	Zero vesting if cash conversion is less than 80% pa. At 80% pa cash conversion, 25% of the award will vest. 70% of the award will vest if Mitie achieves 85% pa cash conversion. Full vesting for this portion will occur if 90% pa cash conversion is achieved. Between 80% and 85% and 85% and 90%, the proportion of awards vesting will be determined on a linear sliding scale basis.

The Committee has the discretion to determine the performance measures and how the performance ranges applicable to the award are applied, including discretion to adjust them in the event of changes in IFRS accounting standards, while ensuring that they are not materially easier or harder to satisfy than the original performance measures and ranges.

LTIP FY 20/21

The grant of a 2020 LTIP award to Phil Bentley will be made in due course. The performance conditions that apply to the award will follow the same construct as in 2018 and 2019 with two measures: (i) EPS; and (ii) cash conversion, each accounting for 50% of the award. Given the uncertainty around the long-term impact of COVID-19 on the business, it is not possible to set meaningful three-year targets at this time. Therefore, the Committee intends to delay setting targets until later in the financial year at which time it expects to have a better understanding of the long-term effects of COVID-19 on the business. Once set the targets will be disclosed in our stock exchange announcement detailing the grant.

Phil Bentley will be granted an award of 200% of base salary. The Committee is mindful of shareholder guidance around 'windfall gains' and has full discretion to ensure that the level of any vesting outcome is appropriate based on the overall performance of the Group and the shareholder experience.

Details of November 2016 LTIP award vesting in 2020

Following his appointment, Phil Bentley received an LTIP award in November 2016. The performance conditions for this award are linked to the achievement of annual bonus targets in respect of FY 17/18, FY 18/19 and FY 19/20. In the event that 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. The bonus targets that applied for FY 17/18 were deemed to have been met and those for FY 18/19 were met as set out in last year's report. The Remuneration Committee determined that the bonus targets had been achieved in respect of FY 19/20, as detailed on page 152, and accordingly this LTIP award will vest in full on 25 June 2020.

This award is subject to a holding period, post vesting, with 50% of the shares being released in June 2020, 25% being released in November 2020 and 25% in November 2021. However, taking into account the decision to not recommend a final dividend for FY 19/20 Phil Bentley has agreed that he will not sell shares from this award until such time as the Company resumes the payment of dividends (other than in respect of settling any taxes due).

Details of July 2017 LTIP awards vesting on 23 July 2020

The Committee assessed the outcome of the July 2017 LTIP awards (based on FY 19/20 results) granted under the plan against a basket of performance measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2020)	Mitie performance	Vesting (% of max)
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 EPS growth of 10% pa, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis.	4.6% pa	0%
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.	Mitie TSR to 31 March 2020 was -13.5% which was below the Benchmark median TSR	0%
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.	94% of maximum Further details in table below	23%
Cash conversion	30% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At 75% pa cash conversion, 25% of the award will vest. 70% of the award will vest if Mitie achieves 80% pa cash conversion. Full vesting for this portion will occur if 85% pa cash conversion is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.	101% pa	30%

Strategic objectives	Mitie performance
1. Customers at heart of business 1a Net Promoter Score (NPS) improvement of + 10 points	1a NPS increased by +57 points over the three-year period
2. Build a winning culture and develop and retain our people 2a Improve employee engagement score by + 10 points	2a Employee engagement score increased by +13 points between FY 17/18 and FY 19/20 (33% to 46%) ¹
3. Transform our cost base and restore balance sheet strength 3a Deliver £50m (run rate) in operational efficiencies 3b Deliver average net debt to EBITDA of 2x	3a £45m Project Helix savings achieved in full by 31 March 2020 3b Average net debt to EBITDA of 2x delivered ²
4. Uplift investments in technology to provide insights and make Mitie the easiest company to do business with: 4a Increase organic revenue by 10%	4a Organic revenue growth of 9% over the three-year period ³

Notes:

1. In FY 17/18 the methodology was changed through the introduction of the Upload people survey to obtain a truer picture of employee engagement and provide a clear benchmark for improvement.
2. Average net debt for H2 19/20 on a pre-IFRS basis compared with EBITDA before other items from continuing operations for FY 19/20.
3. Revenue from continuing operations, with FY 19/20 revenue adjusted to exclude the revenue from businesses acquired over the three-year period and FY 16/17 revenue adjusted to exclude the revenue from businesses disposed over the three-year period.

As part of their assessment the Committee took into account the wider context, including the temporary salary reductions, the salary freezes for FY 20/21 and the use of negative discretion on the FY 19/20 bonus. Following their assessment of performance, the Committee determined that the formulaic outturn of 53% of maximum was appropriate for the July 2017 LTIP. Phil Bentley is the only Executive Director with a July 2017 LTIP award which vests 50% on 24 July 2020, 25% on 24 July 2021 and 25% on 24 July 2022.

Loss of office payments (subject to audit)

Paul Woolf resigned from the Board on 2 January 2020 and continued as a Mitie employee until 28 January 2020. A summary of Paul'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 28 January 2020, Paul continued to receive his salary and contractual benefits. Following his departure Paul was not eligible to receive a bonus for the year ended 31 March 2020. All of Paul's outstanding share awards lapsed on departure. No other payments will be made.

Payments to past Directors (subject to audit)

There have been no payments to past Directors during FY 19/20 that relate to their period as a Director.

Change in CEO pay for the year compared to UK salaried employees

The table below sets out the change in remuneration of the Chief Executive Officer and Mitie's UK salaried non-contract population, which is considered the most appropriate group for comparison purposes.

%	Salary	Benefits	Bonus
Chief Executive Officer	0.0%	8.27%	-100%
Average pay based on Mitie's UK salaried non-contract employees ¹	6.31%	11.94% ²	-100%

Notes:

1. Reflects the change in average annual pay for salaried non-contract UK employees employed throughout the two financial years ended 31 March 2020. Salaried non-contract employees are those who are employed directly by Mitie Group and whose roles are not dedicated to the provision of client services.
2. Includes car/car allowance, private medical benefit and private fuel.

CEO pay ratio

The table below sets out the CEO pay ratio in respect of FY 19/20.

Year	Method	25 th percentile pay ratio	Median pay ratio	75 th percentile pay ratio
FY 19/20	Option B	154:1	139:1	108:1

The pay ratios set out above were calculated using the Company's FY 19/20 gender pay data based on employees as at 5 April 2019 under method B. Method B was selected because it made use of robust, readily available data and did not require additional analysis into the more than 46,000 UK employees employed by the Group. Total pay was calculated for a sample of employees at each quartile in order to ensure that the three identified employees were suitably representative of their quartile. A full-time equivalent total pay figure was calculated for each identified employee using the single figure methodology. The hourly pay rates were converted into full-time equivalents based on an assumed 40 working hours per week and excluding overtime payments. The following table sets out the base salary and total pay figures for the employees identified at each quartile.

Year	Element of pay	25 th percentile employee	Median employee	75 th percentile employee
FY 19/20	Base salary (FTE)	£17,207	£18,771	£21,607
	Total pay (FTE)	£17,207	£18,999	£24,609

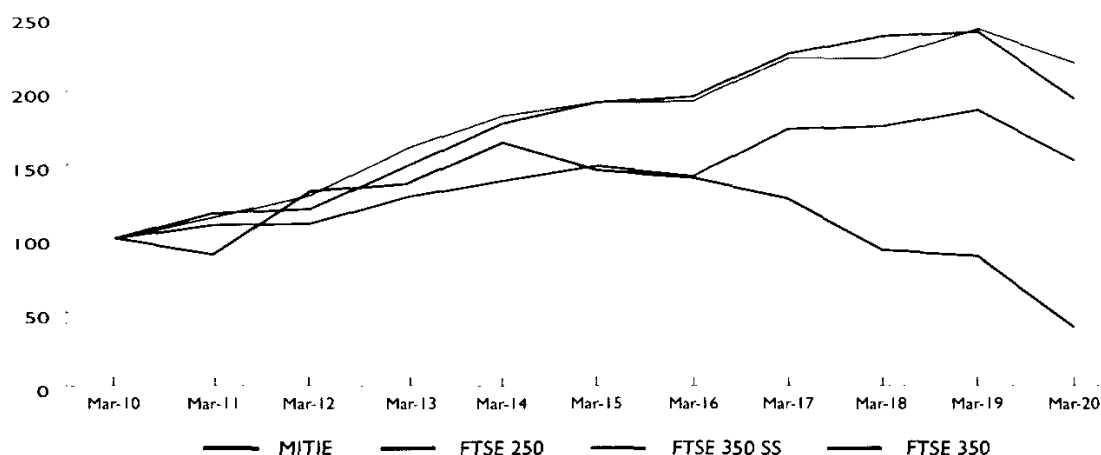
Relative spend on pay

The table below shows the total cost of remuneration in the Group, compared with dividends distributed.

	Year ended 31 March 2020 £m	Year ended 31 March 2019 £m	Change
Aggregate employee remuneration	1,269	1,244	2%
Equity dividends	14	14	0%

Assessing pay and performance

The table below provides a summary of the Chief Executive Officer's single figure remuneration over the past ten years, as well as the pay-out and vesting levels of variable pay plans in relation to the maximum opportunity. The chart below shows the historical TSR performance over the same period. These indices (FTSE 250, FTSE 350 Support Services and FTSE 350) have been chosen as they are widely recognised and Mitie has been a member of these indices during the period:



	2011	2012	2013	2014	2015	2016	2017 Ruby McGregor- Smith ¹	2017 Phil Bentley ¹	2018	2019	2020
Single figure remuneration	£2,324,443	£2,431,773	£2,105,131	£1,447,266	£1,525,824	£2,448,161	£530,628	£479,073	£1,102,549	£2,248,948	£2,648,469
Annual bonus element (actual as a % of max)	100%	100%	85%	90%	50%	73%	0%	waived	waived	79%	waived
LTIP element (actual vesting as a % of max)	100%	87.2%	57.2%	0%	25%	69.5%	0%	n/a	n/a	n/a	79.7% ²

Notes:

1. Ruby McGregor-Smith stepped down as Chief Executive Officer on 12 December 2016. Phil Bentley joined the Board on 1 November 2016 and assumed the position of Chief Executive Officer on 12 December 2016. The figures above include Phil Bentley's remuneration from 1 November 2016.

2. This figure includes two awards that vested based on performance to 31 March 2020 which vested at 100% and 53% respectively.

Share ownership (subject to audit)

	Number of shares owned as at 31 March 2020 ¹	Value of target holding	Target shareholding	Percentage of salary held as at 31 March 2020	Percentage of target achieved as at 31 March 2020	Compliance with share ownership guidelines
Phil Bentley ²	2,019,136	£1,800,000	926,328	436%	218%	Achieved
Paul Woolf ³	48,967	£860,000	586,790	17%	8%	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. Value of target holding was 200% of base salary for Paul Woolf. His target shareholding is calculated using the average closing share price of 146.6p for the five business days prior to the start of the financial year ended 31 March 2020. Paul resigned from the Board on 2 January 2020 and his shareholding above is at that date.

Andrew Peeler is not subject to the shareholding guidelines.

Directors' outstanding share interests (subject to audit)

The following tables provide the outstanding share interests for the Executive Directors:

Directors' interests granted under the LTIP

	Year of grant	Options outstanding as at 31 March 2019	Granted in year ⁴	Lapsed in year	Exercised in year	Options outstanding as at 31 March 2020 ⁵	Exercise price	Earliest normal exercise date ⁶
Phil Bentley	Nov 2016 ¹	879,077	–	–	–	879,077	Nil-cost	May 2020
	Jul 2017 ²	669,393	–	–	–	669,393	Nil-cost	Jul 2020
	Aug 2018 ³	1,180,327	–	–	–	1,180,327	Nil-cost	Aug 2021
	June 2019 ⁴	–	1,176,470	–	–	1,176,470	Nil-cost	June 2022
Paul Woolf	Nov 2017 ²	143,269	–	143,269	–	–	Nil-cost	Nov 2020
	Aug 2018 ³	422,950	–	422,950	–	–	Nil-cost	Aug 2021
	June 2019 ⁴	–	421,568	421,568	–	–	Nil-cost	June 2022

Notes:

1. The performance criteria applicable to the November 2016 award are provided on page 154.
2. The performance criteria applicable to the 2017 awards are provided on page 155.
3. The performance criteria applicable to the 2018 awards were disclosed in the previous Directors' Remuneration Report.
4. The performance criteria applicable to the 2019 awards are provided on page 154.
5. The market price of the Company's shares as at 31 March 2020 was 65.0p. The highest and lowest prices during the year were 168.3p and 58.45p respectively.
6. Awards are subject to an additional two-year holding period.

Directors' interests granted under the Deferred Bonus Plan

	Year of grant	Options outstanding as at 31 March 2019	Granted in year ¹	Lapsed in year	Exercised in year	Options outstanding as at 31 March 2020	Exercise price	Earliest normal exercise date
Phil Bentley	June 2019	–	373,706	–	–	373,706	Nil-cost	June 2021
Paul Woolf ²	June 2019	–	132,224	132,224	–	–	Nil-cost	June 2021

Notes:

1. Due to Paul Woolf's exit from the business on 28 January 2020, his DBP grant has lapsed in full.
2. Granted as part of the ABP 2019

Directors' share ownership

	Number of ordinary shares beneficially owned as at 31 March 2020 (or date of cessation if earlier)	Number of ordinary shares beneficially owned as at 31 March 2019 (or date of appointment if later)
Executive Directors		
Phil Bentley	2,019,136	1,999,749
Andrew Peeler ¹	0	0
Paul Woolf ²	48,967	48,967
Non-Executive Directors		
Derek Mapp	140,000	140,000
Nivedita Krishnamurthy Bhagat	0	0
Baroness Couttie	0	0
Jennifer Duvalier	18,469	18,469
Mary Reilly	11,708	11,708
Roger Yates	50,000	50,000

Notes:

1. Andrew Peeler was appointed to the Board on 2 January 2020.

2. Paul Woolf resigned from the Board on 2 January 2020.

There have been no changes in Director share ownership between 31 March 2020 and 22 June 2020, the last practicable date prior to the date of this report.

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 2020	Dilution
All share plans (maximum 10%)	5.6%
Discretionary share plans (maximum 5%)	1.8%

Shareholder voting

Mitie remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the Group seeks to understand the reasons for any such vote, and will detail here any actions in response to it.

A resolution to approve the Directors' remuneration policy as set out in the Annual Report and Accounts 2018 was passed at the Company's 2018 AGM. At the Company's 2019 AGM, a resolution was passed to approve the 2019 Directors' remuneration report (excluding the summary of the Directors' remuneration policy). The results of the votes on these resolutions were as follows:

Number of votes	Votes in favour	Votes against	Withheld
2018 Directors' remuneration policy – 2018 AGM	276.8m	0.8m	0.1m
	99.7%	0.3%	–
2019 Directors' remuneration report – 2019 AGM	292.5m	1.4m	0.0m
	99.5%	0.5%	–

Note:

1. Votes withheld are not counted in the calculation of the proportion of votes for or against a resolution.

Remuneration Committee and its advisors

The Remuneration Committee seeks and considers advice from independent remuneration advisors where appropriate.

Deloitte LLP has acted as independent remuneration advisors to Mitie since September 2017. The advisors attended Committee meetings and provided advice and analysis of executive remuneration. During their tenure, the advisors provide no other services to the Company (save in relation to services connected to executive remuneration and share plans) and also comply with the Code of Conduct for Remuneration Consultants. The advisors' total cost of advice to the Committee for the year was £49,050 (such fees being charged in accordance with their standard terms of business).

The Committee specifically considered the position of the advisors and was satisfied that the advice the Committee received from them was objective and independent, given that they provided no other services to the Company.

The Committee receive feedback from the wider employees on pay and benefits and are mindful of that when considering executive pay arrangements.

Social Value & Responsible Business Committee report

Social Value & Responsible Business Committee members

At the date of this report and since its establishment on 4 June 2019 the Social Value & Responsible Business Committee comprised:

Chair	Baroness Couttie
Committee members	Jo Davis, Group HR Director (until 19 December 2019) Peter Dickinson (from 29 January 2020) Colin Dobell, Managing Director of Care & Custody (from 4 November 2019) Kath Fontana, Managing Director, Public Sector, Critical Infrastructure & Projects Jasmine Hudson, HR Director Group & Specialist Services (from 29 January 2020) Simon King, Director of Sustainability & Social Value (from 29 January 2020) Claire Lovegrove, Head of Media Relations Jason Towse, Managing Director, Business Services Simon Venn, Chief Government & Strategy Officer

Tony Brogden-Ward, Interim Head of Social Value & Responsible Business, was a regular attendee of Social Value & Responsible Business Committee meetings prior to his departure from the Mitie business in January 2020.

Social Value Committee & Responsible Business Committee meetings

The Social Value & Responsible Business Committee met three times during FY 19/20. Baroness Couttie attended all meetings as detailed on page 114.

Key purpose of the Social Value & Responsible Business Committee

The purpose of the Social Value & Responsible Business Committee is to provide oversight and governance for all of Mitie's social value and responsible business initiatives, ensuring they are aligned to the organisation's Purpose, Promises and Commitments.

Key responsibilities of the Social Value & Responsible Business Committee

The key responsibilities of the Social Value & Responsible Business Committee include:

- Drive the social value and responsible business agenda on behalf of the Group
- Ensure that the Group conducts its business in a commercially responsible way to achieve maximum positive impact on the communities, people and the environment in which it works
- Benefit Mitie's customers, staff and shareholders

The Social Value & Responsible Business Committee Terms of Reference are available at www.mitie.com/investors/corporate-governance.

Key activities during the year

Established Committee and governance structures

The Social Value and Responsible Business Committee was established by the Board on 4 June 2019. Baroness Couttie was appointed as the Independent Non-Executive Director to chair the Committee, with the first meeting held in July 2019.

The Committee reviewed the progress to date and agreed priority areas for action, including creating a social value operating model, setting clear social value targets and taking an industry leading position on climate change.

In FY 19/20, Jasmine Hudson, HR Director Group & Specialist Services, was appointed to oversee the activities of the Mitie Foundation and joined the Committee. Baroness Couttie was appointed as the new chair of The Mitie Foundation on 18 May 2020. A strategic review was undertaken of the Mitie Foundation's main ventures resulting in the alignment of the Foundation's guiding principles – Employment, Enterprise, Education – with Mitie's Purpose, Promises and Commitments. Mitie's first Director of Sustainability & Social Value, Simon King, was also appointed and joined the Committee.

Creation of Social Value operating model

During FY 19/20, the Committee reviewed the proposed operating model for social value within Mitie. This includes a Vision and Mission, which align with Mitie's Promise and Purpose, along with a series of commitments.

Five social value pillars were agreed, which were developed from a review of the UN Sustainable Development Goals and the National TOMs (Themes, Outcomes and Measures). The five pillars are Employment, Responsibility, Community, Environment and Innovation.

Following the adoption of this operating model, the Mitie Social Value and Responsible Business Charter was created and approved by the Committee.

Launch of Plan Zero

During the year Mitie made significant progress on transitioning its fleet to electric vehicles. Mitie also has significant expertise in other aspects of sustainability; notably in Technical Services, on decarbonisation of heating systems and procurement of renewable energy, and Mitie Waste on reduction of total waste levels and moving to a circular economy approach.

Given these capabilities the Committee reviewed Mitie's commitments to reducing its carbon footprint and approved the launch of Plan Zero, which is Mitie's commitment to reach net zero carbon emissions by 2025, through eliminating carbon from power and transport, eradicating non-sustainable waste and enhancing inefficient buildings.

This industry leading initiative makes Mitie the first major UK Facilities Management company to commit to such a stretching target.

Established first phase of Social Value targets

In September 2019 the first Mitie Social Value report was published, including Mitie's commitments on social value. Subsequently, the Committee reviewed these commitments to establish where more ambitious targets could be agreed.

In Spring 2020, new targets, including milestones by year until FY 24/25, were agreed across four areas of social value: carbon emissions; percentage of Mitie fleet which is zero carbon; percentage of employees through an apprenticeship scheme; and number of volunteer paid hours.

The Committee is pleased to report that all of these targets built on and accelerated commitments in the Mitie Social Value report. The review of existing commitments and drive for ambitious but achievable goals will continue, with further targets to be agreed by the Committee in FY 20/21.

Baroness Couttie

Chair of the Social Value & Responsible Business Committee

Disclosure Committee report

Disclosure Committee members

At the date of this report and throughout FY 19/20, the Disclosure Committee comprised:

Chair	Phil Bentley
Committee members	Derek Mapp
	Andrew Peeler (from 2 January 2020)
	Peter Dickinson
	Paul Woolf (until 2 January 2020)
	Katherine Woods, Deputy General Counsel

Disclosure Committee meetings

The Disclosure Committee meets on an ad hoc basis. During FY 19/20, the Disclosure Committee met once.

Key purpose of the Disclosure Committee

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

Key responsibilities of the Disclosure Committee

The key responsibilities of the Disclosure Committee include:

- Monitor whether there are changes in circumstances that may require an announcement
- Make recommendations to the Board concerning the identification of inside information
- Make recommendations to the Board regarding how and when the Company should disclose inside information
- Maintain a record of matters considered for disclosure but not disclosed
- Maintain a record of the Company's public disclosures

Key activities during the year

The Committee met once during the year in connection with the sale of the Catering business to CH&CO which was subsequently announced on 19 August 2019.

Phil Bentley

Chair of the Disclosure Committee

Directors' report

The Directors present their Annual Report, together with the audited financial statements of the Company and the Group, for the year ended 31 March 2020.

The Directors' report required under the Companies Act 2006 comprises the corporate governance statement on pages 95 to 130, with both the Directors' remuneration report on pages 141 to 161 and Strategic report on pages 2 to 94 incorporated by reference. The corporate governance statement on pages 95 to 130 fulfils the requirement under Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (DTR) 7.2.1.

For the purposes of DTR 4.1.8R, the management report for the year ended 31 March 2020 comprises the Strategic report and this Directors' report.

Cross-references

Employee engagement	Details of how Mitie encourages employee involvement can be found in the Strategic report on pages 49 to 54.
Diversity and inclusion (including employment of disabled persons)	Details of Mitie's commitment to diversity and inclusion, including in relation to the employment of disabled persons, can be found on page 121.
Business relationships	Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of this on the principal decisions taken by the Company during the year can be found in the Strategic report on pages 70 to 73.

The information required to be disclosed by Listing Rule 9.8.4 can be found in the following locations:

Details of any long-term incentive schemes	Directors' remuneration report on pages 141 to 161 and Note 29 to the consolidated financial statements
Details of any arrangements under which a Director has waived or agreed to waive any emoluments or future emoluments	Directors' remuneration report on page 153
Shareholder waiver of dividends and future dividends	Directors' report on page 170

No shareholder is considered a controlling shareholder as defined in the Financial Conduct Authority Handbook.

The remaining disclosures required by LR 9.8.4 are not applicable to the Company.

Principal Group activities

The Company is the holding company of the Group and its principal activity is to provide management services to the Group. The Group's activities are focused on the provision of strategic outsourcing services, further details of which can be found on pages 4-6 of the Strategic report.

The Company does not have any branches registered overseas, but certain subsidiaries of the Company have registrations/branches across the United Kingdom, Republic of Ireland, Guernsey, Jersey, Isle of Man, Belgium, Finland, France, Germany, Ghana, Kenya, the Netherlands, Nigeria, Norway, Poland, Singapore, Spain, Sweden, Switzerland and the United Arab Emirates. Details of the Company's subsidiaries are set out in Note 33 to the consolidated financial statements.

Given the nature of its activities, no material research and development work is carried out by the Group.

The Board's view on the likely future development of the Group is set out in the Strategic Report on page 16.

Articles of Association

The Company's Articles of Association (the Articles) were adopted at the 2017 AGM. Any future amendment to the Articles must be made in accordance with their provisions, the Companies Act 2006 and related legislation. The Articles are available at www.mitie.com/investors/corporate-governance.

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.

Greenhouse gas emissions

At Mitie, the climate emergency is seen as a business-critical issue that needs to be addressed within its operations. In FY 18/19 Mitie achieved the goal set in 2010 to reduce its carbon footprint (Scope 1 & 2) intensity by 35% by 2020. In FY 19/20 Mitie launched its new industry-leading Plan Zero commitment to reach net zero carbon emissions by 2025. To achieve this, efforts are focused on three key areas:

- Eliminate carbon emissions from power and transport
- Eradicate non-sustainable waste
- Enhance inefficient buildings to meet the highest environmental standards

For FY 19/20 absolute UK emissions are compared against FY 18/19 figures which have been revised to reflect changes to the organisation such as the disposal of the Social Housing business and improvements to reporting such as the ability to report business and personal mileage separately.

Absolute emissions

Emissions	FY 18/19	FY 19/20	% Change against FY 18/19
Total Scope 1 (tCO₂e)	28,055	26,441	-6%
Emissions from fuel combustion across fleet	27,514	26,162	-5%
Emissions from gas combustion at occupied buildings (excluding landlord sites)	541	279	-49%
Total Scope 2 (tCO₂e) (Location Based)	857	631	-26%
Emissions from the purchase of electricity across occupied buildings (excluding landlord sites)	857	613	-28%
Emissions from electricity consumption across EV fleet	0	18	100%
Total Scope 1 & 2 (tCO₂e) (Location Based)	28,912	27,072	-6%
Total Scope 1 & 2 (tCO₂e) (Market Based)	28,912	26,459	-8%

Intensity

			% Change against FY 18/19
Emissions ratio	FY 18/19	FY 19/20	
tCO ₂ e/£m revenue (Scope 1 & 2)	13.07	12.45	-5%

* Refrigerant data has been excluded due to difficulties obtaining accurate data on landlord managed sites; however, this data is not considered material. FY 18/19 figures have been revised to enable like for like comparison between years and reflect changes in reporting methodology and organisational changes such as the disposal of the Social Housing business. Total greenhouse gas (GHG) emissions are reported using the financial control approach. Mitie's methodology aligns with Defra's environmental reporting guidelines and uses the Government's greenhouse gas reporting conversion factors to quantify emissions.

Like-for-like analysis highlights that absolute scope one & two UK emissions have reduced by 6% and UK emissions intensity has decreased by 5%. These reductions are a direct result of fuel reductions attributable to 8% of the fleet transitioning to electric vehicles (325 EVs at 31 March 2020), and a decrease in vehicle movements due to organisation changes as well as the impact of COVID-19. Scope one and two market-based UK emissions are down further by 8%, due to the purchase of all electricity from certified 100% renewable electricity tariffs in FY 19/20.

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, including landlord sites, can be found in the table below:

	FY 18/19	FY 19/20	% Change against FY 18/19
Energy			
Electricity consumed across occupied buildings (kWh)	3,640,526	4,017,361	10%
Gas consumed across occupied buildings (kWh)	3,510,975	3,508,404	0%
Fuel used by fleet for business travel (kWh)	116,084,009	113,332,840	-2%
Electricity used by EV fleet for business travel (kWh)	-	195,356	100%
Total organisational energy consumption (kWh)	123,235,510	121,053,961	-2%
Water			
Water consumed across occupied buildings (m ³)	29,500	34,591	17%
Waste			
Total waste to landfill (tonnes)	253	376	49%
Total waste recycled (tonnes)	379	366	-3%
Total waste generated across occupied buildings (tonnes)	632	742	17%
Recycling rate	60%	49%	-18%

Directors

The names of all persons who served as Directors of the Company at any time during FY 19/20 are set out on page 113. Full biographical details, including Committee membership and external appointments, are set out on pages 97 to 102.

Director independence

The Board considered the independence of all Non-Executive Directors during FY 19/20 and determined that, as at 31 March 2020, all Non-Executive Directors continued to be independent in mind and judgement, and free from any material relationship that could interfere with their ability to discharge their duties effectively.

Indemnification of Directors and insurance

The Directors and the Company Secretary benefit from an indemnity provision under the Articles. Additionally, all Directors and the Chief of Staff, General Counsel & Company Secretary have been granted a qualifying third-party indemnity provision (as defined by Section 234 of the Companies Act 2006) which has been in force throughout FY 19/20 and remains in force as at the date of this report.

Certain subsidiary directors have also been granted a qualifying third-party indemnity provision which has been in force throughout FY 19/20 and remains in force as at the date of this report.

The Group maintains directors' and officers' liability insurance which provides appropriate cover for any legal action brought against the Group's directors and/or officers.

Share capital

The Group is financed through equity share capital and debt instruments. Details of the Company's share capital are given in Note 26 to the consolidated financial statements. Details of the Group's debt instruments are set out in Note 22 to the consolidated financial statements.

The Company has a single class of shares divided into ordinary shares of 2.5 pence each (Ordinary Shares). The Ordinary Shares are entitled to one vote each per share at general meetings and have no right to any fixed income.

In accordance with the Articles, holders of Ordinary Shares are entitled to participate in any dividends pro-rata to their holding. The Board may propose and pay interim dividends and recommend a final dividend to shareholders for approval at an AGM. A final dividend may be declared by the shareholders at an AGM by ordinary resolution, but such dividend cannot exceed the amount recommended by the Board.

Powers of the Company to issue or buy back its own shares

During FY 19/20 the Company did not allot any Ordinary Shares or undertake any market purchases of its own shares. 3,749 shares were distributed from treasury during FY 19/20 in connection with the exercise of awards under the Mitie Group plc 2011 SAYE scheme. Exercisable awards under the Mitie Group plc 2001 and 2011 Executive Share Option schemes were underwater throughout FY 19/20 and no awards were exercised.

The total number of Ordinary Shares held by the Company in treasury as at 31 March 2020 was 7,744,359, representing 2.1% of the issued share capital of the Company (2019: 7,748,108, representing 2.1% of the issued share capital of the Company).

At the 2019 AGM, shareholders authorised:

- The Directors to allot Ordinary Shares up to an aggregate nominal amount of £914,842.64, equating to 10% of the issued share capital (excluding treasury shares) as at 12 June 2019

- The dis-application of pre-emption rights over allotted shares up to an aggregate nominal value of £457,421.32, equating to 5% of the issued share capital (excluding treasury shares) and 4.9% of the issued share capital including treasury shares, each as at 12 June 2019
- The dis-application of pre-emption rights over allotted shares up to an aggregate nominal value of £457,421.32, equating to 5% of the issued share capital (excluding treasury shares) and 4.9% of the issued share capital including treasury shares, each as at 12 June 2019, in connection with the financing (or refinancing, if the authority is to be used within six months after the original transaction) of an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six month period and is disclosed in the announcement of the allotment
- The Company to make market purchases of its own shares up to a total of 36,593,706 Ordinary Shares, equating to 10% of the issued share capital (excluding treasury shares) as at 12 June 2019

These authorities will expire on the earlier of 30 September 2020 or the conclusion of the 2020 AGM. A renewal of these authorities will be put to shareholders at the 2020 AGM. Further details can be found in the notes to the relevant meeting notice which can be found on Mitie's website.

Restrictions on the transfer of shares

The Company is not aware of any agreements between holders of its securities which may result in restrictions on the transfer of securities or voting rights. No person has any special rights of control over the Company's share capital.

There are no specific restrictions on the size of any shareholding or on the transfer of shares, which are both governed by the provisions of the Articles.

Certain Ordinary Shares previously issued in consideration for the acquisition by the Company of shares held by minority shareholders in subsidiaries of the Group under the Mitie Model had contractual restrictions placed upon them. These restrictions prevented recipients from selling those Ordinary Shares and/or attached clawback provisions, which typically applied for a maximum period of two years from allotment. All remaining contractual restrictions were lifted on 1 October 2019.

Under Mitie's Rules on Share Dealing, persons with access to certain confidential company information or inside information are required to follow a clearance to deal procedure and may be restricted from dealing in the Company's shares. Persons subject to these requirements are notified individually and appropriately informed of the rules.

Significant interests in the Company's share capital

As at 31 March 2020 the Company had been notified of significant holdings of voting rights in its Ordinary Shares under the Disclosure Guidance and Transparency Rules as set out below.

	Number of Ordinary Shares	% of voting rights at the date of notification
Silchester International Investors LLP*	62,210,238	17.00%
Aggregate of Standard Life Aberdeen plc	20,764,548	5.67%
FIL Limited	18,906,903	5.17%
Brandes Investment Partners LP*	18,117,242	5.05%
Heronbridge*	18,366,728	5.00%
Harris Associates L.P.	18,203,437	4.97%

*No changes to these holdings have been disclosed to the Company during FY 19/20.

Changes that occurred between the end of the period under review and 22 June 2020, the latest practicable date prior to the date of this report, are set out below.

	Number of Ordinary Shares	% of voting rights at the date of notification
Aggregate of Standard Life Aberdeen plc	18,130,724	4.95%

Directors' interests in the Company's share capital are set out in the Directors' remuneration report on page 159.

Financial results

A detailed commentary on the operational and financial results of the Group for the year is contained within the Strategic report, including the Finance review on pages 37 to 44.

The Group's profit before tax from continuing operations for the year ended 31 March 2020 was £48.4m (2019 re-presented: £28.0m).

Dividends

An interim dividend of 1.33p per Ordinary Share (2019: 1.33p) with a total value of £4.8m (2019: £4.8m) was paid to shareholders on 4 February 2020. No final dividend is recommended (2019: 2.67p per Ordinary Share with a total value of £9.6m).

The total dividends per Ordinary Share for the year ended 31 March 2020 are 1.33p (2019: 4.0p).

As at 31 March 2020, the Company had distributable reserves of £86.4m (2019: £64.6m).

Mitie operates a Dividend Re-Investment Plan (DRIP) which allows shareholders to use their cash dividend to purchase additional Ordinary Shares. Further details on the operation of the DRIP and how to apply are available from Mitie's Registrar, Link Asset Services.

The trustees of the Company's Employee Benefit Trust waived dividends payable on Ordinary Shares held by the trust during the year and have agreed to waive future dividends.

In accordance with Section 726 of the Companies Act 2006, no dividends are paid on Ordinary Shares held in treasury.

Financial instruments

The Group's financial instruments include bank borrowing facilities, lease liabilities, overdrafts, US private placement loan notes and derivatives which are used to manage interest, currency and other risks when necessary or material.

The principal objective of these instruments is to raise funds for general corporate purposes and to manage financial risk. Further details of these instruments are given in Note 23 to the consolidated financial statements.

Disclosure of information to the auditor

Each Director in office as at the date of this Directors' report confirms that:

- So far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware
- He/she has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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

Post balance sheet events

Details of post balance sheet events can be found in Note 34 to the consolidated financial statements.

By order of the Board

Peter Dickinson

Chief of Staff, General Counsel & Company Secretary

25 June 2020

Statement of Directors' responsibilities in respect of the Annual Report, Remuneration report and financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law including FRS 101 Reduced Disclosure Framework.

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

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements and accounting estimates that are reasonable, relevant, reliable and prudent
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements
- For the Company financial statements, state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group or Company will continue in business
- Prepare a Directors' report, Strategic report and Directors' remuneration report which comply with the requirements of the Companies Act 2006

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

The Directors are responsible for ensuring that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Directors' responsibilities pursuant to DTR4.1

The Directors confirm that to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group
- The management report includes a fair review of the development and performance of the business and the financial position of the Group and the Company, together with a description of the principal risks and uncertainties that they face

Website publication

The Directors are responsible for ensuring that the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

Phil Bentley
Chief Executive Officer
25 June 2020

Andrew Peeler
Chief Financial Officer
25 June 2020

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 2020 which comprise:

Composition		Financial reporting framework
Group	• Consolidated Income Statement • Consolidated Statement of Comprehensive Income • Consolidated Balance Sheet • Consolidated Statement of Changes in Equity • Consolidated Statement of Cash Flows • Notes to the consolidated financial statements, including a summary of significant accounting policies.	Applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.
Parent Company	• Company Balance Sheet • Company Statement of Changes in Equity • Notes to the company financial statements, including a summary of significant accounting policies.	Applicable law and FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement, including material uncertainty related to going concern

Conclusion	We draw attention to the directors' assessment of the impact of COVID-19 and the material uncertainty relating to going concern detailed in Note 1. As described in Note 1, subsequent to the year-end the Group have launched an underwritten £201m (pre transaction costs and subject to conditions) rights issue in conjunction with an extension and variation of their existing Revolving Credit Facility (RCF) to December 2022. The rights issue is subject to shareholder approval which will not be formally confirmed until the General Meeting on 13 July 2020. Shareholder approval is also a condition precedent to the underwriting agreement of the rights issue, as is the extension and variation of the RCF. As formal Shareholder approval is yet to be received in respect of the rights issue, and without which the Group would not be in a position to withstand significant downside scenarios, this along with the other matters set out in Note 1, indicates a material uncertainty that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. The Group may therefore be unable to realise their assets and discharge their liabilities in the ordinary course of business. Our opinion is not modified in respect of this matter. Given the conditions and uncertainties noted above, we considered going concern to be a key audit matter. The risk relating to this is as follows: Subject to a successful rights issue, shareholder approval and approval from the US private placement note (USPPN) holders, the RCF will be revised as: • Extending the expiration date from July 2021 to December 2022 • Lowering the level of the facility from £275m to £250m • Relaxing the financial covenants over the remaining facility period. The RCF and USPPN are subject to financial covenants, and, notwithstanding the revised facility arrangements and fund raising, there is a risk that the Group would not meet these covenants due to the impact of COVID-19. Should the covenants not be met the RCF and USPPN would be repayable on demand which the Group would be unable to meet and therefore may not be a going concern. Details of the Group's financing liabilities can be found in Note 22 of the financial statements. With key assumptions being a successful rights issue and an extended RCF with relaxed covenants, the Directors have modelled the impact of relevant scenarios on the Group's base case forecast (reflecting the best estimate of the impact of COVID-19) including a reverse stress test. We have performed the following work as part of our audit: • We discussed the potential impact of COVID-19 with the Directors including their assessment of risks and uncertainties associated with the Group's customers, suppliers and workforce. We formed our own views on the risks based on our understanding of the business and the wider sector • We tested the integrity of the Directors forecast models forecast models prepared to incorporate the impact of COVID-19 as well as the reasonable worst case downside cash flow forecast ("RWC") and reverse stress tests
--------------------------	---

	• In respect of the base forecast and RWC we challenged the key assumptions in respect of revenue growth, gross profit margins, cash generation and future settlement of key provisions with reference to our knowledge of the business and the impact of COVID-19 • We obtained and critically reviewed management's reverse stress test analysis, performed to determine the point at which: ○ a further downturn in revenues ○ a deterioration of gross margin ○ lack of planned overhead savings ○ downturn in cash generation would result in a covenant breach and without further mitigation would potentially impact the going concern of the business; • We considered and challenged the nature and feasibility of the mitigating actions available to the business and confirmed that they were reasonable and appropriately incorporated into the reverse stress test analysis • We challenged the Directors conclusion that the downside required for a covenant breach was remote by reference to current trading performance, forward order book and level of fixed revenue • The reverse stress test includes the benefit of the rights issue which is yet to complete or receive shareholder approval. We scrutinised the terms of the underwriting agreement and other conditional agreements to consider other matters that should be incorporated into the reverse stress tests • We evaluated forecast covenant compliance, extension terms and headroom calculations in line with the revised RCF agreement • Reviewed the sale and purchase agreement in respect of the proposed transaction with Interservefm (Holdings) Limited to ensure that it remains conditional and as such it should not form part of the forecast; and • We reviewed the adequacy of disclosures in the financial statements in respect of going concern and COVID-19.
--	---

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 Directors' confirmation set out on page 92 in the annual report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated
- the Directors' statement set out on page 192 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
- the Directors' explanation set out on page 92 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern reported above, the following key audit matters were identified:

Key audit matter	Key audit matter consistent with prior year
Appropriateness of revenue recognition	Yes
Recoverability of trade receivables and accrued income	Yes – incorporates the risk arising from COVID-19
Presentation of Other Items	New key audit matter due to increased judgement and recurring nature of items included within Other items

The prior year key audit matters also included contractual matters and provisions, and the acquisition of Vision Security Group (VSG). Whilst the group continues to have ongoing specific contractual liabilities relating to the disposed Social Housing business, subsequent to the 31 March 2020 balance sheet date, the group has agreed settlement with one of the counter-parties thereby releasing the need for a portion of the provision held. As a result, this area is no longer considered to be a key audit matter.

The acquisition of VSG was completed and accounted for in the previous financial year and is now considered part of the continuing operations of the Group. As a result, this area is no longer considered to be a key audit matter.

Key audit matter	How we addressed the key audit matter in the audit
Appropriateness of Revenue Recognition: Due to the size and complexity of the Group's contracts, a number of key judgements and estimates have to be determined with regards to the timing of revenue and profit recognition. New and modified contracts need to be assessed to ensure compliance with accounting standards. The accounting policies and critical judgements applied are disclosed in Notes 1 and 2.	We completed the following audit procedures: Reviewed the basis of revenue recognised against the requirements of applicable accounting standards and challenged and agreed the key judgements and estimates made by management to underlying audit evidence: - Tested a sample of new and modified contracts in the year by checking that the related revenue recognition was in accordance with the requirements of applicable accounting standards - Tested a sample of fixed revenue contracts by agreeing that fixed revenue had been appropriately recognised, in accordance with applicable accounting standards, including recalculating the expected revenue for the year in comparison to that recognised to check that cut-off had been appropriately applied

- Tested a sample of contract related assets to supporting audit evidence to check revenue had been appropriately recognised
- For specific divisional revenue streams we tested the operating effectiveness of key controls including the testing of IT controls over key operating and financial reporting systems relevant to revenue
- Tested a sample of accrued income balances to supporting documentation, which included procedures such as: checking for proof of works; confirming customer acceptance; reviewing relevant customer correspondence regarding the specific accrued income balances; and checking that cut-off had been appropriately applied.

Key observations

We found management's revenue recognition policy to be in line with the requirements of applicable accounting standards and the recognition and measurement of revenue in the year to be appropriate.

Recoverability of trade receivables and accrued income

Material amounts of the billed and unbilled work remain outstanding as resolution of open issues remains ongoing on various contracts.

The aged nature of certain balances increases the risk of recoverability, particularly where there is disagreement or dispute.

Trade receivables and accrued income are disclosed in Note 15 to the financial statements. Credit risk associated with trade receivables is disclosed in Note 23 to the financial statements.

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.

We completed the following audit procedures:

For a sample of these balances, we have challenged the recoverability of the recorded debtors and accrued income as well as the completeness of provisions and expected credit losses by performing a number of procedures including:

- Where possible, agreeing balances to post year-end cash receipt
- Examining client approval of works orders or contractual commitments
- Reviewing evidence of work performed and status of negotiations
- Testing the accuracy of ageing of trade receivable and accrued income (including the manual ageing requirement in the Technical Services division) by testing a sample to underlying records to agree the ageing
- Reviewing in-house legal counsel reports for any material disputes
- Challenging the methodology and assumptions used in calculating the expected credit loss provision including the forward looking market rates of

This judgement is compounded by system limitations within the Technical Services division which require a manual ageing of unbilled accrued income balances, increasing the risk of error.

In addition, as a result of the impact of COVID-19 on the Group's operations, specific consideration needs to be given to the provision for expected credit losses (ECL) and potential further specific provisions required at the balance sheet date.

Presentation of Other items

The Group continues to present certain income and expenses within 'other items' on the face of the consolidated income statement.

The presentation is intended to show the financial results in a way that reflects the underlying profitability of the Group which the Directors consider to be a key performance indicator from an internal and external perspective. This measure therefore excludes the results of items such as restructuring, acquisition and disposal related costs and other costs and income considered exceptional in nature.

A detailed breakdown of Other Items together with explanations is included in Note 4 to the consolidated financial statements.

There is judgement in evaluating whether a transaction meets the definition as described in the Group's accounting policy in Note 1 and the critical judgements in Note 2 and

default probability

- Performing analytical procedures to consider the consistency in the provisioning methodology to the prior year; and

To assess the impact of COVID-19 we:

- Completed enhanced testing over the recoverability of trade receivables and accrued income at the balance sheet date to ensure completeness of provisions recognised
- Challenged the ECL provision assumptions to check that they appropriately considered the impact of COVID-19 in the forward-looking assessment

Key observations

We found the group's provisioning in respect of trade receivables and accrued income to be in line with its policy and applicable accounting standards and that it had appropriately considered the impact of COVID-19.

We have benchmarked the items included within Other Items by reference to:

- Industry peer group
- The guidance published by the Financial Reporting Council (FRC)
- The guidance included in the "Guidelines on Alternative Performance Measures", issued by the European Securities and Markets Authority (ESMA)

With regard to the benchmarking we have:

- Obtained an understanding of the composition of Other Items and the controls and processes in place
- Agreed a sample of items to supporting documentation
- Challenged management's rationale for the inclusion of certain items within Other Items particularly in areas of higher judgement such as restructuring and dual running costs
- Determined whether the costs recognised as Other Items meet the criteria of the Group's accounting policy and are consistent with the prior year;
- Reviewed the consolidated income statement for any material credits that are considered to meet the Group's

whether its presentation is 'fair, balanced and understandable'.

Failure to disclose clearly the nature and impact of other items on earnings may distort the reader's view of the financial results for the year.

accounting policy for being classified as an Other Item

- Challenged the appropriateness of disclosure of these balances both in Note 4 and in the remainder of the annual report with reference to the Group's accounting policy and guidance published by the FRC and ESMA

Key observations

We found that the presentation of Other Items materially meets the criteria of the Group's accounting policy and that the disclosures included in Note 4 and the remainder of the annual report are fair, balanced and understandable.

Our application of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced.

We have determined materiality based on our professional judgement for the financial statements as a whole as follows:

	Group	Parent company
Materiality	£3.5m (2019: £3.8m)	£2.4m (2019: £2.9m)
Basis	5% of continuing profit before tax and other items (2019: 5% of continuing profit before tax and certain other items)	Materiality was capped at 70% of group materiality (2019: capped at 75% of Group materiality).
Rationale	We consider the use of 5% of continuing profit before tax and other items to be the most appropriate threshold since this removes the impact of certain one-off or exceptional items impacting the underlying profit of the Group and is also a key measure for stakeholders based on market practice and investor expectations. Other items are detailed in Note 4 to the financial statements.	The Parent Company does not trade and materiality was capped at a percentage of Group materiality.

Further materiality measures applied in the conduct of the audit include:

Measure	Application
Performance materiality	Group: £2.3m equivalent to 65% of Materiality (2019: £2.7m equivalent to 70% of Materiality) Parent company: £1.6m equivalent to 65% of Materiality (2019: £2.1m equivalent to 70% of Materiality). The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.
Component materiality	The range of materiality used for components ranged from £0.9m to £2.7m (2019: £0.9m to £2.6m). Our audit work at each component has been executed at levels of materiality applicable to each individual entity based on its size and risk as approved by the Group audit team and in each case, lower than that applied to the Group.
Reporting threshold	£175k (2019: £190k) All audit differences in excess of the 'reporting threshold' are reported to the Audit Committee, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.
Quantitative & qualitative disclosures	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

The Group operates through a number of legal entities, which form reporting components, consistent with the segmental analysis as disclosed in Note 3 to the financial statements. All components were considered to be significant components subject to full scope audits with the exception of certain overseas entities and certain entities within the Technical Services and Business Services divisions which were disaggregated from the divisions and were subject to desktop review procedures. All audits and desktop review procedures were completed by BDO LLP.

The coverage of audit procedures was as below:

	Full scope audit	Desktop review
Revenue	97%	3%
Profit before tax	100%	0%
Gross assets	98%	2%

Capability of the audit to detect irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud.

We designed audit procedures at Group and significant component levels to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, the UK Listing Rules and tax legislation.

Our tests included agreeing the financial statement disclosures to underlying supporting documentation, review of board and committee meeting minutes, enquiries with management and enquiries of in-house legal counsel.

There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 125** – 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 position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 133** – 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 95** – 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 Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities within the Directors' report set out on page 172, 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, we were appointed by the Board of Directors on 19 September 2017 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. In respect of the year ended 31 March 2020 we were reappointed by the members on 30 July 2019. The period of total uninterrupted engagement is three years, covering the years ended 31 March 2018 to 31 March 2020.

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, UK
25 June 2020

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 2020

	Notes	2020			2019 ^{1,2}		
		Before other items £m	Other items ³ £m	Total £m	Before other items £m	Other items ³ £m	Total £m
Continuing operations							
Revenue	3	2,173.7	–	2,173.7	2,085.3	–	2,085.3
Cost of sales		(1,886.2)	–	(1,886.2)	(1,803.8)	–	(1,803.8)
Gross profit		287.5	–	287.5	281.5	–	281.5
Administrative expenses		(201.4)	(21.5)	(222.9)	(201.9)	(37.9)	(239.8)
Operating profit/(loss)⁴	3,6	86.1	(21.5)	64.6	79.6	(37.9)	41.7
Finance income		0.4	–	0.4	0.2	–	0.2
Finance costs ⁴	8	(16.6)	–	(16.6)	(13.9)	–	(13.9)
Net finance costs		(16.2)	–	(16.2)	(13.7)	–	(13.7)
Profit/(loss) before tax		69.9	(21.5)	48.4	65.9	(37.9)	28.0
Tax	9	(11.9)	4.0	(7.9)	(12.8)	7.4	(5.4)
Profit/(loss) from continuing operations after tax		58.0	(17.5)	40.5	53.1	(30.5)	22.6
Discontinued operations							
Profit/(loss) from discontinued operations	5	2.3	47.7	50.0	10.6	(2.3)	8.3
Profit/(loss) for the year attributable to owners of the parent		60.3	30.2	90.5	63.7	(32.8)	30.9
Earnings per share (EPS) attributable to owners of the parent							
From continuing operations:							
Basic	11	16.0p		11.2p	14.7p		6.3p
Diluted	11	15.7p		10.9p	14.6p		6.2p
From continuing and discontinued operations:							
Basic	11	16.7p		25.0p	17.7p		8.6p
Diluted	11	16.3p		24.4p	17.5p		8.5p

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Re-presented to classify the Catering business as discontinued operations. See Note 5.
3. Other items are as described in Note 4.
4. The adoption of IFRS 16 in the year ended 31 March 2020 resulted in an increase in operating profit of £1.2m. See Note 24. Finance costs increased by £3.1m.

Consolidated statement of comprehensive income
For the year ended 31 March 2020

	Notes	2020 £m	2019 ¹ £m
Profit for the year		90.5	30.9
Items that will not be reclassified to profit or loss in subsequent years			
Remeasurement of net defined benefit pension liability	30	9.2	(13.9)
Tax (charge)/credit on remeasurement of net defined benefit pension liability	9	(1.3)	2.4
		7.9	(11.5)
Items that may be reclassified to profit or loss in subsequent years			
Exchange differences on translation of foreign operations		0.2	(0.3)
Gains on net investment hedge taken to equity		–	0.1
Net gains on cash flow hedges taken to equity ²		5.7	2.2
Tax charge relating to items that may be reclassified to profit or loss in subsequent years	9	(0.7)	(0.3)
		5.2	1.7
Other comprehensive income/(expense) for the year		13.1	(9.8)
Total comprehensive income for the year attributable to owners of the parent		103.6	21.1

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Net gains on cash flow hedges taken to equity include fair value gains of £11.8m on derivative financial instruments used for hedging private placement notes (See Note 23). This gain is netted against reclassification adjustments related to foreign exchange losses on private placement notes of £6.0m and interest costs of £0.1m.

Consolidated balance sheet
As at 31 March 2020

	Notes	2020 £m	2019 ¹ £m
Non-current assets			
Goodwill	12	278.9	293.8
Other intangible assets	13	50.6	50.7
Property, plant and equipment ²	14	110.8	29.0
Derivative financial instruments	23	28.0	16.4
Other receivables	15	3.3	–
Contract assets	16	3.2	4.5
Deferred tax assets	20	32.6	38.7
Total non-current assets		507.4	433.1
Current assets			
Inventories		4.8	5.6
Trade and other receivables	15	403.1	435.2
Contract assets	16	1.6	1.6
Derivative financial instruments	23	0.2	–
Current tax assets		1.1	–
Cash and cash equivalents	21	124.6	108.4
Total current assets		535.4	550.8
Total assets		1,042.8	983.9
Current liabilities			
Trade and other payables	17	(487.0)	(533.9)
Deferred income	18	(35.9)	(54.9)
Current tax liabilities		–	(0.3)
Financing liabilities ³	22	(24.3)	(40.7)
Provisions	19	(41.4)	(50.6)
Total current liabilities		(588.6)	(680.4)
Net current liabilities		(53.2)	(129.6)
Non-current liabilities			
Trade and other payables	17	(0.3)	–
Deferred income	18	(15.6)	(18.4)
Financing liabilities ³	22	(296.4)	(224.8)
Provisions	19	(11.8)	(6.0)
Retirement benefit liabilities	30	(46.7)	(63.8)
Deferred tax liabilities	20	(2.9)	(2.9)
Total non-current liabilities		(373.7)	(315.9)
Total liabilities		(962.3)	(996.3)
Net assets/(liabilities)		80.5	(12.4)

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Property, plant and equipment at 31 March 2020 includes £87.0m of additional right-of-use assets recognised under IFRS 16. See Note 24.
3. Financing liabilities at 31 March 2020 include £23.9m of additional current lease liabilities and £69.1m of additional non-current lease liabilities recognised under IFRS 16. See Note 24.

Consolidated balance sheet continued
As at 31 March 2020

	Notes	2020 £m	2019 ¹ £m
Equity			
Share capital	26	9.3	9.3
Share premium account	27	130.6	130.6
Merger reserve	27	99.9	104.2
Own shares reserve	27	(34.2)	(38.1)
Other reserves	27	9.5	10.3
Hedging and translation reserve	27	(0.4)	(5.6)
Retained losses		(134.2)	(223.1)
Equity attributable to owners of the parent		80.5	(12.4)

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, 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 25 June 2020. They were signed on its behalf by:

Phil Bentley
Chief Executive Officer

Andrew Peeler
Chief Financial Officer

Consolidated statement of changes in equity
For the year ended 31 March 2020

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves ¹ £m	Hedging and translation reserve £m	Retained earnings £m	Total equity ² £m
Adjusted balance at 1 April 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(230.8)	(26.1)
Profit for the year	–	–	–	–	–	–	30.9	30.9
Other comprehensive income	–	–	–	–	–	1.7	(11.5)	(9.8)
Total comprehensive expense	–	–	–	–	–	1.7	19.4	21.1
Dividends paid	–	–	–	–	–	–	(14.4)	(14.4)
Share-based payments	–	–	–	5.3	(1.0)	–	0.9	5.2
Other movements	–	–	–	–	–	–	1.8	1.8
At 31 March 2019	9.3	130.6	104.2	(38.1)	10.3	(5.6)	(223.1)	(12.4)
At 1 April 2019	9.3	130.6	104.2	(38.1)	10.3	(5.6)	(223.1)	(12.4)
Profit for the year	–	–	–	–	–	–	90.5	90.5
Other comprehensive income	–	–	–	–	–	5.2	7.9	13.1
Total comprehensive income	–	–	–	–	–	5.2	98.4	103.6
Dividends paid	–	–	–	–	–	–	(14.4)	(14.4)
Share-based payments	–	–	–	3.9	(0.8)	–	0.6	3.7
Realised merger reserve ³	–	–	(4.3)	–	–	–	4.3	–
At 31 March 2020	9.3	130.6	99.9	(34.2)	9.5	(0.4)	(134.2)	80.5

Notes:

1. Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve. See Note 27.
2. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option which has resulted in no impact on the Group's opening equity. Under this option, the comparative information is not restated. See Note 1.
3. Merger reserve of £4.3m has been realised in retained earnings on disposal of the Catering business.

Consolidated statement of cash flows
For the year ended 31 March 2020

	Notes	2020 £m	2019 ¹ £m
Continuing operations – operating profit before other items ²	3	86.1	79.6
Continuing operations – other items ²	4	(21.5)	(37.9)
Discontinued operations – operating profit after other items ²	5	51.8	6.5
Adjustments for:			
Share-based payments expense	29	3.7	5.0
Defined benefit pension costs	30	1.3	1.8
Past service costs and curtailments	30	–	1.6
Defined benefit pension contributions	30	(10.7)	(11.6)
Depreciation of property, plant and equipment ³	14,24	33.3	11.6
Amortisation of intangible assets	13	11.4	9.0
Amortisation of contract assets	16	1.5	0.8
Share of profit of joint ventures and associates		–	(0.5)
Impairment of non-current assets	24,13	0.8	1.1
Loss/(gain) on disposal of property, plant and equipment		0.3	(0.8)
Gain on bargain purchase	28	–	(8.8)
Gain on disposal of businesses	5	(50.3)	(17.9)
Research and development tax credits		(0.8)	–
Other		(1.9)	–
Operating cash flows before movements in working capital⁴		105.0	39.5
(Increase)/decrease in inventories		(1.2)	0.4
Decrease/(increase) in receivables		20.9	(51.7)
Increase in contract assets		(0.5)	(4.7)
(Decrease)/increase in deferred income		(23.6)	5.1
(Decrease)/increase in payables		(24.8)	33.4
(Decrease)/increase in provisions		(4.0)	25.5
Cash generated from operations		71.8	47.5
Income taxes (paid)/received		(6.4)	4.7
Interest paid ⁴		(15.4)	(12.4)
Net cash generated from operating activities		50.0	39.8
Investing activities			
Acquisition of businesses, net of cash acquired	28	(1.0)	(9.3)
Disposal of businesses, net of cash disposed ⁵	5	65.2	52.8
Interest received		0.4	0.2
Purchase of property, plant and equipment	14	(8.2)	(12.1)
Purchase of other intangible assets	13	(11.2)	(11.2)
Disposal of property, plant and equipment		0.4	4.7
Net cash generated from investing activities		45.6	25.1

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Re-presented to classify the Catering business as discontinued operations. See Note 5.
3. Additional depreciation on the Group's right-of-use assets due to the adoption of IFRS 16 amounted to £23.6m for the year ended 31 March 2020. See Note 24.
4. Due to adoption of IFRS 16, operating cash inflows before movements in working capital are £24.8m higher, interest paid is £3.1m higher and cash outflows on the capital element of lease rentals are £20.6m higher, for the year ended 31 March 2020.
5. Disposal of businesses for the year ended 31 March 2020, is net of cash disposed of £4.5m and transaction costs paid in the period for disposals of £3.0m.

Consolidated statement of cash flows continued

For the year ended 31 March 2020

	Notes	2020 £m	2019 ¹ £m
Financing activities			
Capital element of lease rentals ²	24	(21.2)	0.2
Repayment of bank loans		(3.9)	(2.1)
Private placement notes repaid		(40.0)	–
Equity dividends paid	10	(14.4)	(14.4)
Net cash used in financing activities		(79.5)	(16.3)
Net increase in cash and cash equivalents		16.1	48.6
Net cash and cash equivalents at beginning of the year		108.4	59.8
Effect of foreign exchange rate changes		0.1	–
Net cash and cash equivalents at end of the year	21	124.6	108.4

Note:

- The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
- Due to adoption of IFRS 16, operating cash inflows before movements in working capital are £24.8m higher, interest paid is £3.1m higher and cash outflows on the capital element of lease rentals are £20.6m higher, for the year ended 31 March 2020.

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	2020 £m	2019 £m
Cash drivers			
Net increase in cash and cash equivalents		16.1	48.6
Repayment of bank loans		3.9	2.1
Private placement notes repaid		40.0	–
Capital element of lease rentals		21.2	(0.2)
Non-cash drivers			
Non-cash movement in bank loans		(0.4)	(0.2)
Non-cash movement in private placement notes and associated hedges		5.7	2.2
Non-cash movement in lease liabilities		(26.1)	–
Effect of foreign exchange rate changes		(0.1)	0.3
Decrease in net debt during the year		60.3	52.8
Opening net debt as reported at 31 March		(140.7)	(193.5)
IFRS 16 opening net debt adjustment ¹		(87.5)	–
Opening net debt		(228.2)	(193.5)
Closing net debt	25	(167.9)	(140.7)

Note:

- The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

Notes to the consolidated financial statements

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

The Group's financial statements for the year ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore the Group's financial statements comply with Article 4 of the EU IAS Regulation.

The Group's financial statements have been prepared on the historical cost basis, except for certain financial instruments which are required to be measured at fair value.

Going concern

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the Group's business activities as set out on pages 11 to 44, and the principal risks and uncertainties as set out on pages 77 to 91. As part of this assessment the Directors have considered modelling performed using a base case, a Reasonable Worst Case (RWC) downside scenario and reverse stress tests, all in the context of the COVID-19 pandemic. These scenarios exclude the acquisition of Interservefm (Holdings) Limited, for which a share purchase agreement was signed after 31 March 2020 as disclosed in Note 34 of the financial statements, on the basis that this transaction remains conditional.

The COVID-19 pandemic is having an impact on Mitie's business. In some instances, this has led to an increase in demand for Mitie from critical services, such as supermarkets, on-line retailers, COVID-19 NHS Nightingale hospitals and testing centres. Conversely, discretionary variable work and engineering projects, including painting and roofing, have seen a significant slowdown, and many offices and retail outlets have been closed during lockdown impacting Mitie's revenues.

In undertaking its going concern assessment, the Directors have considered the RWC downside scenario to take into account the potential impact of COVID-19.

The RWC downside scenario assumes that COVID-19 will have an adverse impact on revenue of approximately 35% for the first six months of FY 20/21, before beginning to recover, with Technical Services being most significantly impacted given its higher proportion of discretionary variable work and projects compared with the other divisions. The base case also assumes a deterioration in gross margin and a reduction in cash flow associated with slower payment by customers.

The RWC downside scenario also factors in the actions being taken in response to the anticipated revenue reduction, to mitigate the profit and cash flow impacts including the furloughing of employees, cost saving initiatives to reduce overheads, deferral of non-essential costs and uncommitted capital expenditure, pay reductions for the Board and most employees for a period of time, deferral of tax payments and no final dividend being recommended for FY19/20.

As at 31 March 2020 the Group had net debt of £74.9m before IFRS 16 lease liabilities and deferred HMRC payments, with available headroom in its committed revolving credit facility of £225.5m.

The Group's principal debt financing arrangements are a £275.0m revolving credit facility, which expires in July 2021, and £151.5m of US private placement notes, of which £121.5m are repayable in December 2022 and the remaining £30.0m in December 2024. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis, as set out in the finance review on pages 43 and 44.

If the Group's results were to be in line with its base case, it would not be in breach of the financial covenants for a period of no less than 12 months from approval of the financial statements.

There can be no assurance that a downside scenario will be avoided and, if it is not, that alternative actions would be capable of implementation in the time available and/or would ultimately be successful. If the COVID-19 pandemic increases in severity or it continues to negatively affect demand for the Group's services for an even more prolonged period of time, it may have a significantly adverse impact on the Group's liquidity during the next 12 to 18 months, which could negatively impact its ability to meet debt and other payment obligations as they come due as well as impacting the Group's ability to meet its financial covenants at the measurement period dates.

As a result of this uncertainty the Group is announcing its intention to launch an underwritten rights issue to raise £201m pre-transaction costs, amendments to its financial covenants, and a resizing to £250m and extension of the maturity date of its revolving credit facility to 16 December 2022.

Approval of the resizing and extension of the maturity date of its revolving credit facility, and the covenant waivers, are conditional on the rights issue being approved by shareholders at the General Meeting on 13 July 2020. The underwriting of the rights issue is also conditional on shareholder approval.

On the basis that the rights issue is successful and Group's results are in line with its RWC downside scenario, it would not be in breach of the financial covenants for a period of no less than 12 months from approval of the financial statements.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

The Directors have also completed reverse stress tests on the RWC downside scenario. The reverse stress tests assessed the point at which the covenants would be breached based on the following sensitivities:

- A further downturn in revenues;
- A deterioration of gross margin;
- Lack of planned overhead savings; and
- Downturn in cash generation.

As a result of completing this assessment the Directors considered the likelihood of the reverse stress scenarios arising to be remote. In reaching the conclusion of remote the Directors considered the following:

- Current trading is performing above the base case;
- The reverse stress test scenario would require a decline of approximately 30% in FY 20/21 against the base case, which is considered to be very severe given the high proportion of Mitie's revenue that is fixed in nature;
- Given the significant economic impact of the first period of disruption caused by COVID-19, and the need to restart national economic activity, any impact from a second period of disruption is now expected to be less severe; and
- In the event that results started to trend significantly below the base case, there are additional mitigation actions available to management that would be implemented, which are not factored into the reverse stress test scenario, including reduced investments in sales and business development.

Based on this assessment, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group has continued to adopt the going concern basis of accounting in preparing the consolidated financial statements.

However, the requirement to obtain formal shareholder approval of the rights issue at the General Meeting on 13 July 2020 indicates that material uncertainty exists in relation to the rights issue, without which the Group would not be in a position to withstand significant downside scenarios. These conditions and events indicate the existence of a material uncertainty that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern. If the rights issue were to be successful, this would remove the material uncertainty.

Discontinued operations

On 6 September 2019, the Group completed the sale of the Catering business comprising Mitie Catering Services Limited and the catering business assets of Mitie Facilities Management Limited in Ireland, together trading under the name Gather & Gather, along with the entire issued share capital of Creativevents Limited. The Catering business previously formed a separate major line of business of the Group. As a result of the disposal, the results of the Catering business have been classified as discontinued operations and comparative information has been re-presented.

On 30 September 2018, the Group completed the sale of Mitie Pest Control Limited (Pest Control) which previously formed a separate major line of business of the Group as part of the Cleaning & Environmental Services division. As a result of the disposal, the results of the Pest Control business have been classified as discontinued operations.

On 19 November 2018, the Group entered into an agreement to sell Mitie Property Management Limited and MPS Housing Limited, together the Social Housing business, which previously formed a separate major line of business of the Group as part of the Property Management division. As a result of the disposal which was completed on 30 November 2018, the results of the Social Housing business have been classified as discontinued operations. The remaining roofing and painting activities of the former Property Management division have been integrated into the Technical Services division.

Accounting standards that are newly effective in the current year

With the exception of the adoption of IFRS 16 which is discussed below, none of the new standards and amendments that are effective for the first time this year have had a material effect on the Group.

IFRS 16 'Leases' became effective for the Group from 1 April 2019 and replaced the requirements of IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases - Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The Group applied IFRS 16 using the modified retrospective method with no impact on the Group's opening equity. This transition option does not require the restatement of prior period financial information.

On adoption of IFRS 16, the Group immediately recognised additional right-of-use assets of £86.2m representing its right to use the underlying assets, and associated lease liabilities of £87.5m representing its obligation to make lease payments on all leases within the scope of the standard. At 31 March 2020, right-of-use assets and lease liabilities amounted to £88.1m and £93.8m respectively. Details of the changes in the Group's accounting policy and impact of the adoption of IFRS 16 are detailed below.

IFRIC 23 'Uncertainty over Income Tax Treatments' became effective for the Group from 1 April 2019 and provides guidance when there is an income tax uncertainty under IAS12 'Income Taxes'. The Group does not have any significant uncertainties in its income tax filings and therefore IFRIC 23 has no material impact.

Other than as stated above, the accounting policies and methods of calculation adopted in the preparation of these Group consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 March 2019, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board and as adopted by the European Union.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

Accounting standards that are not yet mandatory and have not been applied by the Group

None of the new standards and amendments that are not yet effective are expected to have a material effect on the Group.

Adoption of IFRS 16

The Group adopted IFRS 16 with a date of initial application of 1 April 2019 using the modified retrospective approach whereby the right-of-use asset on transition equalled the lease liability, before the reclassification and adjustment of associated balance sheet items. The comparative information for the year ended 31 March 2019 has not been restated and continues to be reported under IAS 17.

The Group applied the following practical expedients available on transition to IFRS 16, to leases previously classified as operating leases:

- grandfathered the definition of a lease on transition and applied IFRS 16 only to those contracts that were previously identified as containing a lease. Contracts previously identified as not containing leases under IAS 17 and IFRIC 4 were not reassessed;
- relied on the Group's previous assessment of whether leases are onerous in accordance with IAS 37 immediately before the date of initial application as an alternative to performing an impairment review;
- not to recognise right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis;
- a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term in a similar class of underlying asset); and
- the use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

IFRS 16 eliminates the classification of leases as either operating or finance leases as required by IAS 17 and introduces a single accounting model. The Group changed its accounting policies and updated its internal processes and controls relating to leasing. The new definition of a lease has been applied to contracts entered into from 1 April 2019.

Lease accounting policy

The Group has various lease arrangements for properties (e.g. office buildings and storage facilities), vehicles, and other equipment including IT equipment and machinery. At inception of a lease contract, the Group assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Group recognises a lease liability and a corresponding right-of-use asset with respect to all lease arrangements in which it is a lessee.

A right-of-use asset is capitalised on the balance sheet at cost which comprises the present value of future lease payments determined at the inception of the lease adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred in addition to an estimate of costs to remove or restore the underlying asset. Where a lease incentive is receivable, the amount is offset against the right-of-use asset at inception. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life of the asset or the lease term and are reviewed for impairment to account for any loss when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right-of-use assets exclude low-value leases and short-term leases of 12 months or less, costs for which are recognised as an operating expense within the income statement as they are incurred.

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

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

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

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

Impact on transition

The impact on the Group's opening balance sheet at 1 April 2019 as a result of the adoption of IFRS 16 was as follows:

	£m
Net liabilities at 31 March 2019	(12.4)
Reclassification of existing property restoration assets from property, plant and equipment	(0.6)
Reclassification of rental prepayments	(0.6)
Right-of-use assets recognised ¹	86.2
Reclassification of accruals	4.4
Lease liabilities recognised ¹	(87.5)
Adjustment to dilapidations provision as a result of adopting the Group's incremental borrowing rate	(1.9)
Net liabilities at 1 April 2019	(12.4)

Note:

1. The right-of-use assets recognised are included within property plant and equipment and the lease liabilities recognised are included within financing liabilities. The amounts stated above exclude the finance leases already capitalised at the date of transition to IFRS 16.

Applying the Group's incremental borrowing rate to discount the operating lease commitments reported at 31 March 2019 gives a liability of £66.0m. This differs from the lease liabilities of £87.5m recognised at 1 April 2019 as a result of the following adjustments:

	£m
Operating lease commitments at 31 March 2019	72.0
Discount using the incremental borrowing rate at 1 April 2019	(6.0)
Discounted operating lease commitments	66.0
Recognition exemption for short-term and low-value leases	(1.5)
Reclassification of accruals	2.1
Reassessment of lease terms including extension and termination options reasonably certain to be exercised	20.9
Lease liabilities recognised at 1 April 2019	87.5

(b) Significant accounting policies

The significant accounting policies adopted in the preparation of the Group's IFRS financial information are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Mitie Group plc and all its subsidiaries. The Parent Company has applied FRS 101 'Reduced disclosure framework' in the preparation of its individual financial statements. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The results, assets and liabilities of joint ventures and associates are accounted for under the equity method of accounting. Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring the accounting policies used into line with those used by the Group.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full.

Interests of non-controlling interest shareholders are measured at the non-controlling interest's proportion of the net fair value of the assets and liabilities recognised. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

In the financial statements, the Group has elected to provide some further disclosures and performance measures, reported as 'before other items', in order to present its financial results in a way that demonstrates the performance of continuing operations.

Other items are items of financial performance which management believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. The Group separately reports impairment of goodwill, impairment and amortisation of acquisition related intangible assets, acquisition and disposal costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items and their related tax effect as other items. Should these items be reversed, disclosure of this would also be as other items.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the period and the extent to which results are influenced by material unusual and/or non-recurring items. Further detail of other items is set out in Note 4.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

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 253 to 254.

Revenue recognition policy

The Group operates contracts with a varying degree of complexity across its service lines, so a range of methods is used for the recognition of revenue based on the principles set out in IFRS 15. Revenue represents income recognised in respect of services provided during the period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts.

Step 1 – Identify the contract(s) with a customer

For all contracts with customers, the Group determines if the arrangement creates enforceable rights and obligations. This assessment results in certain Framework arrangements or Master Service Agreements (MSAs) not meeting the definition of contracts under IFRS 15 unless they specify the minimum quantities to be ordered. Usually the work order and any change orders together with the Framework or MSA will constitute the IFRS 15 contract.

Duration of contract

The Group frequently enters into contracts with customers which contain extension periods at the end of the initial term, automatic annual renewals, and/or termination for convenience and break clauses that could impact the 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, judgement is applied 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, change to the total transaction price is estimated.

Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct goods or services. If the price of additional distinct goods or services is not commensurate with the standalone selling prices for those goods or services, then this is considered a termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification. Where new goods or services are not distinct from those in the original contract, then these are considered to form part of the original contract with any update to pricing recognised as a cumulative catch up to revenue. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Step 2 – Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Group to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers such as in the Group's integrated facilities management contracts, judgement is applied to consider whether those promised goods or services are:

- i. distinct and accounted for as separate performance obligations;
- ii. combined with other promised goods or services until a bundle is identified that is distinct; or
- iii. part of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Group treats the series as a single performance obligation.

Step 3 – Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which management expects the Group to be entitled and has rights under the contract. This includes the fixed price stated in the contract and an assessment of any variable consideration, up or down, resulting from e.g. discounts, rebates, service penalties. Variable consideration is typically estimated based on the expected value method and is only recognised to the extent it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal.

Step 4 – Allocate the transaction price to the performance obligations in the contract

The Group allocates the total transaction price to the identified performance obligations based on their relative stand-alone selling prices. This is predominantly based on an observable price or a cost plus margin arrangement.

Step 5 – Recognise revenue when or as the entity satisfies its performance obligations

For each performance obligation, management determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Group applies the relevant output or input revenue recognition method for measuring progress that depicts the Group's performance in transferring control of the goods or services to the customer.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

Certain long-term contracts use output methods based upon surveys of performance completed, appraisals of results achieved, or milestones reached which allow the Group to recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services under the contract.

Under the input method, measured progress and revenue are recognised in direct proportion to costs incurred where the transfer of control is most closely aligned to the Group's efforts in delivering the service.

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

If performance obligations do not meet the criteria to recognise revenue over time, revenue is recognised at the point in time when control of the goods or services passes to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria. Sales of goods are recognised when goods are delivered and control has passed to the customer.

Long-term complex contracts

The Group has a number of long-term complex contracts which are predominantly integrated facilities management arrangements. Typically, these contracts involve the provision of multiple service lines, with a single management team providing an integrated service. Such contracts tend to be transformational in nature where the business works with the customer to identify and implement cost saving initiatives across the life of the contract.

Management considers the majority of services provided within integrated facilities management contracts meet the definition of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time. The series constitutes services provided in distinct time increments (e.g. monthly or quarterly) and therefore the Group treats the series of such services as one performance obligation.

The Group also delivers major project-based services under long-term complex contracts that include performance obligations under which revenue is recognised over time as value from the service is transferred to the customer. This may be where the Group has a legally enforceable right to remuneration for the work completed to date, and therefore revenue will be recognised in line with the associated transfer of control.

The Group has a number of long-term PFI lifecycle contracts to maintain properties over periods of up to 30 years. A fund is established at the start of the contract and amounts are drawn down by the Group as maintenance work is performed. The Group is also entitled to share in any surplus left in the fund. Revenue is recognised over time to reflect the rendering of the service including an assessment of the appropriate proportion of the likely surplus in the fund, subject to being highly probable not to reverse. The amount of surplus available is dependent on the rate of wear and tear of the assets, which is substantially outside the control of the entity and the customer. As such the Group does not deem there to be a significant financing component.

Repeat service-based contracts (single and bundled contracts)

The Group operates a number of single or joint-service line arrangements where repeat services meet the definition of a series of distinct services that are substantially the same (e.g. the provision of cleaning, security, catering, waste, and landscaping services). They have the same pattern of transfer of value to the customer as the series constitutes core services provided in distinct time increments (e.g. monthly or quarterly). The Group therefore treats the series of such services as one performance obligation.

Short-term service-based arrangements

The Group delivers a range of other short-term service based performance obligations and professional services work across certain reporting segments for which revenue is recognised at the point in time when control of the service has transferred to the customer. This may be at the point when the customer obtains control of the service in a contract with customer-specified acceptance criteria e.g. the delivery of a strategic operating model or report.

Other revenue

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Contract costs

The Group incurs pre-contract expenses (e.g. legal costs) when it is expected to enter into a new contract. The incremental costs to obtain a contract with a customer are recognised within contract assets if it is expected that those costs will be recoverable. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense in the period.

Contract fulfilment costs

Costs incurred to ensure that the project or programme has appropriate organisational, operational and technical infrastructures, and mechanisms in place to enable the delivery of full services under the contract target operating model, are defined as contract fulfilment costs. Only costs which meet all three of the criteria below are included within contract assets on the balance sheet:

- i. the costs directly relate to the contract (e.g. direct labour, materials, subcontractors);
- ii. the Group is building an asset that will subsequently be used to deliver contract outcomes; and
- iii. the costs are expected to be recoverable i.e. the contract is expected to be profitable after amortising the capitalised costs.

Contract fulfilment costs covered within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment are not capitalised as contract fulfilment assets but are treated in accordance with the other standard.

Amortisation and impairment of contract assets

The Group amortises contract assets (pre-contract costs and contract fulfilment costs) on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. The expense is recognised in the income statement in the period.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

A capitalised pre-contract cost or contract fulfilment cost is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use.

Management is required to determine the recoverability of contract related assets at each reporting date. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services under the relevant contract. In determining the estimated amount of consideration, management uses the same principles as it does to determine the contract transaction price 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 recognises accrued income for the difference.

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

Where price step-downs are required in a contract and output is not decreasing, revenue is deferred from initial periods to subsequent periods in order for revenue to be recognised on a consistent basis.

Providing the option for a customer to obtain extension periods or other services at a significant discount may lead to a separate performance obligation where a material right exists. Where this is the case, the Group allocates part of the transaction price from the original contract to deferred income which is then amortised over the discounted extension period or recognised immediately when the extension right expires.

Foreign currency

The financial statements of each of the Group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

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

On consolidation, the assets and liabilities of the Group's foreign operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing at the balance sheet date. Income and expenses are translated into sterling at average exchange rates for the period. Exchange differences arising are recognised directly in equity in the Group's hedging and translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs are recognised in the income statement in the period in which they are incurred, with the finance charges relating to the direct cost of debt issue spread over the period to redemption using the effective interest method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities; or when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM).

The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed. The identifiable assets, liabilities and contingent liabilities of the acquiree that meet the conditions for recognition are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Negative goodwill representing a gain from a bargain purchase, is recognised directly in the income statement.

Where applicable, the consideration for an acquisition includes any assets or liabilities resulting from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information, obtained within one year from the acquisition date, about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in the income statement, in accordance with IFRS 9. Changes in the fair value of contingent consideration classified as equity are not recognised.

Any business combinations prior to 1 April 2010 were accounted for using the standards in place prior to the adoption of IFRS 3 (revised 2008) which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, of an investment in an associate or a joint venture.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. It is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement for the period and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

When a business reorganisation results in changes to the composition of CGUs, goodwill is reallocated to updated CGUs. The goodwill allocated to a prior CGU is wholly reallocated to an updated CGU, where the goodwill wholly arose on the acquisition of businesses comprised within the updated CGU. Where this is not possible, a relative value approach is taken to allocate goodwill to updated CGUs.

Other intangible assets

Other intangible assets identified in a business acquisition are capitalised at fair value as at the date of acquisition.

Customer relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives.

Software and development expenditure is capitalised as an intangible asset if the asset created can be identified, if it is probable that the asset created will generate future economic benefits and if the development cost of the asset can be measured reliably. Software and development expenditure includes internally generated intangible assets and is amortised over its useful life once it has been brought into use.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are reviewed for impairment annually, or more frequently when there is an indication that they may be impaired. Amortisation expense is charged to administrative expenses in the income statement on a straight-line basis over its useful life.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

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 properties	50 years or lease term if shorter
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, management estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value and are mainly raw materials in nature.

Costs represent materials, direct labour and overheads incurred in bringing the inventories to their present condition and location.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and estimated selling costs. Provision is made for obsolete, slow moving or defective items where appropriate.

Financial instruments

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

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

Cash and cash equivalents include cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. All of the Group's cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Group's revenue streams are therefore initially measured at their transaction price and are subsequently remeasured at amortised cost. The Group recognises a loss allowance for expected credit losses (ECLs) on all receivable balances from customers subsequently measured at amortised cost, using a lifetime credit loss approach. ECLs are calculated on the basis of historic and forward-looking data on default risk which is applied to customers with common risk characteristics such as sector type (e.g. government or non-government).

The Group uses a non-recourse customer invoice discounting facility (CID facility) under which certain trade receivable balances are sold to the Group's relationship banks. The arrangement with the banks is such that the customers remit cash directly to the Group and the Group transfers the collected amounts to the banks. The trade receivables are sold without recourse to the Group, and therefore the trade receivable balance is derecognised.

Financial liabilities comprise trade and other payables, financing liabilities, and contingent consideration payable. These are measured at initial recognition at fair value and subsequently at amortised cost with the exception of contingent consideration payable which is measured at fair value through profit or loss. Financing liabilities are stated at the amount of the net proceeds after deduction of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

Included within the Group's trade creditors balance are amounts relating to payments due to UK suppliers which make use of bank provided supply chain finance arrangements to allow supplier early payment by the bank. Amounts are settled by the Group in accordance with each supplier's normal payment terms and payments continue to be classified within cash generated by operations. The Group does not receive any additional guarantees and does not pay any interest in relation to these amounts.

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

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, including cross-currency interest rate swaps and forward foreign exchange contracts, to manage the Group's exposure to financial risks associated with interest rates and foreign exchange. Derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value, determined by reference to market rates, at each balance sheet date and included as financial assets or liabilities as appropriate. The resulting gain or loss is

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

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. On adoption of IFRS 9, the Group elected to continue to apply the hedge accounting guidance in IAS 39 'Financial Instruments: recognition and measurement'.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

Hedges are classified as cash flow hedges when they hedge the exposure to changes in cash flows that are attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity within the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

Hedges of net investments in foreign operations

Hedges are classified as net investment hedges when they hedge the foreign currency exposure to changes in the Group's share in the net assets of a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in equity are reclassified to the income statement in the same way as exchange differences relating to the foreign operation.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers, except where this is impracticable and contract revenue is used as a proxy for activity. The provision is calculated as the lower of the termination costs payable for an early exit and the expected net cost to fulfil the Group's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms.

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

Contingent assets

No assets are recognised and only a disclosure in the financial statements is made for contingent assets where an inflow of economic benefits is probable but not virtually certain. Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Share-based payments

The Group operates a number of executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes model or the share price at grant date, and the corresponding expense is recognised on a straight-line basis over the vesting period based on management's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

1. Basis of preparation and significant accounting policies continued

Restricted shares were issued as part of the consideration for acquisitions made by the Company attached with a condition that the relevant recipient continues their employment with the Group for a fixed vesting period of time. Restrictions remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares. The fair value of the restricted shares is the share price at the date the acquisition agreement was signed.

The credits in respect of the amounts charged are included within the share-based payment reserve in equity until such time as the vesting periods or share restrictions expire.

The own shares reserve in equity includes the shares owned by the Employee Trust, treasury shares and restricted shares issued as part of the consideration for acquisitions. When shares are transferred to employees upon exercise of options and awards or when restricted shares held by employees are released from their restrictions, the own shares reserve is reduced by the relevant cost or value.

Retirement benefit costs

The Group operates a number of defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

In addition, the Group operates and participates in a number of defined benefit schemes. In respect of the schemes in which the Group makes contributions under Admitted Body status to clients' defined benefit schemes in respect of certain employees who transferred to the Group under TUPE, the Group accounts for its legal and constructive obligations over the period of its participation which is for a fixed period only.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses on obligations, the return on scheme assets (excluding interest) and the effect of the asset ceiling (if applicable) are recognised in the statement of comprehensive income in the period in which they occur.

Defined benefit pension costs (including curtailments) are recognised in the income statement, in either administrative expenses or other items, whilst the net interest cost is recognised in finance costs.

The retirement benefit liability recognised in the balance sheet represents the present value of the defined benefit obligations, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

The Group participates in four multi-employer defined benefit pension schemes. For three of these schemes the Group's share of the assets and liabilities is minimal. The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme), a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. Historically, the size and complexity of the Plumbing Scheme has meant the trustee has been unable to identify the assets and liabilities of the scheme which are attributable to the Group. On 23 April 2019 the trustee of the Plumbing Scheme issued a Section 75 employer debt notice in respect of the participation of Robert Prettie & Co Limited in the Plumbing Scheme (refer to Notes 19 and 31). Another Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme and the Group accounts for its contributions as if they were paid to a defined contribution scheme. For schemes where sufficient information is not available to use defined benefit accounting, no liability is recognised on the balance sheet, however, the obligations are disclosed as contingent liabilities in Note 31.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

Critical judgements in applying the Group's accounting policies

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

Revenue recognition

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

Due to the size and complexity of the Group's contracts, management is required to form a number of key judgements in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise. This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

For certain contracts, key judgements were made concerning contract extensions and amendments which, for example, directly impact the timing of revenue recognition in addition to the phasing of upfront payments to, or from customers which are deferred to the balance sheet and unwound over the expected contract term. Management considers this to be an area of judgement due to the determination of whether a modification represents a separate contract based on its assessment of the stand-alone selling price, rather than a termination of the existing contract and establishment of a new contract for which the revised contract price would be recognised from the date of modification.

Profit before other items

'Other items' are items of financial performance which management believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item should be classified within other items requires judgement as to whether an item is or is not part of the underlying performance of the Group.

Other items after tax of £30.2m were credited (2019: £32.8m charged) to the income statement for the year ended 31 March 2020. An analysis of the amounts included in other items is detailed in Note 4.

Adoption of IFRS 16

Management in the adoption of IFRS 16 has applied a judgement which relates to the assessment of the likelihood that lease contract extension and termination options will be exercised. This resulted in an additional £20.9m being recognised in lease liabilities at 1 April 2019 when compared with operating lease commitments reported at 31 March 2019.

Lease liabilities are measured at amortised cost using the effective interest rate method. Management in the adoption of IFRS 16 at 1 April 2019 also applied judgement related to the assessment of the incremental borrowing rate (IBR) used to discount future lease rentals to present value. The IBR has been considered on a lease by lease basis and the weighted average rate applied by the Group at transition was 3.5%.

Recoverability of trade receivables and accrued income

The Group has material amounts of billed and unbilled work outstanding at 31 March 2020. Receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Group recognises a loss allowance for expected credit losses (ECLs) on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Group will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date which includes an assessment of current disputes with customers over commercial positions, and where information suggests customers are facing significant financial difficulties. The judgement on specific allowance for impairments on receivables as at 31 March 2020 has included an assessment of COVID-19 impacts.

Key sources of estimation uncertainty

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

Provisions and contingent liabilities

The Company and various of its subsidiaries are, from time to time, party to legal proceedings and claims that are in the ordinary course of business. Judgements are required in order to assess whether these legal proceedings and claims are probable, and the liability can be reasonably estimated, resulting in a provision or, alternatively, whether the items meet the definition of contingent liabilities.

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 March 2020 of £53.2m (2019: £56.6m). Further details are included in Note 19.

A provision of £10.6m has been recorded for estimated costs of rectification works associated with certain property maintenance contracts of the discontinued Social Housing business. Estimations have been made in relation to the amounts of provision recognised and no further information is provided as this would prejudice the position of the Group.

Management has reviewed the adequacy of provisions for onerous contracts, in the context of the COVID-19 pandemic. Based on COVID-19 adjusted forecasts, management has concluded that no additional provisions are required as a result of the COVID-19 pandemic as at 31 March 2020.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

2. Critical accounting judgements and key sources of estimation uncertainty continued

Measurement of defined benefit pension obligations

The net pension liability at 31 March 2020 was £46.7m (2019: £63.8m).

The measurement of defined benefit obligations requires judgement. It is dependent on material key assumptions including discount rates, life expectancy rates, and future contribution rates. See Note 30 for further details and a sensitivity analysis for the key assumptions.

The Group also participates in four multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme). A provision of £20.0m has been made for Section 75 employer debts in respect of the participation of Robert Prettie & Co. Limited in the Plumbing Scheme.

The Group has a further potential exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, which have been estimated at £2.4m by the trustee. This exposure has been disclosed as a contingent liability as no event has occurred to trigger this debt, as Mitie Property Services (UK) Limited still employs active members of the Plumbing Scheme.

Gain/(loss) on disposal of discontinued operations

The Group has recognised a net gain of £49.4m on the disposal of the Catering business (refer to Note 5). The value of the gain is subject to finalisation of the deferred consideration which requires judgement. The maximum potential undiscounted deferred consideration amount that the Group could receive is £6.0m, which is due in 2023, and is subject to the achievement of certain performance milestones. At 31 March 2020 contingent consideration receivable with a fair value of £3.3m has been recognised on a discounted basis (refer to Note 15). Management has estimated the contingent consideration receivable using prudent assumptions taking into account the expected impact of COVID-19 on the future performance of the Catering business compared with performance milestones.

Additional transaction costs of £0.4m were recognised in relation to the disposal of Mitie Pest Control Limited (2019: £26.7m net gain on disposal) and £0.8m in relation to the Social Housing business (2019: £11.7m net loss on disposal). Refer to Note 5. The value of these gains and losses is subject to finalisation of the consideration to be paid through agreement of the completion accounts with the purchasers of these businesses. The Directors have made a judgement as to the likely outcome of each completion accounts settlement.

Deferred tax assets

The Group has recognised deferred tax assets of £32.6m (2019: £38.7m), refer to Note 20. Management has assessed recovery of these assets with reference to the Group's medium-term forecasts. Recovery of these assets is subject to the Group generating taxable profits in future years.

Impairment of goodwill

Management no longer considers impairment of goodwill as a key source of estimation uncertainty. Management has revised the Group's cash flow projections to take account of the expected impact of COVID-19. Despite the potential impact of COVID-19, management does not consider that any reasonably foreseeable change in this source of estimation would have a material impact on the carrying value of Goodwill in the Group's financial statements.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

3. Business segment information

The Group manages its business on a service division basis. At 31 March 2020, the Group has five reportable segments and the information, as reported, is consistent with information presented to the Board, which is the Group's chief operating decision maker. Revenue, operating profit before other items and operating profit margin before other items are the primary measures of performance that are reported to and reviewed by the Board.

The information presented for the year ended 31 March 2019 has been re-presented to reflect changes in management reporting, implemented in the year ended 31 March 2020. Mitie has reorganised its divisional structure into five reportable segments: Technical Services, Business Services, Care & Custody, Landscapes and Waste. Care & Custody, Landscapes and Waste businesses are aggregated and categorised as Specialist Services, however each of these businesses individually meets the IFRS 8 'Operating Segments' criteria for being a separate reportable segment. The Waste and Landscapes businesses were previously presented within Professional Services and Cleaning & Environmental Services respectively. Technical Services comprises Engineering Services and the technical services related to the physical assets of buildings and building management presented within Professional Services in prior periods. Business Services comprises Security, and the previously presented Cleaning & Environmental Services excluding the Landscapes business which is now a separate reportable segment.

Segment assets have not been disclosed as they are not regularly reviewed by the Board.

Income statement information

	2020			2019 ^{1,3}		
	Revenue	Operating profit/(loss) before other items ²	Operating margin before other items ²	Revenue	Operating profit/(loss) before other items ²	Operating margin before other items ²
	£m	£m	%	£m	£m	%
Technical Services	947.2	55.9	5.9	974.2	56.9	5.8
Business Services	986.9	42.2	4.3	894.0	39.0	4.4
Specialist Services	239.6	25.3	10.6	217.1	20.4	9.4
Care & Custody	110.2	7.7	7.0	107.3	3.9	3.6
Landscapes	47.8	8.6	18.0	46.7	9.3	19.9
Waste	81.6	9.0	11.0	63.1	7.2	11.4
Corporate centre	–	(37.3)	–	–	(36.7)	–
Total from continuing operations	2,173.7	86.1	4.0	2,085.3	79.6	3.8
Catering	60.5	2.8	4.6	136.1	8.6	6.3
Pest Control	–	–	–	11.9	2.4	20.2
Social Housing	–	–	–	89.1	1.6	1.8
Total from discontinued operations	60.5	2.8	4.6	237.1	12.6	5.3
Total	2,234.2	88.9	4.0	2,322.4	92.2	4.0

Notes:

- The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
- Other items are as described in Note 4.
- Re-presented to classify the Catering business as discontinued operations. See Note 5. In addition, certain administrative expenses previously allocated to Catering, which have been retained within the Group, have been reclassified to continuing operations.
- No single customer accounted for more than 10% of external revenue in the year ended 31 March 2020 or in the comparative period.

A reconciliation of segment operating profit/(loss) before other items to total profit/(loss) before tax is provided below:

	2020	2019 ¹
	£m	£m
Operating profit before other items	86.1	79.6
Other items ²	(21.5)	(37.9)
Net finance costs	(16.2)	(13.7)
Total from continuing operations	48.4	28.0
Operating profit before other items	2.8	12.6
Other items ²	49.0	(6.1)
Net finance costs	(0.2)	–
Total from discontinued operations	51.6	6.5
Profit before tax	100.0	34.5

Notes:

- The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
- Other items are as described in Note 4.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

3. Business segment information continued

Geographical segments

Revenue, operating profit and operating margin from external customers by geographical segment is shown below:

	2020			2019 ¹		
	Revenue £m	Operating profit before other items ² £m	Operating margin before other items ² %	Revenue £m	Operating profit before other items ² £m	Operating margin before other items ² %
United Kingdom	2,108.6	85.2	4.0	2,006.8	78.6	3.9
Other countries	65.1	0.9	1.4	78.5	1.0	1.3
Continuing operations	2,173.7	86.1	4.0	2,085.3	79.6	3.8
United Kingdom	50.8	2.1	4.1	216.4	11.0	5.1
Other countries	9.7	0.7	7.2	20.7	1.6	7.7
Discontinued operations	60.5	2.8	4.6	237.1	12.6	5.3
Total	2,234.2	88.9	4.0	2,322.4	92.2	4.0

Notes:

- The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
- Other items are as described in Note 4.

The carrying amount of non-current assets, excluding derivative financial instruments and deferred tax assets, by geographical segment is shown below:

	2020 £m	2019 ¹ £m
United Kingdom	435.5	367.0
Other countries	11.3	11.0
Total	446.8	378.0

Notes:

- The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

Supplementary information

	2020				2019 ¹			
	Depreciation of property, plant and equipment ² £m	Amortisation of intangible assets £m	Amortisation of contract assets £m	Other items ³ £m	Depreciation of property, plant and equipment £m	Amortisation of intangible assets £m	Amortisation of contract assets £m	Other items ³ £m
Technical Services	3.1	0.6	0.9	8.0	0.9	0.6	0.2	7.0
Business Services	4.9	1.2	—	(0.2)	4.8	1.2	—	3.6
Specialist Services	2.3	—	0.6	0.2	1.4	—	0.6	0.1
Care & Custody	0.3	—	0.6	0.1	0.4	—	0.6	0.1
Landscapes	1.1	—	—	—	0.8	—	—	—
Waste	0.9	—	—	0.1	0.2	—	—	—
Corporate centre	22.6	9.6	—	13.5	3.2	7.0	—	27.2
Continuing operations	32.9	11.4	1.5	21.5	10.3	8.8	0.8	37.9
Catering	0.4	—	—	(50.7)	1.0	0.1	—	0.1
Healthcare	—	—	—	(0.5)	—	—	—	(2.0)
Pest Control	—	—	—	0.7	0.1	—	—	(27.6)
Social Housing	—	—	—	1.5	0.2	0.1	—	35.6
Discontinued operations	0.4	—	—	(49.0)	1.3	0.2	—	6.1
Total	33.3	11.4	1.5	(27.5)	11.6	9.0	0.8	44.0

Note:

- The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
- Additional depreciation on the Group's right-of-use assets due to the adoption of IFRS 16 amounted to £23.6m for the year ended 31 March 2020.
- Other items are as described in Note 4.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

3. Business segment information continued

Disaggregated revenue

The Group disaggregates revenue from contracts with customers by sector (government and non-government) and by contract duration (contracts with a duration from inception of less than two years, and contracts with a duration from inception of more than two years). Management believes this best depicts how the nature, timing and amount of revenue and cash flows are affected by economic factors. The following table includes a reconciliation of disaggregated revenue with the Group's reportable segments.

	2020					
	Sector ¹			Contract duration for timing of revenue recognition		
	Government £m	Non- government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Technical Services	303.7	643.5	947.2	100.0	847.2	947.2
Business Services	194.0	792.9	986.9	311.8	675.1	986.9
Specialist Services	151.4	88.2	239.6	22.1	217.5	239.6
<i>Care & Custody</i>	110.2	—	110.2	—	110.2	110.2
<i>Landscapes</i>	12.0	35.8	47.8	12.9	34.9	47.8
<i>Waste</i>	29.2	52.4	81.6	9.2	72.4	81.6
Continuing operations	649.1	1,524.6	2,173.7	433.9	1,739.8	2,173.7
Catering	3.4	57.1	60.5	8.2	52.3	60.5
Discontinued operations	3.4	57.1	60.5	8.2	52.3	60.5
Total	652.5	1,581.7	2,234.2	442.1	1,792.1	2,234.2

Note:

- Sector is defined by the end customer on any contract e.g. if the Group is a subcontractor to a company repairing a government building, then the contract would be classified as government.

	2019					
	Sector ¹			Contract duration for timing of revenue recognition		
	Government £m	Non- government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Technical Services	321.6	652.6	974.2	99.6	874.6	974.2
Business Services	185.5	708.5	894.0	276.2	617.8	894.0
Specialist Services	136.4	80.7	217.1	16.9	200.2	217.1
<i>Care & Custody</i>	107.3	—	107.3	—	107.3	107.3
<i>Landscapes</i>	12.0	34.7	46.7	11.8	34.9	46.7
<i>Waste</i>	17.1	46.0	63.1	5.1	58.0	63.1
Continuing operations	643.5	1,441.8	2,085.3	392.7	1,692.6	2,085.3
Catering	5.7	130.4	136.1	17.4	118.7	136.1
Pest Control	—	11.9	11.9	—	11.9	11.9
Social Housing	89.1	—	89.1	54.1	35.0	89.1
Discontinued operations	94.8	142.3	237.1	71.5	165.6	237.1
Total	738.3	1,584.1	2,322.4	464.2	1,858.2	2,322.4

Note:

- Sector is defined by the end customer on any contract e.g. if the Group is a subcontractor to a company repairing a government building, then the contract would be classified as government.

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

3. Business segment information continued

Transaction price allocated to the remaining performance obligations

The table below shows the forward order book for each segment at the reporting date with the time bands of when the Group expects to recognise secured revenue on its contracts with customers. Secured revenue corresponds to all fixed work contracted with customers and excludes the impact of any anticipated contract extensions, and new contracts with customers.

	2020			2019		
	Less than 1 year £m	More than 1 year £m	Total secured revenue £m	Less than 1 year £m	More than 1 year £m	Total secured revenue £m
Technical Services	380.3	1,533.9	1,914.2	381.1	1,480.5	1,861.6
Business Services	782.9	1,051.8	1,834.7	726.4	869.1	1,595.5
Specialist Services	119.9	425.6	545.5	137.2	526.5	663.7
<i>Care & Custody</i>	89.9	391.2	481.1	100.8	495.8	596.6
<i>Landscapes</i>	22.3	18.1	40.4	27.6	11.5	39.1
<i>Waste</i>	7.7	16.3	24.0	8.8	19.2	28.0
Continuing operations	1,283.1	3,011.3	4,294.4	1,244.7	2,876.1	4,120.8
Catering	–	–	–	7.2	19.3	26.5
Discontinued operations	–	–	–	7.2	19.3	26.5
Total	1,283.1	3,011.3	4,294.4	1,251.9	2,895.4	4,147.3

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

4. Other items

Other items are items of financial performance which management believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The Group separately reports impairment of goodwill, impairment and amortisation of acquisition related intangible assets, acquisition and disposal costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items as other items, together with their related tax effect:

	2020				
	Restructure costs £m	Acquisition & disposal related costs £m	Gain on disposal £m	Other exceptional items £m	Total £m
Continuing operations					
Other items within administrative expenses before tax	(15.7)	(3.5)	–	(2.3)	(21.5)
Tax	2.7	1.0	–	0.3	4.0
Other items after tax	(13.0)	(2.5)	–	(2.0)	(17.5)
Discontinued operations					
Other items before tax	–	(1.3)	50.3	–	49.0
Tax	–	0.3	(1.6)	–	(1.3)
Other items after tax	–	(1.0)	48.7	–	47.7
Total Group					
Other items before tax	(15.7)	(4.8)	50.3	(2.3)	27.5
Tax	2.7	1.3	(1.6)	0.3	2.7
Other items after tax	(13.0)	(3.5)	48.7	(2.0)	30.2
2019					
	Restructure costs £m	Acquisition & disposal related costs £m	Gain on disposal £m	Other exceptional items £m	Total £m
Continuing operations					
Other items within administrative expenses before tax	(15.0)	0.1	–	(23.0)	(37.9)
Tax	2.8	0.6	–	4.0	7.4
Other items after tax	(12.2)	0.7	–	(19.0)	(30.5)
Discontinued operations					
Other items before tax	(0.9)	–	17.9	(23.1)	(6.1)
Tax	0.2	–	(0.9)	4.5	3.8
Other items after tax	(0.7)	–	17.0	(18.6)	(2.3)
Total Group					
Other items before tax	(15.9)	0.1	17.9	(46.1)	(44.0)
Tax	3.0	0.6	(0.9)	8.5	11.2
Other items after tax	(12.9)	0.7	17.0	(37.6)	(32.8)

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

4. Other items continued

Restructure costs

Restructure costs relate to the costs associated with implementing the Group transformation programme, which includes Project Helix and Project Forte.

The costs are analysed below:

	2020			2019		
	Continuing operations £m	Discontinued operations £m	Total ¹ £m	Continuing operations £m	Discontinued operations £m	Total ¹ £m
Group transformation programme:						
Project Helix ¹	(3.6)	–	(3.6)	(13.5)	–	(13.5)
Project Forte ²	(10.6)	–	(10.6)	–	–	–
Other transformation projects ³	(1.5)	–	(1.5)	(1.5)	(0.9)	(2.4)
Restructuring costs	(15.7)	–	(15.7)	(15.0)	(0.9)	(15.9)
Taxation	2.7	–	2.7	2.8	0.2	3.0
Restructuring costs net of taxation	(13.0)	–	(13.0)	(12.2)	(0.7)	(12.9)

Notes:

1. The Group is undertaking a major transformation programme involving the restructuring of operations to reposition the business for its next phase of growth. Project Helix was a three-year programme launched in 2017, focused on establishing a shared service centre model for key back office functions, including offshoring the majority of Finance and IT, and centralising HR following the standardisation of systems.
2. Project Forte is a two-year programme which was launched in 2019, primarily focused on re-engineering the Technical Services business to modernise the technology infrastructure. It will improve both the customer experience and the efficiency of the internal operations. Project Forte will also drive further Group-wide organisational consolidation, automation of processes and further offshoring of back office activities.
3. Other transformation projects focus on the remaining areas of the business, which are being aligned to the new operating model, including restructuring the property portfolio and simplifying the management structure.

The costs associated with the Group transformation programme include redundancy costs of £4.4m (2019: £4.7m), of which £0.3m (2019: £nil) relates to accelerated share-based payment charges, external consultancy costs of £1.8m (2019: £0.2m) and fixed-term staff costs of £8.0m (2019: £11.0m) to manage and implement the changes.

Acquisition and disposal related costs

Acquisition and disposal related costs from continuing operations include £0.6m (2019: £1.4m) of integration costs and a £1.9m credit (2019: £nil) arising on the release of a liability associated with the Vision Security Group (VSG) business that was acquired on 26 October 2018, the amortisation charge for acquisition related intangibles of £2.3m (2019: £1.5m), the charge for restricted shares issued of £0.8m (2019: £3.9m), acquisition costs of £0.1m (2019: £1.2m) which for the year ended 31 March 2020 is related to the acquisition of Global Aware International Group business and costs associated with other transaction related projects of £1.6m (2019: £0.7m). In the prior year a gain on bargain purchase of £8.8m was recorded in respect of the acquisition of VSG.

Acquisition and disposal related costs from discontinued operations include costs related to the disposal of the Catering business of £0.3m (2019: £nil), costs related to the disposal of the Social Housing business of £0.7m (2019: £nil) and costs related to the disposal of the Pest Control business of £0.3m (2019: £nil).

Gain on disposal

During the year ended 31 March 2020, the Group completed the sale of the Catering business. The Group disposed the Pest Control and Social Housing businesses during the year ended 31 March 2019. See Note 5 for further details.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

4. Other items continued

Other exceptional items

Other exceptional items included in operating profit are analysed below:

	2020			2019		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Regulatory investigation ¹	(0.7)	–	(0.7)	(1.1)	–	(1.1)
IFRS 16/15/9 adoption and implementation projects ²	(0.7)	–	(0.7)	(0.7)	–	(0.7)
Costs incurred and provision for settlement of contractual disputes ³	(0.9)	–	(0.9)	–	(20.5)	(20.5)
Provision for indemnified costs	–	–	–	–	(2.6)	(2.6)
Cost of equalising Guaranteed Minimum Pensions	–	–	–	(1.6)	–	(1.6)
Pension scheme Section 75 employer debt	–	–	–	(20.0)	–	(20.0)
Gain on closure of Mitie Reinsurance	–	–	–	0.4	–	0.4
Other exceptional items	(2.3)	–	(2.3)	(23.0)	(23.1)	(46.1)
Taxation	0.3	–	0.3	4.0	4.5	8.5
Other exceptional items net of taxation	(2.0)	–	(2.0)	(19.0)	(18.6)	(37.6)

Notes:

1. Legal and professional costs of £0.7m (2019: £1.1m) have been incurred in respect of the closed FRC and FCA investigations, and the Company's own investigations into the same matters. Further details of these investigations are set out in the Annual Report and Accounts 2019.
2. Professional fees and fixed-term contract staff costs of £0.7m (2019: £0.7m) have been incurred in relation to the projects required to adopt IFRS 16 'Leases', IFRS 15 'Revenue from contracts with customers', and IFRS 9 'Financial Instruments'.
3. Legal costs of £0.9m have been incurred for the year ended 31 March 2020 (2019: £nil) in relation to a legal dispute due to the way a tender process was run. The £20.5m charge for the year ended 31 March 2019 related to the disposed Social Housing business and included £3.4m in respect of the settlement of a contract dispute, £16.1m for the estimated costs of rectification works and legal advice associated with certain of the Group's property maintenance contracts, and £1.0m for other contractual disputes.

5. Discontinued operations and disposal of subsidiaries

On 6 September 2019, the Group completed the sale of Mitie Catering Services Limited, Creativevents Limited and the catering trade and assets in Ireland (together, the Catering business). The results of the Catering business have been classified as discontinued operations at 31 March 2020 and comparative information has been re-presented. The Group recognised a net gain on disposal of £49.4m in relation to Catering, which together with transaction costs of £0.4m and £0.8m in relation to the Pest Control and Social Housing prior year disposals respectively, and £0.5m of indemnity provision release in relation to the Healthcare business which was disposed on 28 February 2017, has been reported in profit from discontinued operations for the year ended 31 March 2020 and recognised in other items (see Note 4).

Prior year disposals

On 30 September 2018, the Group completed the sale of Mitie Pest Control Limited (Pest Control) for cash consideration of £40.0m before tax and transaction costs. The results of the Pest Control business were classified as discontinued operations. The Group recognised a net gain on disposal of £26.7m, reported in profit from discontinued operations in the year ended 31 March 2019 and recognised in other items.

On 19 November 2018, the Company signed an agreement for the sale of Mitie Property Management Limited and MPS Housing Limited (together the Social Housing business) and this transaction was subsequently completed on 30 November 2018. The results of the Social Housing business were classified as discontinued operations. The Group retained liability, and made provisions where appropriate, for certain legacy contracts of the Social Housing business so these were not included within liabilities disposed. The Group recognised a net loss on disposal of £11.7m, reported in profit from discontinued operations in the year ended 31 March 2019 and recognised in other items.

The gain on disposal for the year ended 31 March 2019 also included £2.0m of indemnity provision release in relation to the Healthcare business, reported in profit from discontinued operations and recognised in other items.

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

5. Discontinued operations and disposal of subsidiaries continued

Gain/(loss) on disposal of discontinued operations

					2020	2019
	Catering ¹ £m	Pest Control £m	Social Housing £m	Healthcare £m	Total £m	Total £m
Total consideration	76.0	–	–	–	76.0	60.9
Net assets disposed ²	(20.4)	–	–	–	(20.4)	(39.7)
Customer liability	(2.6)	–	–	–	(2.6)	–
Release of indemnity provision	–	–	–	0.5	0.5	2.0
Transaction costs	(2.0)	(0.4)	(0.8)	–	(3.2)	(5.3)
Total gain/(loss) on disposal before tax	51.0	(0.4)	(0.8)	0.5	50.3	17.9
Taxation	(1.6)	–	–	–	(1.6)	(0.9)
Net gain/(loss) on disposal of discontinued operations	49.4	(0.4)	(0.8)	0.5	48.7	17.0

Note:

1. Total consideration includes £72.7m of cash consideration and £3.3m of contingent consideration.
2. Net assets disposed include goodwill of £15.7m (2019: £15.8m) and cash balances of £4.5m (2019: £3.6m).

Income statement of discontinued operations

	2020												
	Catering			Pest Control			Social Housing			Healthcare	Total discontinued operations		
	Before other items	Other items ¹	Total	Before other items	Other items ¹	Total	Before other items	Other items ¹	Total	Other items ¹	Before other items	Other items ¹	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	60.5	–	60.5	–	–	–	–	–	–	–	60.5	–	60.5
Cost of sales	(54.7)	–	(54.7)	–	–	–	–	–	–	–	(54.7)	–	(54.7)
Gross profit	5.8	–	5.8	–	–	–	–	–	–	–	5.8	–	5.8
Administrative expenses	(3.0)	(0.3)	(3.3)	–	(0.3)	(0.3)	–	(0.7)	(0.7)	–	(3.0)	(1.3)	(4.3)
Operating profit/(loss)	2.8	(0.3)	2.5	–	(0.3)	(0.3)	–	(0.7)	(0.7)	–	2.8	(1.3)	1.5
Net finance costs	(0.2)	–	(0.2)	–	–	–	–	–	–	–	(0.2)	–	(0.2)
Profit/(loss) before tax	2.6	(0.3)	2.3	–	(0.3)	(0.3)	–	(0.7)	(0.7)	–	2.6	(1.3)	1.3
Tax	(0.3)	–	(0.3)	–	–	–	–	0.3	0.3	–	(0.3)	0.3	–
Profit and total comprehensive income for the year	2.3	(0.3)	2.0	–	(0.3)	(0.3)	–	(0.4)	(0.4)	–	2.3	(1.0)	1.3
Net gain/(loss) on disposal	–	49.4	49.4	–	(0.4)	(0.4)	–	(0.8)	(0.8)	0.5	–	48.7	48.7
Total profit/(loss) for the year	2.3	49.1	51.4	–	(0.7)	(0.7)	–	(1.2)	(1.2)	0.5	2.3	47.7	50.0

Notes:

1. Other items are as described in Note 4.

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

5. Discontinued operations and disposal of subsidiaries continued

2019

	Catering			Pest Control			Social Housing			Healthcare	Total discontinued operations		
	Before other items ¹	Other items ²	Total	Before other items	Other items ¹	Total	Before other items	Other items ¹	Total	Other items ¹	Before other items	Other items ¹	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	136.1	–	136.1	11.9	–	11.9	89.1	–	89.1	–	237.1	–	237.1
Cost of sales	(120.1)	–	(120.1)	(6.7)	–	(6.7)	(72.9)	–	(72.9)	–	(199.7)	–	(199.7)
Gross profit	16.0	–	16.0	5.2	–	5.2	16.2	–	16.2	–	37.4	–	37.4
Administrative expenses	(7.4)	(0.1)	(7.5)	(2.8)	–	(2.8)	(15.1)	(23.9)	(39.0)	–	(25.3)	(24.0)	(49.3)
Share of profit of associates	–	–	–	–	–	–	0.5	–	0.5	–	0.5	–	0.5
Operating profit/(loss)	8.6	(0.1)	8.5	2.4	–	2.4	1.6	(23.9)	(22.3)	–	12.6	(24.0)	(11.4)
Net finance (cost)/income	(0.1)	–	(0.1)	0.1	–	0.1	–	–	–	–	–	–	–
Profit/(loss) before tax	8.5	(0.1)	8.4	2.5	–	2.5	1.6	(23.9)	(22.3)	–	12.6	(24.0)	(11.4)
Tax	(1.0)	–	(1.0)	(0.3)	–	(0.3)	(0.7)	4.7	4.0	–	(2.0)	4.7	2.7
Profit and total comprehensive income for the year	7.5	(0.1)	7.4	2.2	–	2.2	0.9	(19.2)	(18.3)	–	10.6	(19.3)	(8.7)
Net gain/(loss) on disposal	–	–	–	–	26.7	26.7	–	(11.7)	(11.7)	2.0	–	17.0	17.0
Total profit/(loss) for the year	7.5	(0.1)	7.4	2.2	26.7	28.9	0.9	(30.9)	(30.0)	2.0	10.6	(2.3)	8.3

Notes:

1. Certain administrative expenses previously allocated to the Catering business, which have been retained within the Group, have been reclassified to continuing operations.
2. Other items are as described in Note 4.

Cash flows from discontinued operations

	2020 £m	2019 £m
Net cash used in operating activities	(3.3)	(2.2)
Net cash generated from investing activities	65.0	52.1
Net cash generated from financing activities	–	(0.1)
Increase in cash and cash equivalents	61.7	49.8

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

6. Operating profit

Operating profit has been arrived at after charging/(crediting) the following expenses/(income):

Continuing and discontinued operations	2020 £m	2019 ¹ £m
Depreciation of property, plant and equipment (Note 14 and Note 24)	33.3	11.6
Amortisation of other intangible assets (Note 13)	11.4	9.0
Amortisation of contract assets (Note 16)	1.5	0.8
Impairment of right-of-use assets (Note 24)	0.8	–
Impairment of other intangible assets (Note 13)	–	1.1
Loss/(gain) on disposal of property, plant and equipment	0.3	(0.8)
Gain on disposal of subsidiaries (Note 5)	(50.3)	(17.9)
Impairment (gains)/losses recognised on trade receivables (Note 23)	(4.0)	(0.4)
Impairment gains recognised on accrued income (Note 23)	(0.4)	(1.6)

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

A detailed analysis of auditor's remuneration is provided below:

	2020 £'000	2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	240	240
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation - current year	1,320	1,320
Total audit fees- current year	1,560	1,560
Fees payable to the Company's auditor for the audit of the Company's annual accounts - prior year	160	–
Total audit fees	1,720	1,560
Other audit related services to the Group	71	127
Non-audit services	5	–
Total non-audit fees	76	127
Total	1,796	1,687

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

7. Employees

The average number of people employed during the financial year was:

Number of people	2020	2019
Technical Services	9,266	9,547
Business Services	35,211	34,526
Specialist Services	2,995	2,936
<i>Care & Custody</i>	1,968	1,973
<i>Landscapes</i>	772	764
<i>Waste</i>	255	199
Corporate centre	95	93
Continuing operations	47,567	47,102
Catering	1,086	2,380
Pest Control	–	190
Social Housing	–	735
Discontinued operations	1,086	3,305
Total Group	48,653	50,407

The total employment costs, including Directors, were:

Aggregate remuneration comprised:	2020 £m	2019 £m
Wages and salaries	1,147.6	1,129.0
Social security costs	92.4	89.8
Other pension costs	25.0	20.0
Share-based payments (Note 29)	2.9	1.1
Share-based payments acquisition related costs (Notes 4 and 29)	0.8	3.9
Total	1,268.7	1,243.8

Executive and Non-Executive Directors' aggregate emoluments are shown below:

	2020 £m	2019 £m
Short term benefits	2.1	3.7
Share-based payments	1.1	0.8
Total	3.2	4.5

8. Finance costs

Continuing operations	2020 £m	2019 £m
Interest on bank facilities	3.8	4.1
Interest on private placement loan notes	7.4	7.8
Bank fees	0.9	0.5
Interest on lease liabilities ¹	3.1	0.1
Unwinding of discounts on provisions	–	0.1
Net interest on defined benefit pension scheme assets and liabilities	1.4	1.3
Total	16.6	13.9

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1. Interest expense on the Group's lease liabilities increased by £3.1m as a result of adoption of IFRS 16 for the year ended 31 March 2020. See Note 24.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

9. Tax

	2020 £m	2019 ¹ £m
Continuing and discontinued operations		
Current tax	5.8	3.4
Deferred tax (Note 20)	3.7	0.2
Tax charge for the year	9.5	3.6
Continuing operations	7.9	5.4
Discontinued operations	1.6	(1.8)
Tax charge for the year	9.5	3.6

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

Corporation tax is calculated at 19% (2019: 19%) of the estimated taxable profit for the year. A reconciliation of the tax charge to the elements of profit before tax per the consolidated income statement elements is as follows:

	2020			2019 ¹		
	Before other items	Other items ²	Total	Before other items	Other items ²	Total
	£m	£m	£m	£m	£m	£m
Continuing and discontinued operations						
Profit/(loss) before tax	72.5	27.5	100.0	78.5	(44.0)	34.5
Tax at UK rate of 19% (2019: 19%)	13.8	5.2	19.0	14.9	(8.4)	6.5
Reconciling tax charges for:						
Non-tax deductible charges	0.5	0.3	0.8	0.9	–	0.9
Share-based payments	0.7	0.3	1.0	0.3	0.7	1.0
Gain on disposal of businesses	–	(8.6)	(8.6)	–	(4.0)	(4.0)
Losses not previously recognised	(0.1)	–	(0.1)	–	–	–
Overseas tax rates	–	0.6	0.6	(0.2)	–	(0.2)
Impact of change in statutory tax rates	(2.3)	–	(2.3)	(0.4)	0.5	0.1
Prior year adjustments	(0.4)	(0.5)	(0.9)	(0.7)	–	(0.7)
Tax charge/(credit) for the year	12.2	(2.7)	9.5	14.8	(11.2)	3.6
Effective tax rate for the year	16.8%	(9.8%)	9.5%	18.9%	25.5%	10.4%

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

2. Other items are as described in Note 4.

In addition to the amounts charged to the consolidated income statement, tax relating to retirement benefit costs amounting to a £1.3m charge (2019: £2.4m credit) has been taken directly to the statement of comprehensive income together with a £0.7m charge relating to hedged items (2019: £0.3m charge).

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as a consequence a credit of £2.3m has been included in the tax charge. A further credit of £0.5m (2019: £nil) has been incorporated within the tax on other comprehensive income. The UK deferred tax assets and liabilities at 31 March 2020 reflect this change. A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation.

10. Dividends

	2020 Pence per share	2020 £m	2019 pence per share	2019 £m
Amounts recognised as distributions in the year:				
Final dividend for prior year	2.67	9.6	2.67	9.6
Interim dividend for current year	1.33	4.8	1.33	4.8
	4.00	14.4	4.00	14.4
Proposed final dividend for the year ended 31 March	–	–	2.67	9.6

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

11. Earnings per share

The calculation of the basic and diluted EPS is based on the following data:

	2020 £m	2019 ¹ £m
From continuing operations		
Net profit before other items attributable to equity holders of the parent	58.0	53.1
Other items net of tax ²	(17.5)	(30.5)
Net profit attributable to equity holders of the parent	40.5	22.6
From discontinued operations		
Net profit before other items attributable to equity holders of the parent	2.3	10.6
Other items net of tax ²	47.7	(2.3)
Net profit attributable to equity holders of the parent	50.0	8.3
From continuing and discontinued operations		
Net profit before other items attributable to equity holders of the parent	60.3	63.7
Other items net of tax ²	30.2	(32.8)
Net profit/(loss) attributable to equity holders of the parent	90.5	30.9
Number of shares	2020 million	2019 ¹ million
Weighted average number of ordinary shares for the purpose of basic EPS	361.7	360.8
Effect of dilutive potential ordinary shares: share options	8.9	2.2
Weighted average number of ordinary shares for the purpose of diluted EPS	370.6	363.0
	2020 p	2019 ¹ p
From continuing operations:		
Basic earnings before other items per share ²	16.0	14.7
Basic earnings per share	11.2	6.3
Diluted earnings before other items per share ²	15.7	14.6
Diluted earnings per share	10.9	6.2
From discontinued operations:		
Basic earnings before other items per share ²	0.7	3.0
Basic earnings per share	13.8	2.3
Diluted earnings before other items per share ²	0.6	2.9
Diluted earnings per share	13.5	2.3
From continuing and discontinued operations:		
Basic earnings before other items per share ²	16.7	17.7
Basic earnings per share	25.0	8.6
Diluted earnings before other items per share ²	16.3	17.5
Diluted earnings per share	24.4	8.5

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.

The weighted average number of ordinary shares in issue during the year excludes those accounted for in the own shares reserve (see Note 27).

The dilutive potential ordinary shares relate to instruments that could potentially dilute basic earnings per share in the future, such as share options.

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

12. Goodwill

	£m
Cost	
At 1 April 2018	359.2
Disposal of businesses	(32.9)
At 31 March 2019	326.3
Arising on business combinations	0.8
Disposal of businesses	(15.7)
At 31 March 2020	311.4
Accumulated impairment losses	
At 1 April 2018	49.6
Disposal of businesses	(17.1)
At 31 March 2019	32.5
Disposal of businesses	–
At 31 March 2020	32.5
Net book value	
At 31 March 2020	278.9
At 31 March 2019	293.8

Acquisition of Global Aware International Group Limited (GAIG)

On 31 July 2019, the Group acquired GAIG. The goodwill arising on acquisition was £0.8m. See Note 28.

Disposal of Catering

On 6 September 2019, the Group completed the sale of the Catering business and the associated goodwill of £15.7m has been included in the net assets disposed. See Note 5.

Goodwill impairment testing

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. The Group tests goodwill at least annually for impairment or more frequently if there are indicators that goodwill may be impaired.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

12. Goodwill continued

Mitie has reorganised its business in the year ended 31 March 2020 and the determination of CGUs has been updated accordingly to meet the criteria laid out by IAS 36 'Impairment of Assets'. The information presented for the year ended 31 March 2019 has been re-presented to reflect the changes implemented in the year ended 31 March 2020. Technical Services, Business Services, Landscapes and Catering have been determined to be relevant CGUs for the year ended 31 March 2020. Technical Services incorporates the previously presented Engineering Services and Professional Services CGUs for the year ended 31 March 2019. Business Services incorporates the previously presented Security and Cleaning & Environmental Services CGUs for the year ended 31 March 2019, with the exception of Landscapes which is determined to be a separate CGU at 31 March 2020 and was previously incorporated within the Cleaning & Environmental Services CGU.

A summary of the goodwill balances and the discount rates used to assess the forecast cash flows from each CGU are as follows:

	Pre-tax discount rate %	Goodwill 2020 £m	Goodwill 2019 £m
Technical Services	11.3%	146.6	146.6
Business Services	11.3%	126.5	125.7
Landscapes	11.3%	5.8	5.8
Catering	–	–	15.7
Total		278.9	293.8

At 31 March 2019 and under the previous organisational structure, the goodwill was allocated as follows:

	Goodwill 2019 £m
Engineering Services	130.9
Security	101.7
Professional Services	15.7
Cleaning & Environmental Services	29.8
Catering	15.7
Social Housing	–
Total	293.8

Key assumptions

The recoverable amounts for each CGU are based on value-in-use which is derived from discounted cash flow calculations. The key assumptions applied in value-in-use calculations are those regarding forecast operating profits, growth rates and discount rates.

Forecast operating profits

For all CGUs, the Group prepared cash flow projections derived from the most recent forecasts for the year ending 31 March 2021 and the Group's medium-term strategic plan to 31 March 2025, adjusted for COVID-19 impacts. Forecast revenue and direct costs are based on past performance and expectations of future changes in the market, operating model and cost base.

Growth rates and terminal values

Revenue growth rates applied to the value-in-use calculations of each CGU reflects management's strategy and a terminal value using a long-term growth assumption of 1.7% (2019: 1.5%) based on forecast inflation.

Discount rates

The pre-tax discount rates used to assess the forecast cash flows from CGUs are derived from the Company's post-tax weighted average cost of capital, which was 9.2% at 31 March 2020 (2019: 8.8%). These rates are reviewed annually with external advisers and adjusted for the risks specific to the business being assessed and the market in which the CGU operates. All CGUs have the same access to the Group's treasury functions and borrowing lines to fund their operations.

Sensitivity analysis

A sensitivity analysis has been performed and management has concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of any of the Group's CGUs. Given the uncertainties related to COVID-19 in terms of the duration and depth of impact, sensitivity analysis using the downside scenario (see Note 1) has also been performed and management has concluded that even in the downside scenario, no impairments would be required.

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

13. Other intangible assets

	Acquisition related		Total acquisition related	Software and development expenditure	Total
	Customer relationships	Other			
	£m	£m	£m	£m	£m
Cost					
At 1 April 2018	88.4	10.9	99.3	106.3	205.6
Additions	–	–	–	11.2	11.2
Arising on business combinations	14.9	–	14.9	–	14.9
Disposals	–	–	–	(31.3)	(31.3)
Disposal of businesses	–	–	–	(6.0)	(6.0)
At 31 March 2019	103.3	10.9	114.2	80.2	194.4
Additions	–	–	–	11.2	11.2
Arising on business combinations	0.5	–	0.5	–	0.5
Disposals	–	–	–	(21.1)	(21.1)
Disposal of businesses	(1.9)	–	(1.9)	–	(1.9)
At 31 March 2020	101.9	10.9	112.8	70.3	183.1
Amortisation					
At 1 April 2018	85.6	10.0	95.6	71.7	167.3
Charge for the year	1.2	0.3	1.5	7.5	9.0
Impairment	–	–	–	1.1	1.1
Disposals	–	–	–	(31.3)	(31.3)
Disposal of businesses	–	–	–	(2.4)	(2.4)
At 31 March 2019	86.8	10.3	97.1	46.6	143.7
Charge for the year	2.1	0.2	2.3	9.1	11.4
Disposals	–	–	–	(20.7)	(20.7)
Disposal of businesses	(1.9)	–	(1.9)	–	(1.9)
At 31 March 2020	87.0	10.5	97.5	35.0	132.5
Net book value					
At 31 March 2020	14.9	0.4	15.3	35.3	50.6
At 31 March 2019	16.5	0.6	17.1	33.6	50.7

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.

Following a review of the carrying amount of intangible assets, no impairment has been recorded (2019: £1.1m).

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

14. Property, plant and equipment

Property, plant and equipment comprise owned and leased assets.

31 March 2020

£m

Owned property, plant and equipment	22.7
Right-of-use assets (Note 24)	88.1
At 31 March 2020	110.8

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

	Freehold properties £m	Leasehold properties £m	Plant and vehicles £m	Total £m
Cost				
At 1 April 2018	0.3	21.1	79.6	101.0
Additions	–	4.1	8.0	12.1
Reclassifications within property, plant and equipment	–	(0.3)	0.3	–
Disposals	–	(6.5)	(17.3)	(23.8)
Arising on business combinations	–	–	0.2	0.2
Disposal of businesses	(0.3)	(0.7)	(2.4)	(3.4)
At 31 March 2019	–	17.7	68.4	86.1
Impact of change in accounting policy ¹	–	(1.4)	(4.1)	(5.5)
Adjusted balance at 1 April 2019	–	16.3	64.3	80.6
Additions	–	0.4	7.8	8.2
Disposals	–	(0.6)	(14.7)	(15.3)
Disposal of businesses	–	–	(8.3)	(8.3)
At 31 March 2020	–	16.1	49.1	65.2
Accumulated depreciation and impairment				
At 31 March 2018	0.1	12.2	55.1	67.4
Charge for the year	–	0.8	10.8	11.6
Reclassifications within property, plant and equipment	–	(0.1)	0.1	–
Disposals	–	(2.7)	(17.2)	(19.9)
Disposal of businesses	(0.1)	(0.2)	(1.7)	(2.0)
At 31 March 2019	–	10.0	47.1	57.1
Impact of change in accounting policy ¹	–	(0.8)	(2.8)	(3.6)
Adjusted balance at 1 April 2019	–	9.2	44.3	53.5
Charge for the year	–	1.5	7.7	9.2
Disposals	–	(0.3)	(14.4)	(14.7)
Disposal of businesses	–	–	(5.5)	(5.5)
At 31 March 2020	–	10.4	32.1	42.5
Net book value				
At 31 March 2020	–	5.7	17.0	22.7
At 31 March 2019	–	7.7	21.3	29.0

Note:

- The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. Property restoration assets of £0.6m have been reclassified from leasehold properties to right-of-use assets. See Note 1. In addition, £1.3m of assets relating to finance leases at 31 March 2019 which were previously capitalised as plant and vehicles under IAS17 have been reclassified to right-of-use assets. See Note 24.

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

15. Trade and other receivables

	2020 £m	2019 £m
Trade receivables	207.7	233.6
Accrued income	132.2	132.6
Prepayments	30.0	27.1
Other receivables ¹	36.5	41.9
Total	406.4	435.2
Included in current assets	403.1	435.2
Included in non-current assets ¹	3.3	–
Total	406.4	435.2

Note:

1. Other receivables include £3.3m of contingent consideration receivable from the disposal of the Catering business. See Note 5.

Trade receivables at 31 March 2020 represent 28 days credit on sales (March 2019: 29 days).

The Group makes use of a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Group's relationship banks. As these trade receivables are sold without recourse, the Group has derecognised them, and so they are not included within trade receivables. The Group has reduced the amount of invoice discounting from £73.2m as at 31 March 2019 to £61.2m as at 31 March 2020.

Management considers that the carrying amount of trade and other receivables approximates their fair value.

Information about the Group's exposure to credit risk and its loss allowance against the balance of trade receivables and accrued income, is provided in Note 23.

16. Contract assets

	Pre-contract costs £m	Contract fulfilment costs £m	Total £m
At 1 April 2018	–	2.2	2.2
Additions	2.2	2.5	4.7
Amortisation	–	(0.8)	(0.8)
At 31 March 2019	2.2	3.9	6.1
Additions	0.2	0.3	0.5
Disposal of businesses	(0.1)	(0.2)	(0.3)
Amortisation	(0.8)	(0.7)	(1.5)
At 31 March 2020	1.5	3.3	4.8
Included in current assets	0.9	0.7	1.6
Included in non-current assets	0.6	2.6	3.2
Total	1.5	3.3	4.8

Contract assets are amortised on a straight-line basis over the contract life which is consistent with the transfer of services to the customer to which the asset relates. Management has determined that no impairment of contract assets is required as at 31 March 2020.

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

17. Trade and other payables

	2020 £m	2019 £m
Trade payables	154.2	160.3
Other taxes and social security	113.0	97.1
Other payables ¹	17.0	45.6
Accruals	203.1	230.9
Total	487.3	533.9
Included in current liabilities	487.0	533.9
Included in non-current liabilities	0.3	–
Total	487.3	533.9

Note:

1. Other payables include £0.5m of contingent consideration payable in respect of the acquisition of GAIG of which £0.3m has been recorded as non-current liabilities. See Note 28.

Trade creditors at 31 March 2020 represent 50 days credit on trade purchases (2019: 50 days).

Included within the Group's trade creditors balance is £16.0m (2019: £20.0m) relating to payments due to UK suppliers which make use of bank provided supply chain finance arrangements. During the year ended 31 March 2020 these arrangements were used by c.200 suppliers, with a maximum facility available of £50.0m. The Group settles these amounts in accordance with each supplier's agreed payment terms.

Management considers that the carrying amount of trade and other payables approximates their fair value.

18. Deferred income from contracts with customers

The significant changes in deferred income are as follows:

	2020 £m	2019 £m
At 1 April	73.3	65.0
Revenue recognised that was included in the deferred income balance at the beginning of the year	(55.7)	(44.9)
Increase due to cash received, excluding amounts recognised as revenue during the year	33.9	50.0
Arising on business combinations	–	4.9
Disposal of businesses	–	(1.7)
At 31 March	51.5	73.3
Included within current liabilities	35.9	54.9
Included within non-current liabilities	15.6	18.4
Total	51.5	73.3

For any amounts which do not relate to specific contractual performance obligations, the income is deferred to the balance sheet and amortised over the period to which the contracted services are delivered to the customer.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

19. Provisions

	Legal costs	Acquisition and disposal of businesses	Restructuring	Insurance reserve	Contract specific costs	Pension	Dilapidations	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2018	4.1	4.9	1.2	15.3	2.4	–	3.6	31.5
Amounts recognised in the income statement	0.2	0.6	–	2.5	11.5	20.0	–	34.8
Utilised within captive insurance subsidiary	–	–	–	(0.1)	–	–	–	(0.1)
Unwinding of discount	–	–	–	–	–	–	0.1	0.1
Utilised in the year	(4.0)	(0.2)	(1.2)	(3.3)	(0.6)	–	(0.4)	(9.7)
Reclassification	–	–	–	0.6	(0.6)	–	–	–
At 31 March 2019	0.3	5.3	–	15.0	12.7	20.0	3.3	56.6
Impact of change in accounting policy ¹	–	–	–	–	–	–	1.9	1.9
Adjusted balance at 1 April 2019	0.3	5.3	–	15.0	12.7	20.0	5.2	58.5
Amounts recognised in the income statement	–	(0.5)	–	1.5	(0.4)	–	(0.2)	0.4
Unwinding of discount	–	–	–	–	–	–	0.1	0.1
Utilised in the year	(0.3)	(0.8)	–	(2.7)	(1.6)	–	(0.4)	(5.8)
At 31 March 2020	–	4.0	–	13.8	10.7	20.0	4.7	53.2
Included in current liabilities	–	4.0	–	6.0	10.7	20.0	0.7	41.4
Included in non-current liabilities	–	–	–	7.8	–	–	4.0	11.8
Total	–	4.0	–	13.8	10.7	20.0	4.7	53.2

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

The provisions balance includes the following items:

The legal costs provision related to professional fees payable and the potential cost of settlement of outstanding claims against the Group.

The acquisition and disposal of businesses provision relates to indemnities provided following the disposal by the Group of the Healthcare and Social Housing businesses. The amounts recognised in the income statement represent a £0.5m release in respect of Healthcare. Utilisation of £0.8m was in respect of Social Housing.

The restructuring provision related 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 and a claim typically settles over three to five years. This includes a provision for claims that are expected but have not yet been reported.

The contract specific cost provisions relate to obligations arising in the ordinary course of providing services in line with commercial contracts. The £10.7m provision at 31 March 2020 includes £10.6m estimated costs of rectification works associated with certain property maintenance contracts of the discontinued Social Housing business. The provision has been recorded as a current provision, however, timing of outflows is dependent on when claims are received by the Group and may occur over a longer period than one year.

The pension provision relates to the Section 75 employer debt liability of Robert Prettie & Co Limited as a result of that company's participation in the Plumbing Scheme. The provision has been recorded as a current provision, however timing of outflows is dependent on agreement with the trustee of the Plumbing Scheme and may occur over a longer period than one year. See Notes 30 and 31.

The provision for dilapidations relates to the legal obligation for leased properties to be returned to the landlord in the contracted condition at the end of the lease period. This cost would include repairs of any damage and wear and tear.

Contingent asset

Management is working to ensure that a proportion of the £5.5m costs incurred cumulatively in the years ended 31 March 2020 and 31 March 2019, and £10.6m costs provided for at 31 March 2020 in respect of rectification works for the Social Housing property maintenance contracts is recovered through a combination of insurance claims and recourse to suppliers. The amount and timing of recoveries is yet to be determined.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

20. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period:

	Losses	Accelerated capital allowance	Retirement benefit liabilities	Intangible assets acquired	Share options	Short-term timing differences	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2018	18.8	6.2	9.5	(0.8)	0.7	1.5	35.9
Arising on business combinations	–	0.3	–	(2.5)	–	0.2	(2.0)
Disposal of businesses	–	(0.3)	–	0.5	–	(0.2)	–
(Charge)/credit to income	(1.5)	(1.2)	2.3	(0.1)	0.4	(0.1)	(0.2)
Credit/(charge) to equity and other comprehensive income	–	–	2.4	–	(0.3)	–	2.1
At 31 March 2019	17.3	5.0	14.2	(2.9)	0.8	1.4	35.8
Arising on business combinations	–	(0.1)	–	–	–	–	(0.1)
Disposal of businesses	–	(0.3)	–	–	–	–	(0.3)
(Charge)/credit to income	(5.6)	1.1	(0.2)	–	0.3	0.7	(3.7)
Charge to equity and other comprehensive income	–	–	(1.3)	–	(0.7)	–	(2.0)
At 31 March 2020	11.7	5.7	12.7	(2.9)	0.4	2.1	29.7

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:

	2020 £m	2019 £m
Deferred tax assets	32.6	38.7
Deferred tax liabilities	(2.9)	(2.9)
Net deferred tax asset	29.7	35.8

The Group has unutilised income tax losses of £68.4m (2019: £102.3m) that are available for offset against future profits. A deferred tax asset has been recognised in respect of £61.5m (2019: £92.8m) of these losses to the extent that it is probable that taxable profits will be generated in the future and be available for utilisation. Deferred tax has been calculated using the corporation tax rate disclosed in Note 9. In addition, the Group has £0.8m (2019: £0.8m) of capital losses.

21. Cash and cash equivalents

	2020 £m	2019 £m
Cash and cash equivalents	124.6	108.4

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The Group operates cash-pooling arrangements with certain banks for cash management purposes.

The carrying amount of the assets approximates their fair value.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

22. Financing liabilities

	2020 £m	2019 £m
Bank loans – under committed facilities	49.0	52.1
Private placement notes	177.9	211.9
Lease liabilities ¹ (Note 24)	93.8	1.5
Total	320.7	265.5
Included in current liabilities	24.3	40.7
Included in non-current liabilities	296.4	224.8
Total	320.7	265.5

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option resulting in the inclusion of an additional £93.0m lease liabilities at 31 March 2020, of which £23.9m has been recorded as current liabilities. Under this option, the comparative information is not restated. See Note 1.

The £275.0m bank facility and the private placement notes as at 31 March 2020 are unsecured, but have financial and non-financial covenants and obligations commonly associated with these arrangements. The final maturity dates of all facilities remained unchanged as at 31 March 2020. The covenants are calculated on a Frozen GAAP basis and the Group was in compliance with these covenants as at 31 March 2020, hence all amounts are classified in line with repayment dates.

At 31 March 2020, the Group had available £225.5m (2019: £221.9m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facilities have an expiry date of July 2021.

Details of the Group's contingent liabilities are provided in Note 31.

The weighted average interest rates paid during the year were as follows:

	2020 %	2019 %
Bank loans	1.4	1.6
Private placement notes	4.1	4.1

Private placement notes

Following the issue on 16 December 2010 of US\$96.0m and £40.0m of private placement (PP) notes in the United States Private Placement market, the Group issued a further US\$153.0m and £55.0m of PP notes on 13 December 2012. The PP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the Group. In order to manage the risk of foreign currency fluctuations and to manage the Group's finance costs through a mix of fixed and variable rate debt, the Group has entered into cross-currency interest rate swaps. The swap contracts have the same duration and other critical terms as the borrowings and are considered to be highly effective. US\$96.0m of these PP notes were settled in December 2017 upon maturity, along with the associated swaps which had been designated as fair value hedges. A further £40m of these PP notes were settled in December 2019, upon maturity. The amount, maturity and interest terms of the remaining PP notes as at 31 March 2020 are shown below.

Tranche	Maturity date	Amount	Interest terms	Swap interest
10 year	16 December 2022	US\$76.0m	US\$ fixed at 3.85%	£ fixed at 4.05%
10 year	16 December 2022	US\$77.0m	US\$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	£25.0m	£ fixed at 3.87%	n/a
12 year	16 December 2024	£30.0m	£ fixed at 4.00%	n/a

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

23. Financial instruments

Classification

The Group's principal financial assets are cash and cash equivalents, trade and other receivables from customers, contingent consideration receivable and derivative financial instruments. The derivative financial instruments are designated as cash flow hedges and are measured at fair value. Contingent consideration receivable is designated as 'fair value through profit and loss' (FVTPL). All other financial assets are held and measured at amortised cost.

The Group's principal financial liabilities are trade and other payables, contingent consideration payable and financing liabilities. Except for contingent consideration payable, which is designated as FVTPL, all other financial liabilities are held and measured at amortised cost.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense) for each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from other observable inputs for the asset or liability;
- Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

The following table comprises the Group's financial assets and liabilities:

	2020 £m	2019 £m
Held at amortised cost		
Cash and cash equivalents	124.6	108.4
Trade and other receivables	403.1	435.2
Financing liabilities	(320.7)	(265.5)
Trade and other payables	(486.8)	(533.9)
Held at fair value through the profit or loss		
Other receivables ¹	3.3	–
Other payables ¹	(0.5)	–
Hedging instruments at fair value through other comprehensive income		
Derivative financial instruments hedging private placement notes	28.2	16.4

Note:

1. Further details of other receivables comprising contingent consideration receivable and other payables comprising contingent consideration payable are contained in Notes 5 and 28 respectively.

The fair values of contingent consideration receivable and contingent consideration payable are estimated using discounted cash flow models. The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected amounts are determined by considering possible scenarios, which relate to future business performance. Consequently, contingent consideration receivable and contingent consideration payable fall into Level 3.

The fair values of derivative financial instruments are calculated based on a discounted cash flow analysis using appropriate market information for the duration of the instruments. All contracts are gross settled. Management considers that the Group's derivative financial instruments fall into Level 2. There were no transfers between levels during the year.

Risk management objectives

The Group's treasury department monitors and manages the financial risks relating to the operations of the Group. These risks include those arising from interest rates, foreign currencies, liquidity, credit and capital management. The Group seeks to minimise the effects of these risks by using effective control measures and, where appropriate, derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by Group policies and reviewed regularly. Group policy is to not trade in financial instruments. The risk management policies remain unchanged from the previous year.

Interest rate risk

The Group's activities expose it to the financial risks of interest rates. The Group's treasury function reviews its risk management strategy on a regular basis and will, as appropriate, enter into derivative financial instruments in order to manage interest rate risk.

Interest rate sensitivity

The interest rate sensitivity has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. All financial liabilities, other than financing liabilities, are interest free.

If underlying interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2020 and reserves would decrease/increase by £0.8m (2019: £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.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

23. Financial instruments continued

In addition, the Group has fully hedged the US dollar exposure on the principal and interest payments on private placement notes into sterling using cross-currency interest rate swaps (see Hedging activities below).

At 31 March 2020 £5.5m (2019: £9.2m) of cash and cash equivalents were held in foreign currencies. Included in bank loans were £9.5m (2019: £13.1m) of loans denominated in foreign currency.

Liquidity risk

The Group monitors its liquidity risk using a cash flow projection model which considers the maturity of the Group's assets and liabilities and the projected cash flows from operations. Bank loans under committed facilities, which allow for appropriate headroom in the Group's daily cash movements, are then arranged. Details of the Group's bank facilities can be found in Note 22.

The tables below summarise the maturity profile (including both undiscounted interest and principal cash flows) of the Group's financial liabilities:

Financial liabilities at 31 March 2020	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade payables	154.2	–	–	154.2
Other payables	16.7	0.3	–	17.0
Financing liabilities	83.0	244.6	23.9	351.5
Financial liabilities ¹	253.9	244.9	23.9	522.7

Financial liabilities at 31 March 2019	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade payables	160.3	–	–	160.3
Other payables	45.6	–	–	45.6
Financing liabilities	102.0	162.6	30.9	295.5
Financial liabilities ¹	307.9	162.6	30.9	501.4

Note:

1. Financial liabilities maturity profile is exclusive of the £28.2m (2019: £16.4m) derivative asset which would naturally offset the settlement value of the maturing private placement notes in financing liabilities.

Credit risk

The Group's credit risk is monitored on an ongoing basis and formally reported quarterly. The value of business placed with financial institutions is reviewed on a daily basis.

The Group's credit risk on liquid funds and derivative financial instruments is limited because the external counterparties are banks with high credit ratings assigned by international credit rating agencies and are managed through regular review.

The maximum exposure to credit risk in relation to derivatives at the balance sheet date is £28.2m (2019: £16.4m), being the fair value of interest rate swaps. The maximum exposure to credit risk on cash and cash equivalents at the balance sheet date is £124.6m (2019: £108.4m).

The Group's credit risk is primarily attributable to its receivable balances from customers. Before accepting a new customer, the Group uses external credit scoring systems to assess the potential customer's credit quality and define an appropriate credit limit which is reviewed regularly.

The maximum exposure to credit risk in relation to trade receivables and accrued income at the balance sheet date is the fair value of trade receivables and accrued income. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty or group of counterparties.

The amounts presented in the balance sheet in relation to the Group's trade receivables and accrued income balances are presented net of loss allowances. The Group measures loss allowances at an amount equal to lifetime expected credit losses (ECLs) using both quantitative and qualitative information and analysis based on the Group's historical experience, and forward-looking information.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

23. Financial instruments continued

The following tables provide information about the Group's exposure to credit risk and ECLs against customer balances:

	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
<i>Trade receivables at 31 March 2020</i>			
Current (not overdue)	171.8	(1.8)	170.0
1-30 days overdue	29.0	(0.5)	28.5
31-60 days overdue	4.9	(0.2)	4.7
61-90 days overdue	1.3	–	1.3
More than 90 days overdue	4.6	(1.4)	3.2
Total	211.6	(3.9)	207.7

	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
<i>Trade receivables at 31 March 2019</i>			
Current (not overdue)	200.6	(2.2)	198.4
1-30 days overdue	24.9	(0.4)	24.5
31-60 days overdue	6.5	(0.5)	6.0
61-90 days overdue	1.7	(0.3)	1.4
More than 90 days overdue	7.9	(4.6)	3.3
Total	241.6	(8.0)	233.6

The following table provides the movement in the allowance for impairment in respect of trade receivables and accrued income:

	2020 £m		2019 £m	
	Trade receivables	Accrued income	Trade receivables ¹	Accrued income
At 1 April	8.0	5.6	17.3	6.5
Impact of change in accounting policy	–	–	1.5	1.0
Impairment losses/(gains) recognised	(4.0)	(0.4)	(0.4)	(1.6)
Arising on business combinations	–	–	1.9	0.1
Disposal of businesses	(0.1)	–	(12.3)	(0.4)
At 31 March	3.9	5.2	8.0	5.6

Note:

1. Trade receivables allowance for impairment has been re-presented to adjust for £11.2m loss allowance in relation to businesses disposed in the year ended 31 March 2019.

Capital management risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the Group consists of net debt per Note 25 and equity per the consolidated statement of changes in equity. The Group is not subject to externally imposed regulatory capital requirements.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

23. Financial instruments continued

Hedging activities

Derivative financial instruments - cash flow hedges

The Group holds a number of cross-currency interest rate swaps designated as cash flow hedges on US\$153.0m of private placement notes. Biannual fixed interest cash flows denominated in US dollars arising over the periods to December 2022 from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. A fair value gain of £11.8m (2019: £10.3m gain) was recognised in other comprehensive income during the year. All cash flow hedges were assessed as being highly effective as at 31 March 2020 and no amounts (2019: £nil) relating to hedge ineffectiveness were recognised in profit or loss during the year. In addition, £0.1m loss (2019: £nil) was reclassified from the hedging reserve to the income statement during the year.

The carrying value of derivative financial instruments at the balance sheet date was as follows:

	Assets 2020 £m	Assets 2019 £m
Derivative financial instruments hedging private placement notes ¹	28.2	16.4
Total	28.2	16.4
Included in current assets	0.2	–
Included in non-current assets	28.0	16.4
Total	28.2	16.4

Note:

1. Derivative financial instruments hedging private placement notes comprise cross-currency interest rate swaps designated as cash flow hedges.

Hedge of net investment in foreign operations

Included in bank loans at 31 March 2020 was a borrowing of €9.5m (2019: €9.5m) which has been designated as a hedge of the net investment in the Republic of Ireland business of Mitie Technical Facilities Management Limited, and is being used to hedge the Group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of the borrowing are transferred to other comprehensive income to offset gains or losses on the translation of the net investment.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

24. Leases

The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. The details of adjustments made on transition and the related accounting policy are contained in Note 1.

	Properties £m	Plant and vehicles £m	Total £m
Right-of-use assets			
At 1 April 2019 ¹	48.0	39.5	87.5
Additions	3.3	23.6	26.9
Impairment	(0.8)	—	(0.8)
Modifications to lease terms	(0.6)	(0.8)	(1.4)
Depreciation	(6.6)	(17.5)	(24.1)
At 31 March 2020²	43.3	44.8	88.1

Notes:

1. Right-of-use assets at 1 April 2019 include £86.2m of assets recognised on adoption of IFRS 16 (see Note 1) and £1.3m of assets relating to finance leases at 31 March 2019 which were previously capitalised as plant and vehicles under IAS17 within property, plant and equipment (see Note 14).
2. Right-of-use assets at 31 March 2020 include £87.0m of additional non-current assets recorded as a result of IFRS 16 adoption as well as £0.8m in relation to finance leases and £0.3m in respect of property restoration assets at 31 March 2020 which under IAS 17 would have been reported as plant and vehicles and leasehold properties respectively within property, plant and equipment.

	£m
Lease liabilities	
At 1 April 2019 ¹	88.9
Additions	27.5
Modifications to lease terms	(1.4)
Interest expense related to lease liabilities	3.1
Repayment of lease liabilities (including interest)	(24.3)
At 31 March 2020²	93.8

Notes:

1. Lease liabilities at 1 April 2019 include £87.5m of additional liabilities recognised due to adoption of IFRS 16 (see Note 1) and £1.4m of liabilities relating to finance leases which existed at 31 March 2019.
2. Lease liabilities at 31 March 2020 include £93.0m of additional liabilities recognised due to adoption of IFRS16 and £0.8m of liabilities relating to finance leases which existed at 31 March 2019, of which £23.9m and £0.4m respectively have been recorded as current liabilities.

	2020 £m
Maturity analysis - contractual undiscounted cash flows	
Less than one year	26.6
One to five years	53.1
More than five years	23.9
Total undiscounted lease liabilities at 31 March 2020	103.6
Lease liabilities in the consolidated balance sheet at 31 March 2020	93.8
Current	24.3
Non-current	69.5

	2020 £m
Amounts recognised in the consolidated income statement	
Depreciation of right-of-use assets ¹	(24.1)
Short-term lease expense	(2.9)
Low-value lease expense	(0.1)
Operating profit impact	(27.1)
Interest on lease liabilities	(3.1)
Profit before taxation impact	(30.2)

Notes:

1. Additional depreciation of £23.6m was recorded due to adoption of IFRS 16 for the year ended 31 March 2020. If IFRS 16 had not been adopted, the IAS 17 operating lease rentals recorded within operating profit in respect of assets capitalised under IFRS 16 would have been £24.8m for the year ended 31 March 2020. Adoption of IFRS 16 has therefore led to an increase in operating profit of £1.2m.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

24. Leases continued

	2020 £m
Amounts recognised in the consolidated statement of cash flows	
Total cash outflow for capitalised leases ¹	24.3

Notes:

1. Includes capital element of lease rental payments of £21.2m and interest payments of £3.1m.

25. Analysis of net debt

	2020 £m	2019 £m
Cash and cash equivalents (Note 21)	124.6	108.4
Bank loans (Note 22)	(49.0)	(52.1)
Private placement notes (Note 22)	(177.9)	(211.9)
Derivative financial instruments hedging private placement notes (Note 23)	28.2	16.4
Net debt before obligations under finance leases	(74.1)	(139.2)
Lease liabilities ¹ (Note 24)	(93.8)	(1.5)
Net debt	(167.9)	(140.7)

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option resulting in the inclusion of an additional £93.0m of lease liabilities at 31 March 2020. Under this option, the comparative information is not restated. See Note 1.

Net debt excludes amounts in respect of customer invoice discounting referred to in Note 15 and amounts in respect of supply chain financing referred to in Note 17.

26. Share capital

	Number million	£m
Ordinary shares of 2.5p		
Allotted and fully paid		
At 1 April 2018	373.7	9.3
At 31 March 2019	373.7	9.3
At 31 March 2020	373.7	9.3

27. Reserves

Share premium account

The share premium account represents the premium arising on the issue of equity shares.

Merger reserve

The merger reserve represents amounts relating to premiums arising on shares issued subject to the provisions of Section 612 of the Companies Act 2006. In the year ended 31 March 2020, the £4.3m movement is related to realisation of merger reserve in retained earnings due to disposal of the Catering business.

Own shares reserve

The Group uses shares held in the Employee Benefit Trust to satisfy conditional awards under the Group's LTIP, CSP and DBP share schemes and shares held in the SIP Trust to provide matching shares under the SIP scheme. During the year the trusts distributed 0.6m (2019: 0.3m) shares at a cost of £1.6m (2019: £0.8m) to satisfy awards under those schemes.

The Company uses Treasury shares to satisfy share options under the Group's ESOS and SAYE share schemes. 3,749 Treasury shares have been issued to satisfy options under the Group's share schemes in the year (2019: nil).

The own shares reserve at 31 March 2020 represents the cost of 12.2m (2019: 12.7m) ordinary shares in Mitie Group plc held for the purposes of the share schemes, with a weighted average of 12.2m (2019: 13.8m) shares during the year, and in the prior year also included value of the remaining restricted shares issued as consideration to acquire non-controlling interests that is required to be treated as remuneration (2019: £2.6m). In the year ended 31 March 2020, the £3.9m (2019: £5.3m) movement includes: i) £2.3m (2019: £4.5m) which has been released in relation to maturities reflected in the share-based payments reserve following the expiration of the required continuing employment period in relation to restricted shares; ii) £0.9m (2019: £0.8m) release to the share-based payment reserve in relation to share option exercises; and iii) a £0.7m (2019: £nil) release to retained earnings which represents a loss on share option exercises.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

27. Reserves continued

Other reserves

Other reserves comprise the share-based payments reserve of £8.6m (2019: £9.4m), the revaluation reserve of £(0.2)m (2019: £(0.2)m), the capital redemption reserve of £0.9m (2019: £0.9m) and other reserves of £0.2m (2019: £0.2m).

The share-based payments reserve represents credits in respect of the vesting period of equity-settled share-based payment transactions (see Note 29) and credits in respect of the vesting period of restricted shares issued as part of the acquisition of non-controlling interests.

Hedging and translation reserve

The hedging and translation reserve of £0.1m (2019: £(5.6)m) includes balances in respect of the Group's cash flow hedges (see Note 23). A net cash flow hedge credit during the year of £5.7m (2019: £2.2m credit) is included within other comprehensive income. The hedging and translation reserve also includes balances arising on translation of the Group's foreign operations and in respect of net investment hedges of which the combined movement was a credit of £0.2m during the year (2019: £0.2m charge). A tax charge of £0.7m (2019: £0.3m charge) has been recognised on these movements through other comprehensive income.

Other movements in reserves

In the prior year £1.8m was reflected in retained earnings representing the recovery of consideration for the purchase of certain non-controlling interests in the year ended 31 March 2017.

28. Acquisitions

Current period acquisitions – purchase of Global Aware International Group Limited

On 31 July 2019, the Group acquired a 100% shareholding in Global Aware International Group Limited (GAIG). GAIG is a leading provider of niche intelligent software and security solutions. This move accelerates the growth of Mitie's premium technology-enabled and intelligence-led security solutions and bolsters the Group's credentials in providing connected security services.

Initial consideration of £1.4m was paid in cash at completion and funded through Mitie's own cash resources. Subject to business performance, a maximum contingent consideration of £1.5m may become payable to the seller of the business in the future. The fair value of the contingent consideration at 31 March 2020 was £0.5m and is included in other payables. See Note 17.

The Group's provisional assessment of the fair values of the assets and liabilities recognised as a result of the acquisition has been based on the total fair value of the consideration. The purchase price allocation is as follows:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Customer relationships	–	0.5	0.5
Trade and other receivables	0.5	–	0.5
Cash and cash equivalents	0.5	–	0.5
Trade and other payables	(0.3)	–	(0.3)
Deferred tax liabilities	(0.1)	–	(0.1)
Net identifiable assets acquired	0.6	0.5	1.1
Goodwill			0.8
Consideration			1.9

The Group concluded that the value of the internally generated software and the customer relationships to drive renewal of the contracts held by GAIG was an intangible asset. This has been valued at £0.5m at acquisition and has been recorded as a non-current acquisition related intangible asset under the caption 'Customer relationships'. The asset will amortise to the income statement through other items on a straight-line basis over a period of 10 years. See Note 13.

GAIG contributed £0.5m to revenue and £0.2m to profit before tax for the period from 1 August 2019 to 31 March 2020. If the acquisition had occurred on 1 April 2019, consolidated revenue and profit before tax for the year ended 31 March 2020 would have been £0.3m and £0.1m higher than the amounts reported in the income statement. Acquisition costs of £0.1m have been recorded in administrative expenses and recorded as other items in the income statement.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

28. Acquisitions continued

Outflow of cash to acquire subsidiaries, net of cash acquired is as follows:

	31 March 2020
	£m
Cash consideration	1.4
Acquisition costs	0.1
Less: cash balance acquired	(0.5)
Net outflow of cash – investing activities	1.0

Prior period acquisitions – purchase of Vision Security Group

On 26 October 2018, the Group acquired a 100% shareholding in Vision Security Group Limited (VSG). VSG is a leading security services provider offering integrated security systems, manned guarding and key holding services, with a team of approximately 6,000 employees servicing more than 1,400 guarding locations and over 5,000 systems locations across the UK and Ireland.

Consideration of £12.7m (on a debt free, cash free basis) was paid in cash at completion, and funded through Mitie's own cash resources. £4.5m of the cash consideration paid is expected to be returned following agreement of the completion accounts with the seller of the business. The Group recorded a bargain purchase gain of £8.8m in the consolidated income statement within other items during the year ended 31 March 2019. This represented the excess of the assessment of the fair values of the net identifiable assets acquired of £17.0m over the consideration of £8.2m.

29. Share-based payments

The Group has five equity-settled share schemes and in certain cases has issued restricted shares. The Group has also awarded performance-related bonuses for Executive Directors which are deferred in conditional shares under the Mitie Group plc 2010 Deferred Bonus Plan (DBP) and are accounted for as a share-based payment charge.

Discretionary share plans:

The Mitie Group plc Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2007 and renewed in 2015. The conditional awards of shares or rights to acquire shares (the awards) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is three years, although for awards granted in 2015 and subsequently some are subject to a holding period of up to a further two years. If the awards remain unexercised after a period of twelve months from the date of vesting, the awards expire. The awards may be forfeited if the employee leaves the Group. Before the awards can be exercised, performance conditions must be satisfied which are based on movements in a range of market and non-market measures over a three-year period.

The 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.

The Mitie Group plc Executive Share Option Scheme (ESOS)

The ESOS exercise price is equal to the average market value of the shares on the business day preceding grant or, in case the Remuneration Committee decides, the average market value of shares over a number of preceding business days (not to exceed 20). The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited in case 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.

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 eligible UK resident employees. Under the scheme, eligible employees are invited to invest in partnership shares which are purchased in the market on their behalf and held in a separate UK trust. One conditional matching share is awarded for every ten partnership shares purchased and has a holding period of three years. Matching shares are funded by way of market purchases.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

29. Share-based payments continued

Restricted Shares

In certain cases restricted shares are issued to individuals which are attached with a condition that the relevant recipient continues their employment with the Group for a fixed period of time. Restrictions remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares. All remaining restrictions were lifted during the year and no restricted shares are outstanding at 31 March 2020.

Details of the awards and share options outstanding are as follows:

	2020	2019		2020		2019
	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	12.8	8.1	8.5	190	8.2	247
Granted during the year	7.4	7.8	5.7	125	4.3	137
Lapsed during the year	(4.5)	(2.8)	(3.8)	181	(4.0)	243
Exercised during the year	(0.6)	(0.3)	—	137	—	—
Outstanding at 31 March	15.1	12.8	10.4	158	8.5	190
Exercisable at the end of the year			2.1	210	2.0	249

The Group recognised the following expenses related to share-based payments:

	2020 £m	2019 £m
Discretionary share plans	3.2	0.2
Non-discretionary share plans	(0.3)	0.9
Share-based payments acquisition related costs	0.8	3.9
	3.7	5.0

The share-based payment related expense charged to the income statement for the year is £3.7m (2019: £5.0m). This comprises: i) £0.8m in respect of the vesting period of restricted shares issued as part of the acquisition of minority interests; and ii) £2.9m of equity-settled share-based payment transactions relating to discretionary and non-discretionary share plans. The share-based payments charge for the year is net of income statement credits of £2.3m (2019: £2.1m) relating to changes in assumptions relating to the likelihood of options vesting.

In addition, there has been: i) a release of £3.2m in relation to maturities reflected in the own shares reserve, of which, £2.3m relates to the expiry of restrictions attached to restricted shares issued and £0.9m relates to share option exercises; and ii) a release of £1.3m to retained earnings regarding share options that have lapsed, forfeited or cancelled in the year ended 31 March 2020.

The weighted average share price at the date of exercise for awards and share options exercised during the year was 145p (2019: 139p).

The conditional share awards and share options outstanding at 31 March 2020 had exercise prices (other than nil in the case of the LTIP, CSP, DBP and the matching shares under the SIP) ranging from 123p – 254p (2019: 137p – 256p) and a weighted average remaining contractual life of 3.1 years (2019: 3.6 years). In the year ended 31 March 2020, options were granted in respect of the SAYE, LTIP, CSP and matching shares under the SIP. The aggregate of the estimated fair values of those options granted was £13.9m (2019: £14.0m).

The fair value of options is measured by use of the Black-Scholes model.

The inputs into the Black-Scholes model are as follows:

	2020	2019
Share price (p)	146 – 292	258 – 318
Exercise price (p)	0 – 258	0 – 260
Expected volatility (%)	25 – 27	23 – 29
Expected life (years)	3 – 4	3 – 4
Risk-free rate (%)	(0.5) – 0.6	(0.3) – 1.1
Expected dividends (%)	0.5 – 2.7	1.6 – 4.7

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

30. 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 individuals' chosen investments and the type of pension the member chooses to take at retirement. As a result, actuarial risk (that pension will be lower than expected) and investment risk (that the assets invested in do not perform in line with expectations) are borne by the employee.

The Group's contributions are recognised as an employee benefit expense when they are due.

The Group operates three separate schemes: a stakeholder defined contribution plan, which is closed to new members; a self-invested personal pension plan, which is closed to new members; and a group personal pension (GPP) plan. Employer contributions are payable to each on a matched basis requiring employee contributions to be paid. Employees have the option to pay their share via a salary sacrifice arrangement. The scheme used to satisfy auto-enrolment compliance is a master trust, The People's Pension.

During the year, the Group made a total contribution to the defined contribution schemes of £8.4m (2019: £8.0m) and contributions to the auto-enrolment scheme of £15.3m (2019: £8.6m), which are included in the income statement charge. The Group expects to make contributions of a similar amount in the year ending 31 March 2021.

Defined benefit schemes

Group scheme

The Group scheme provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their final pensionable pay.

The Group scheme closed to new members in 2006, with new employees able to join one of the defined contribution schemes. The main Group scheme was closed with effect from October 2017.

Pensions in payment are generally increased in line with RPI inflation, subject to certain caps and floors. Benefits are payable on death and other events such as withdrawal from active service.

The Group scheme is operated under the UK regulatory framework. Benefits are paid to members from the trust-administered fund, where the Trustee is responsible for ensuring that the scheme is sufficiently funded to meet current and future benefit payments. Plan assets are held in trust and are governed by pension legislation. If investment experience is worse than expected or the actuarial assessment of the scheme's liabilities increases, the Group's financial obligations to the scheme rise.

The nature of the relationship between the Group and the Trustee is also governed by regulations and practice. The Trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (which are determined by the Trustee with advice from the scheme actuary). The most recent triennial valuation was carried out as at 31 March 2017.

The Trustee's other duties include managing the investment of the scheme's assets, administration of plan benefits and exercising of discretionary powers. The Group works closely with the Trustee to manage the scheme.

Other defined benefit schemes

Grouped together under Other schemes are a number of schemes to which the Group makes contributions under Admitted Body status to clients' (generally local government or government entities) defined benefit schemes in respect of certain employees who transferred to Mitie under TUPE. The valuations of the Other schemes are updated by an actuary at each balance sheet date.

For the Admitted Body schemes, which are largely sections of the Local Government Pension Scheme, the Group will only participate for a finite period up to the end of the relevant contract. The Group is required to pay regular contributions, as decided by the relevant scheme actuaries and detailed in each scheme's Contributions Certificate, which are calculated every three years as part of a triennial valuation. In a number of cases contributions payable by the employer are capped and any excess is recovered from the entity that the employees transferred from. In addition, in certain cases, at the end of the contract the Group will be required to pay any deficit (as determined by the scheme actuary) that is assessed for its notional section of the scheme.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

30. Retirement benefit schemes continued

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 2021 are anticipated to be £0.1m. For three of these schemes, the Group's share of the assets and liabilities is minimal.

The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme), a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. Historically, the size and complexity of the Plumbing Scheme has meant the trustee has been unable to identify the assets and liabilities of the scheme which are attributable to the Group. On 23 April 2019 the trustee of the Plumbing Scheme issued a Section 75 employer debt notice in respect of the participation of Robert Prettie & Co Limited in the Plumbing Scheme (refer to Notes 19 and 31). Another Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme and the Group accounts for its contributions as if they were paid to a defined contribution scheme.

The Annual Member update issued by the Plumbing Scheme in October 2018 stated that the triennial valuation as at 5 April 2017 showed a surplus on a technical provisions basis of £29m, on liabilities of £1.9bn.

As set out in Note 19, a provision of £20.0m was made in the year ended 31 March 2019 for Section 75 employer debts in respect of the participation of Robert Prettie & Co. Limited in the Plumbing Scheme.

As set out in Note 31 the Group has a further potential exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme. This exposure has been estimated at £2.4m and has been disclosed as a contingent liability as no event has occurred to trigger this debt and Mitie Property Services (UK) Limited still employs active members of the Plumbing Scheme.

Further information in respect of the Group scheme and Other schemes

The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2017.

Following the £13.5m payments made during the period from November 2017 to 31 March 2019, the Group paid additional contributions of £9.5m to the Group scheme during the year ended 31 March 2020.

Under the concluded schedule for payments, a further £55.4m is payable in instalments by 31 March 2025, which, if the assumptions above are borne out in practice, should eliminate the deficit by 31 March 2025.

The Group made contributions to the other schemes of £0.3m in the year (2019: £0.3m). The Group expects to make contributions of around £0.3m to the other schemes in the year ending 31 March 2021.

Details of latest funding valuation

	Group scheme
Date of latest funding valuation	31 March 2017
Assets at valuation date	£178.7m
Funding liabilities at valuation date	£252.7m
Deficit at valuation date	£74.0m

The total contribution rate was set at between 40.1% and 45.0% of annual pay for the remaining active members. The employer contribution rate is the balance of the total cost after deducting the employee rate, which ranges depending on status and earnings. The total contribution excludes any allowances for expenses met by the scheme.

The following table sets out details of the membership of the Group scheme at 31 March 2017:

	Group scheme
Active members – by number	182
Active members – by proportion of funding liability	19.8%
Total pensionable salary roll p.a.	£8.4m
Deferred members – by number	853
Deferred members – by proportion of funding liability	53.9%
Total deferred pensions p.a. (at date of leaving scheme)	£4.6m
Pensioner members – by number	640
Pensioner members – by proportion of funding liability	26.3%
Total pensions in payment p.a.	£2.7m

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

30. Retirement benefit schemes continued

Accounting assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension schemes, as detailed below, are set after consultation with independent, professionally qualified actuaries.

The discount rate used to determine the present value of the obligations is set by reference to market yields on high-quality corporate bonds. The assumptions for price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds. The assumption for increases in pensionable pay takes into account expected salary inflation, the cap at CPI, and how often the cap is likely to be exceeded.

A UK High Court judgment was issued on 26 October 2018 relating to Guaranteed Minimum Pensions (GMP). Although the ruling related to Lloyds Banking Group pension schemes, it is expected to create a precedent for other UK defined benefit pension schemes. The ruling requires the equalisation of member benefits earned between 1990 and 1997 to address gender inequality in instances where GMP benefits are currently unequal. Whilst there remains some uncertainty, the Group made a provision for the estimated financial impact of this ruling on the Group scheme, based on a comparison of the cumulative value of members' benefits with the benefits of a notional member of the opposite gender (method C2 under the terminology of the High Court Judgment). A past service cost of £1.6m based on the broad profile of the fund (i.e. age profile, service profile and GMP proportion) was recognised within other items in the year ended 31 March 2019.

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations, with a lower 'best-estimate' allowance for future improvements to mortality. The Group is monitoring the impact of COVID-19 on the Group's defined benefit pension schemes and no impact of COVID-19 has been factored into the life expectancy assumptions as at 31 March 2020.

Principal accounting assumptions at balance sheet dates

	Group scheme		Other schemes	
	2020 %	2019 %	2020 %	2019 %
Key assumptions used for IAS 19 valuation:				
Discount rate	2.35	2.40	2.35	2.40
Expected rate of pensionable pay increases	2.50	3.20	2.50	3.20
Retail price inflation	2.50	3.20	2.50	3.20
Consumer price inflation	1.70	2.20	1.70	2.20
Future pension increases	3.20	3.50	3.20	3.50

	Group scheme	
	2020 Years	2019 Years
Post retirement life expectancy:		
Current pensioners at 65 – male	88.0	88.0
Current pensioners at 65 – female	89.0	89.0
Future pensioners at 65 – male	89.0	89.0
Future pensioners at 65 – female	90.0	90.0

Life expectancy for the other schemes is that used by the relevant scheme actuary.

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

Sensitivity of defined benefit obligations to key assumptions

	Impact on defined benefit obligations		
	Change in assumption	Increase/(decrease) in obligations %	Increase/(decrease) in obligations £m
Increase in discount rate	0.1%	(1.9)%	(4.6)
Increase in RPI inflation*	0.1%	0.9%	2.3
Increase in CPI inflation (excluding pay)	0.1%	0.6%	1.5
Increase in life expectancy	1 year	4.1%	10.3

* 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 19 years for the Group scheme.

Notes to the consolidated financial statements continued
For the year ended 31 March 2020

30. Retirement benefit schemes continued

Amounts recognised in financial statements

The table below outlines where the Group's post-employment amounts are included in the financial statements.

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Current service cost	(0.3)	(0.3)	(0.6)	(0.4)	(0.3)	(0.7)
Total administration expense	(0.7)	–	(0.7)	(1.1)	–	(1.1)
Amounts recognised in operating profit	(1.0)	(0.3)	(1.3)	(1.5)	(0.3)	(1.8)
Past service cost (including curtailments)	–	–	–	(1.6)	–	(1.6)
Net interest cost	(1.4)	–	(1.4)	(1.2)	(0.1)	(1.3)
Amounts recognised in profit/(loss) before tax	(2.4)	(0.3)	(2.7)	(4.3)	(0.4)	(4.7)

The past service cost (including curtailments) of £nil (2019: £1.6m) was the cost of equalising Guaranteed Minimum Pensions.

Amounts recognised in the consolidated statement of comprehensive income are as follows:

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Actuarial gains/(losses) arising due to changes in financial assumptions	17.4	1.1	18.5	(13.6)	(0.9)	(14.5)
Actuarial (losses)/gains arising from liability experience	(1.6)	1.5	(0.1)	(1.3)	–	(1.3)
Actuarial gains due to changes in demographic assumptions	–	0.2	0.2	–	0.1	0.1
Movement in asset ceiling	–	0.1	0.1	–	–	–
Return on scheme assets, excluding interest income	(7.7)	(1.8)	(9.5)	1.3	0.5	1.8
	8.1	1.1	9.2	(13.6)	(0.3)	(13.9)

The amounts included in the consolidated balance sheet in respect of the Group's defined benefit retirement benefit schemes are as follows:

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	191.1	11.8	202.9	190.5	13.1	203.6
Present value of defined benefit obligations	(236.4)	(13.2)	(249.6)	(251.9)	(15.5)	(267.4)
Net pension liability	(45.3)	(1.4)	(46.7)	(61.4)	(2.4)	(63.8)

All figures above are shown before deferred tax.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

30. Retirement benefit schemes continued

Movements in the present value of defined benefit obligations in the year in respect of both the Group and other schemes were as follows:

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	251.9	15.5	267.4	237.1	14.1	251.2
Current service cost	0.3	0.3	0.6	0.4	0.3	0.7
Interest cost	6.0	0.3	6.3	6.0	0.4	6.4
Contributions from scheme members	–	0.2	0.2	–	0.1	0.1
Actuarial (gains)/losses arising due to changes in financial assumptions	(17.4)	(1.1)	(18.5)	13.6	0.9	14.5
Actuarial losses/(gains) arising from experience	1.6	(1.5)	0.1	1.3	–	1.3
Actuarial gains due to changes in demographic assumptions	–	(0.2)	(0.2)	–	(0.1)	(0.1)
Movement in asset ceiling	–	(0.1)	(0.1)	–	–	–
Benefits paid	(6.0)	(0.2)	(6.2)	(8.1)	(0.2)	(8.3)
Past service cost (including curtailments)	–	–	–	1.6	–	1.6
At 31 March	236.4	13.2	249.6	251.9	15.5	267.4

The defined benefit obligations of the Group scheme are analysed by participant status as at 31 March 2017 below:

	2020 £m	2019 £m
Active	48.2	51.4
Deferred	122.9	131.0
Pensioners	65.3	69.5
At 31 March	236.4	251.9

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

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	190.5	13.1	203.6	182.3	12.1	194.4
Interest income	4.6	0.3	4.9	4.8	0.3	5.1
Actuarial (losses)/gains on assets	(7.7)	(1.8)	(9.5)	1.3	0.5	1.8
Contributions from the sponsoring companies	10.4	0.3	10.7	11.3	0.3	11.6
Contributions from scheme members	–	0.1	0.1	–	0.1	0.1
Expenses paid	(0.7)	–	(0.7)	(1.1)	–	(1.1)
Benefits paid	(6.0)	(0.2)	(6.2)	(8.1)	(0.2)	(8.3)
At 31 March	191.1	11.8	202.9	190.5	13.1	203.6

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

30. Retirement benefit schemes continued

The history of experience adjustments is as follows:

	Group scheme				
	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of scheme assets	191.1	190.5	182.3	177.8	156.9
Present value of defined benefit obligations	(236.4)	(251.9)	(237.1)	(248.5)	(191.3)
Deficit in the scheme	(45.3)	(61.4)	(54.8)	(70.7)	(34.4)
Experience (losses)/gains on scheme obligations	(1.6)	(1.3)	(1.1)	0.8	3.1
Percentage of scheme obligations	0.7%	0.5%	0.5%	(0.3)%	(1.6)%
Experience (losses)/gains on scheme assets	(7.7)	1.3	4.6	18.7	(6.2)
Percentage of scheme assets	(4.0)%	0.7%	2.5%	10.5%	(4.0)%

	Other schemes				
	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of scheme assets	11.8	13.1	12.1	11.3	9.5
Present value of defined benefit obligations	(13.2)	(15.5)	(14.1)	(14.8)	(10.6)
Deficit in the scheme	(1.4)	(2.4)	(2.0)	(3.5)	(1.1)
Experience gains on scheme obligations	1.5	—	0.8	—	—
Percentage of scheme obligations	(11.4)%	—	(5.6)%	—	—
Experience (losses)/gains on scheme assets	(1.8)	0.5	0.4	1.3	(0.6)
Percentage of scheme assets	(15.3)%	4.0%	3.3%	11.5%	(6.1)%

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

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Equities	54.4	6.0	60.4	51.7	7.5	59.2
Government bonds	53.7	0.5	54.2	27.1	4.0	31.1
Corporate bonds	28.8	3.5	32.3	51.9	0.1	52.0
Property	16.6	1.4	18.0	16.8	1.0	17.8
Diversified growth fund	32.9	—	32.9	37.0	—	37.0
Cash	4.7	0.4	5.1	6.0	0.5	6.5
Total fair value of assets	191.1	11.8	202.9	190.5	13.1	203.6

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 55% (2019: 56%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long term.

The property assets represent quoted property investments.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

30. Retirement benefit schemes continued

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 (55%) 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 16% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting obligations. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting obligations. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the scheme's obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the obligations.

Areas of risk management

Although investment decisions in the scheme are the responsibility of the Trustee, the Group takes an active interest to ensure that pension plan risks are managed efficiently. The Group and Trustee have agreed a long-term strategy for reducing investment risk where appropriate.

Certain benefits payable on death before retirement are insured.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

31. 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. Management does not anticipate that the outcome of any of these disputes will have a material adverse effect on the Group's financial position, other than as already provided for in the financial statements. In appropriate cases, a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction, due to the uncertainty of the actual costs and liabilities that may be incurred. Management 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 £20.6m (2019: £22.2m) 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 ended 31 March 2020 were £0.1m.

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 23 April 2019 the trustee of the Plumbing Scheme issued a Section 75 employer debt estimate to Robert Prettie & Co Limited for the amount of £20.0m. The Group has continued to hold the provision that was recorded in the year ended 31 March 2019. The Group is validating the accuracy of the Section 75 debt estimate and once validated intends to seek the approval of the trustee for the payment of the debt over a number of years. See Note 30.

The Group continues to have an exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, which have been estimated at £2.4m by the trustee, however no event has occurred to trigger this debt as Mitie Property Services (UK) Limited still employs active members of the Plumbing Scheme.

Employment claims

The 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. Management does not anticipate that any of the current matters will give rise to settlements, either individually or in aggregate, which will have a material adverse effect on the Group's financial position.

32. 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. For the year ended 31 March 2019, the Group derived £0.5m revenue from contracts with joint ventures with no such transactions noted at 31 March 2020.

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 (2019: £0.4m) to the Foundation.

No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest.

The Group's key management personnel include the Executive Directors, Non-Executive Directors and the Executive Leadership Team. Details of the Directors' remuneration are included in Note 7. The remuneration for the Executive Leadership Team, including the share-based payments charge is £2.8m (2019: £4.2m).

	2020 £m	2019 £m
Short-term employment benefits	2.2	3.9
Share-based payments	0.6	0.3
At 31 March	2.8	4.2

The Company's preferred supplier for delivering apprenticeships to its employees was Aspire Achieve Advance Ltd (3aaa), a company whose chairman was also Mitie Group plc's Non-Executive Chairman. The Company pays into a government mandated Apprenticeship Levy fund, and 3aaa withdrew from that fund to provide the apprenticeship training. On 11 October 2018, the directors of 3aaa presented a petition to the Court for the compulsory winding up of the company. This petition was accepted by the Court and the Official Receiver was appointed as liquidator on 24 October 2018. During the year ended 31 March 2020 3aaa did not withdraw (2019: £0.6m withdrawn) from the fund in respect of training provided or to be provided.

During the year ended 31 March 2020, the Group generated revenue of £0.2m (2019: £0.2m) relating to Informa plc, a company whose chairman is also Mitie Group plc's Non-Executive Chairman.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

33. Subsidiaries

The companies set out below are those which were part of the Group at 31 March 2020.

Company	Country of incorporation	2020 % voting rights and ownership interest	2020 % nominal value owned
Care & Custody (Health) Limited	United Kingdom	100%	100%
Cole Motors Limited*	United Kingdom	100%	100%
Direct Enquiries Holdings Limited*	United Kingdom	100%	100%
Global Aware International Group Limited*	United Kingdom	100%	100%
Global Aware International Ltd†	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*	United Kingdom	100%	100%
Mitie Cleaning & Environmental Services Limited	United Kingdom	100%	100%
Mitie Cleaning Services Limited*	United Kingdom	100%	100%
Mitie Client Services Limited	United Kingdom	100%	100%
Mitie Company Secretarial Services Limited*	United Kingdom	100%	100%
Mitie Compliance Ltd*	United Kingdom	100%	100%
Mitie Deutschland GmbH	Germany	100%	100%
Mitie Document Solutions Limited*	United Kingdom	100%	100%
Mitie Dormant (No. 1) Limited*	United Kingdom	100%	100%
Mitie Engineering Limited**	United Kingdom	100%	100%
Mitie Engineering Services (Bristol) Limited*	United Kingdom	100%	100%
Mitie Engineering Services (Guernsey) Limited	Guernsey	100%	100%
Mitie Engineering Services (Jersey) Limited	Jersey	100%	100%
Mitie Engineering Services (Northern Region) Limited‡	United Kingdom	100%	100%
Mitie Engineering Services (Wales) Limited‡	United Kingdom	100%	100%
Mitie Engineering Services Limited‡	United Kingdom	100%	100%
Mitie Environmental Limited*	United Kingdom	100%	100%
Mitie España, S.L.	Spain	100%	100%
Mitie Events & Leisure Services Limited†^	United Kingdom	100%	100%
Mitie Facilities Management Limited^	Ireland	100%	100%
Mitie NI Limited	United Kingdom	100%	100%
Mitie France SAS	France	100%	100%
Mitie Group Pension Scheme Trustee Company Limited*	United Kingdom	100%	100%
Mitie Holdings Limited	United Kingdom	100%	100%
Mitie Infrastructure Limited†^	United Kingdom	100%	100%
Mitie Integrated Facilities Management Limited*	United Kingdom	100%	100%
Mitie International Limited†	United Kingdom	100%	100%
Mitie Investments Limited†	United Kingdom	100%	100%
Mitie Justice Limited*	United Kingdom	100%	100%
Mitie Landscapes Limited	United Kingdom	100%	100%
Mitie Limited	United Kingdom	100%	100%
Mitie Local Services Limited*	United Kingdom	100%	100%
Mitie Managed Services Limited*	United Kingdom	100%	100%
Mitie Nederland B.V.	Netherlands	100%	100%

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

33. Subsidiaries continued

Company	Country of incorporation	2020 % voting rights and ownership interest	2020 % nominal value owned
Mitie Norge Aksjeselskap	Norway	100%	100%
Mitie PFI Limited	United Kingdom	100%	100%
Mitie Polska Sp. z o.o.	Poland	100%	100%
Mitie Property Services (UK) Limited*	United Kingdom	100%	100%
Mitie Resources Limited*	United Kingdom	100%	100%
Mitie Schweiz GmbH	Switzerland	100%	100%
Mitie Scotgate Limited*	United Kingdom	100%	100%
Mitie Security (London) Limited*	United Kingdom	100%	100%
Mitie Security Holdings Limited†	United Kingdom	100%	100%
Mitie Security Limited	United Kingdom	100%	100%
Mitie Services (Retail) Limited*	United Kingdom	100%	100%
Mitie Shared Services Limited	United Kingdom	100%	100%
Mitie Suomi Oy	Finland	100%	100%
Mitie Sverige AB	Sweden	100%	100%
Mitie T S 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*	United Kingdom	100%	100%
Mitie Work Wise Limited†	United Kingdom	100%	100%
Parkersell Limited*	United Kingdom	100%	100%
Procius Limited†	United Kingdom	100%	100%
Robert Prettie & Co Limited	United Kingdom	100%	100%
Service Management International Asia Pacific PTE. Ltd.	Singapore	100%	100%
Source Eight Limited ^{ix}	United Kingdom	100%	100%
Source8 Africa Limited†	United Kingdom	100%	100%
Source8 Delivery (Nigeria) Limited	Nigeria	100%	100%
Source8 Services FZLLC	United Arab Emirates	100%	100%
UK CRBS Limited†	United Kingdom	100%	100%
Utiy Asset Management Limited†	United Kingdom	100%	100%
Utiy Asset Management Projects Limited†	United Kingdom	100%	100%
Utiy Broking Limited*	United Kingdom	100%	100%
Utiy Healthcare Energy Services Limited	United Kingdom	100%	100%
Utiy Holdings Limited*	United Kingdom	100%	100%
Utiy Limited	United Kingdom	100%	100%
Utiy Risk Management Limited*	United Kingdom	100%	100%
Vision Security Group Limited	United Kingdom	100%	100%
Vision Security Group Systems Limited*	United Kingdom	100%	100%
VSG Payroll Services Limited*	United Kingdom	100%	100%
VSG Staff Hire Limited*	United Kingdom	100%	100%
VSG Systems Direct Limited*	United Kingdom	100%	100%
Wealthy Thoughts Limited†	United Kingdom	100%	100%

* These entities were dormant during the year ended 31 March 2020 and will take the exemption from preparing and filing financial statements for the year ended 31 March 2020 (by virtue of Section 448A of the Companies Act 2006).

† These subsidiaries have taken advantage of the audit exemption under Section 479A of the Companies Act 2006 for the year or period ended 31 March 2020. As such, Mitie Group plc has provided a guarantee against all debts and liabilities in these subsidiaries as at 31 March 2020.

+ Held directly by the Company.

x The Company holds direct minority interest in these companies.

^ The Company has voting control of these companies through direct interests in a class of shares representing fewer than 50% of the total issued share capital of the companies.

Notes to the consolidated financial statements continued

For the year ended 31 March 2020

33. 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 Schweiz GmbH	Brandschenkestrasse 90, CH-8027, Zurich, Switzerland
Mitie Suomi Oy	c/o Ov Visma Services Infocon Ab, Pormestarinrinne 8, 00160 Helsinki, Finland
Mitie Sverige AB	Kungsgatan 55, 111 22 Stockholm, Sweden, Sweden
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.

34. Events after the reporting period

On 25 June 2020, Mitie announced the intention to raise £201m by way of a rights issue and has also reached an agreement with its lenders for an extension of its revolving credit facility (RCF), providing liquidity of £250m under the facility through to 16 December 2022. The rights issue has been fully underwritten. Mitie has also agreed with the holders of its US private placement notes and lenders to its RCF, the granting of certain leverage and interest covenant amendments. Details of these leverage and interest covenant amendments are set out in the Finance Review on page 43.

Approval of the resizing and extension of the maturity date of the revolving credit facility, and the covenant amendments, are conditional on the rights issue being approved by shareholders at the General Meeting on 13 July 2020. The underwriting of the rights issue is also conditional on shareholder approval.

On 25 June 2020, Mitie also announced that it has signed a conditional share purchase agreement to acquire the entire issued share capital of Interservefm (Holdings) Limited. The consideration at completion of the acquisition comprises the issuance of ordinary shares representing c.23.4% of the share capital of Mitie following the rights issue and a cash payment of £120m. The acquisition will be classified as a class 1 transaction under the Listing Rules of the Financial Conduct Authority and is therefore conditional upon, amongst other things, the approval of Mitie's shareholders.

Company balance sheet
as at 31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Investments in subsidiary undertakings	3	525.6	528.3
Debtors	4	3.3	—
Deferred tax asset	5	0.3	2.6
Total non-current assets		529.2	530.9
Current assets			
Debtors	4	49.8	88.4
Total current assets		49.8	88.4
Total assets		579.0	619.3
Creditors: amounts falling due within one year	6	(46.1)	(88.3)
Provisions	7	(9.3)	(11.3)
Total current liabilities		(55.4)	(99.6)
Net current liabilities		(5.6)	(11.2)
Net assets		523.6	519.7
Capital and reserves			
Share capital		9.3	9.3
Share premium account		130.6	130.6
Merger reserve		99.9	104.2
Own shares reserve		(34.2)	(38.1)
Other reserves		9.5	23.3
Retained earnings		308.5	290.4
Equity shareholders' funds		523.6	519.7

The Company reported a profit for the financial year ended 31 March 2020 of £14.6m (2019: £45.4m loss).

The financial statements of Mitie Group plc, company registration number SC019230, were approved by the Board of Directors and authorised for issue on 25 June 2020. They were signed on its behalf by:

Phil Bentley
Chief Executive Officer

Andrew Peeler
Chief Financial Officer

Company statement of changes in equity
For the year ended 31 March 2020

	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 2018	9.3	130.6	104.2	(43.4)	22.9	350.2	573.8
Loss for the year	—	—	—	—	—	(45.4)	(45.4)
Dividends paid	—	—	—	—	—	(14.4)	(14.4)
Share-based payments	—	—	—	5.3	0.4	—	5.7
At 31 March 2019	9.3	130.6	104.2	(38.1)	23.3	290.4	519.7
Profit for the year	—	—	—	—	—	14.6	14.6
Dividends paid	—	—	—	—	—	(14.4)	(14.4)
Share-based payments	—	—	—	3.9	(13.8)	13.6	3.7
Realised merger reserve	—	—	(4.3)	—	—	4.3	—
At 31 March 2020	9.3	130.6	99.9	(34.2)	9.5	308.5	523.6

Details of dividends paid to shareholders are given in Note 10 to the consolidated financial statements.

Notes to the company financial statements

For the year ended 31 March 2020

1. Significant accounting policies

(a) Basis of accounting

The separate financial statements of the Company are presented as required by company law. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The financial statements have also been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, impairment of assets, standards not yet effective, and related party transactions.

Where relevant, equivalent disclosures have been given in the Group accounts.

As more fully detailed in the Directors' report, the Company's financial statements have been prepared on a going concern basis.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Company financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

The key area of judgement that has the most significant effect on the amounts recognised in the financial statements is the review for impairment of investment carrying values.

(b) Principal accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are shown at cost less any provision for impairment.

Investments in subsidiaries are reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the investment's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying value of an asset exceeds its recoverable amount.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to the profit and loss account, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on temporary differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Temporary differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on temporary differences, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Financial instruments

Intercompany loans are all assessed as being repayable on demand. The assessment of impairment of receivables is in accordance with IFRS 9. A loss allowance for expected credit losses (ECL) on receivable balances is recognised and subsequently measured at amortised cost, using the 'general approach' permitted under IFRS 9.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are measured at amortised cost.

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

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Notes to the company financial statements continued

For the year ended 31 March 2020

1. Significant accounting policies continued

Share-based payments

Details of the Group's share option schemes are provided in Note 29 to the consolidated financial statements. The costs of options and conditional awards over the Company's shares granted to employees of the Company's subsidiaries are accounted for as a capital contribution within the carrying value of investments in subsidiary undertakings.

Pensions

The Company is the principal employer in the Mitie Group plc Pension Scheme. 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 30 to the consolidated financial statements sets out details of the IAS 19 'Employee benefits' net pension liability of the scheme amounting to £45.4m (2019: £61.4m).

2. Profit for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own statement of comprehensive income (including the profit and loss account) for the year. Mitie Group plc reported a profit after taxation for the financial year ended 31 March 2020 of £14.6m (2019: £45.4m loss).

The auditor's remuneration for audit services to the Company was £40,000 (2019: £40,000).

3. Investments in subsidiary undertakings

	£m
Shares at cost	
At 1 April 2018	616.5
Capital contribution re share-based payments	5.7
Disposals	(27.0)
At 31 March 2019	595.2
Capital contribution re share-based payments	3.7
Disposals	(4.7)
At 31 March 2020	594.2
Provision for impairment	
At 1 April 2018	59.5
Charged to income statement	7.4
At 31 March 2019	66.9
Charged to income statement	1.7
At 31 March 2020	68.6
Net book value	
At 31 March 2020	525.6
At 31 March 2019	528.3

Management has performed impairment testing over investments in subsidiary undertakings by comparing the carrying amount of each investment with the relevant subsidiary balance sheet to identify whether its net assets exceed the investment amount. Where the investment amount was higher than the subsidiary net assets, a discounted cash flow projection was calculated using forecast cash flows, adjusted for COVID-19, over the next five years and applying a terminal growth rate to the final year cash flows. Following management's assessment, an impairment of £1.7m (2019: £7.4m) was charged to the income statement relating to the investment in Mitie Tilley Roofing Limited and Source Eight Limited.

A listing of subsidiaries is given in Note 33 to the consolidated financial statements.

Notes to the company financial statements continued
For the year ended 31 March 2020

4. Debtors

	2020 £m	2019 £m
Amounts owed by subsidiary undertakings	35.2	78.0
Other debtors ¹	3.7	0.3
Prepayments and accrued income	0.1	0.1
Corporation tax	14.1	10.0
Total	53.1	88.4
Included in current assets	49.8	88.4
Included in non-current assets ¹	3.3	–
Total	53.1	88.4

Note:

1. Other debtors include £3.3m of contingent consideration receivable from the disposal of the Catering business. See Note 5 to the consolidated financial statements.

The Directors consider that the carrying amount of debtors approximates their fair value.

5. Deferred tax

	Losses £m	Share-based payment timing difference £m	Total £m
Deferred tax asset at 1 April 2019	1.7	0.9	2.6
Credit to income statement	(1.7)	(0.6)	(2.3)
Deferred tax asset at 31 March 2020	–	0.3	0.3

6. Creditors: amounts falling due within one year

	2020 £m	2019 £m
Overdrafts	21.6	18.4
Trade creditors	1.9	4.0
Amounts owed to subsidiary undertakings	14.8	53.2
Other taxes and social security	0.6	0.4
Accruals and deferred income	7.2	12.3
	46.1	88.3

Amounts owed to subsidiary undertakings are repayable on demand. The Directors consider that the carrying amount of creditors approximates their fair value.

For details of Group borrowings, see Note 22 to the consolidated financial statements.

Notes to the company financial statements continued
For the year ended 31 March 2020

7. Provisions

	£m
At 1 April 2018	14.8
Amounts recognised in the income statement	(2.4)
Utilised within captive insurance subsidiary	(0.1)
Unwinding of discount	0.1
Utilised in the year	(1.1)
At 31 March 2019	11.3
Amounts recognised in the income statement	0.4
Utilised in the year	(2.4)
At 31 March 2020	9.3
Included in current liabilities	9.3
Included in non-current liabilities	—
Total	9.3

Majority of the provisions and related movements in the year are in respect of the insurance reserve, which provides for the self-insured element of Group fleet and liability claims.

8. Contingent liabilities

Per Note 33 to the consolidated financial statements, Mitie Group plc has taken the audit exemption for a number of subsidiaries by virtue of Section 479A of the Companies Act. A parent company guarantee has been provided for these entities under Section 479C of the Companies Act.

9. Share-based payments

The Company has five equity-settled share schemes as described in Note 29 to the consolidated financial statements.

The Company recognised no expense 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 model. The inputs into the Black-Scholes model are as described in Note 29 to the consolidated financial statements.

10. Related parties

The Company makes management charges to its subsidiaries, whether they are wholly owned or otherwise, and receives dividends from its subsidiaries, according to their ability to remit them. Other details of related party transactions have been given in Note 32 to the consolidated financial statements.

The Directors are remunerated for their services to the Group as a whole. No remuneration was paid to the Directors specifically in respect of their services to Mitie Group plc for the year ended 31 March 2020 or 31 March 2019. Detailed disclosures of Directors' remuneration and share interests are given in the audited section of the Directors' remuneration report on pages 141 to 161. The Company had no employees throughout the years ended 31 March 2020 and 31 March 2019.

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 2020 (2019: £nil).

Appendix- Alternative Performance Measures

The Group presents various APMs as management believes that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance.

In assessing its performance, the Group has adopted certain non-statutory measures which, unlike its statutory measures, cannot be derived directly from its financial statements. The Group commonly uses the following measures to assess its performance:

Performance before other items

The Group adjusts the statutory income statement for other items which, in management's judgement, need to be disclosed separately by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

These other items include impairment of goodwill, impairment and amortisation of acquisition related intangible assets, acquisition and disposal costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items. Further details of these other items are provided in Note 4.

		2020 £m	2019 £m
Operating profit from operations			
Operating profit from continuing operations	Statutory measures	64.6	41.7
Adjust for: restructure costs	Note 4	15.7	15.0
Adjust for: acquisition and disposal related costs	Note 4	3.5	(0.1)
Adjust for: other exceptional items	Note 4	2.3	23.0
Operating profit before other items from continuing operations	Performance measures	86.1	79.6
Operating profit from discontinued operations ¹	Statutory measures	51.8	6.5
Adjust for: restructure costs	Note 4	-	0.9
Adjust for: acquisition and disposal related costs	Note 4	1.3	-
Adjust for: gain on disposal	Note 4	(50.3)	(17.9)
Adjust for: other exceptional items	Note 4	-	23.1
Operating profit before other items from discontinued operations	Performance measures	2.8	12.6
Operating profit before other items - Group	Performance measures	88.9	92.2

Notes:

1. Operating profit from discontinued operations comprises the profit before net finance costs and tax of £1.5m (2019: £11.4m loss) and gain on disposal before tax of £50.3m (2019: £17.9m).

Reconciliations are provided below to show how the Group's segmental reported results are adjusted to exclude other items.

			2020 £m			2019 £m
Operating profit/(loss) from operations	Reported results	Adjust for: Other items (Note 4)	Performance measures	Reported results	Adjust for: Other items (Note 4)	Performance measures
Segment						
Technical Services	47.9	8.0	55.9	49.9	7.0	56.9
Business Services	42.4	(0.2)	42.2	35.4	3.6	39.0
Specialist Services	25.1	0.2	25.3	20.3	0.1	20.4
<i>Care & Custody</i>	7.6	0.1	7.7	3.8	0.1	3.9
<i>Landscapes</i>	8.6	-	8.6	9.3	-	9.3
<i>Waste</i>	8.9	0.1	9.0	7.2	-	7.2
Corporate centre	(50.8)	13.5	(37.3)	(63.9)	27.2	(36.7)
Total from continuing operations	64.6	21.5	86.1	41.7	37.9	79.6
Catering	53.5	(50.7)	2.8	8.5	0.1	8.6
Healthcare	0.5	(0.5)	-	2.0	(2.0)	-
Pest Control	(0.7)	0.7	-	30.0	(27.6)	2.4
Social Housing	(1.5)	1.5	-	(34.0)	35.6	1.6
Total from discontinued operations	51.8	(49.0)	2.8	6.5	6.1	12.6
Total - Group	116.4	(27.5)	88.9	48.2	44.0	92.2

Appendix- Alternative Performance Measures continued

In line with the Group's measurement of profit from operations before other items, the Group also presents its basic earnings per share before other items for continuing operations. The table below reconciles this to the statutory basic earnings per share.

		2020 p	2019 p
Earnings per share			
Statutory basic earnings per share	Statutory measures	25.0	8.6
Adjust for: earnings per share from discontinued operations		(13.8)	(2.3)
Statutory basic earnings per share from continuing operations		11.2	6.3
Adjust for: other items per share from continuing operations		4.8	8.4
Basic earnings per share before other items from continuing operations	Performance measures	16.0	14.7

Organic revenue

The Group adjusts revenue from continuing operations for the impact of acquisitions to show organic revenue in order for users of the financial statements to obtain a proper understanding of the underlying movements in these business measures.

				2020	2019	
				£m	£m	
Revenue from continuing operations	Reported revenue	Adjust for: acquisition of businesses ¹	Performance measures	Reported revenue	Adjust for: acquisition of businesses ¹	Performance measures
Segment						
Technical Services	947.2	—	947.2	974.2	—	974.2
Business Services	986.9	(172.2)	814.7	894.0	(79.6)	814.4
Specialist Services	239.6	—	239.6	217.1	—	217.1
Care & Custody	110.2	—	110.2	107.3	—	107.3
Landscapes	47.8	—	47.8	46.7	—	46.7
Waste	81.6	—	81.6	63.1	—	63.1
Total for continuing operations	2,173.7	(172.2)	2,001.5	2,085.3	(79.6)	2,005.7

Note:

1. Comprises revenue of £171.7m (2019: £79.6m) and £0.5m in relation to the acquisitions of VSG and GAIG respectively.

Net debt

The Group includes the carrying value of its derivative financial instruments in its reported net debt measure as this carrying value represents the fair value of cross-currency interest rate swaps on the US\$ private placement notes which form part of the Group's financing liabilities. The Group has excluded the financial impact of adopting IFRS 16 from its performance net debt measure. The table below shows the reconciliation of reported net debt to the performance net debt measure.

Net debt		2020 £m	2019 £m
Cash and cash equivalents		124.6	108.4
Financing liabilities	Note 22	(320.7)	(265.5)
Derivative financial instruments hedging private placement notes		28.2	16.4
Net debt	Reported measures	(167.9)	(140.7)
Adjust for: IFRS 16 impact on lease liabilities	Note 24	93.0	—
Net debt	Performance measures	(74.9)	(140.7)

The Group also uses an average net debt measure as this reflects its financing requirements throughout the period. The Group calculates its average net debt based on the daily closing figures, including its foreign currency bank loans translated at the closing exchange rate for the previous month end. The average net debt includes the fair value of the derivative financial instruments which are used to hedge the US\$ private placement notes and excludes the impact of IFRS 16 on lease liabilities. This measure shows average net debt of £239.6m for the year ended 31 March 2020, compared with £302.0m for the year ended 31 March 2019.

Shareholder information

Overview

HY 20/21 half-yearly results	19 November 2020
------------------------------	------------------

Dividends

No final dividend recommended

Annual General Meeting

2020 Annual General Meeting	28 July 2020
-----------------------------	--------------

Registered office

Mitie Group plc
35 Duchess Road
Rutherglen
Glasgow
G73 1AU

Telephone: 0117 970 8800

Email: info@mitie.com

Website: www.mitie.com

Registered in Scotland under company number: SC019230

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300*

Website: www.mitie-shares.com

* calls cost 12p a minute plus network extras, lines are open 9.00 am – 5.30 pm Mon – Fri, excluding bank holidays.

Mitie online share portal

Mitie has a portal where shareholders can register and can then login to:

- Access information on shareholdings and movements;
- Update address details;
- View dividend payments received and register bank mandate instructions;
- Sell Mitie shares;
- Complete an online proxy voting form; and
- Register for e-communications allowing Mitie to notify shareholders by email that certain documents are available to view on its website. This will further reduce Mitie's carbon footprint as well as reduce costs.

If you wish to register, please sign up at

www.mitie-shares.com

Corporate website

This report can be downloaded in PDF from the Mitie website, which also contains additional general information about Mitie.

Please visit www.mitie.com

Cautionary statement

Certain statements contained in this document constitute or may constitute 'forward-looking statements'.

In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'projects', 'aims', 'plans', 'predicts', 'prepares', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this document. Except as required by applicable law, rule or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. Mitie's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from the expectations disclosed or implied by the forward-looking statements contained in this document. In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. The forward-looking statements contained in this document speak only as at the date of this document.