Mitie Group plc

Preliminary announcement of results for the year ended 31 March 2015

Well positioned for growth

Financial highlights

	2015 Headline[1]	2014 Headline[1]	Headline yoy % change	2015 Statutory
Revenue	**£2,266.2m**	£2,142.6m	**+5.8**	£2,273.8m
Operating profit	**£128.6m**	£127.5m	**+0.9**	£56.0m
Profit before tax	**£114.1m**	£113.3m	**+0.7**	£41.5m
Operating profit margin	**5.7%**	6.0%	**-0.3ppt**	2.5%
Basic earnings per share	**24.8p**	24.3p	**+2.1**	9.7p
Dividend per share	**11.7p**	11.0p	**+6.4**	11.7p

- Headline revenue growth of 5.8%, of which 4.9% was organic
- Headline operating profit of £128.6m, generating a 5.7% operating profit margin
- Excellent headline cash conversion of 95.1% (2014: 102.4%) and statutory cash conversion of 126.5% (2014: 107.3%); above target KPI of 80%
- Strong dividend growth of 6.4% to 11.7 pence per share
- Net debt of £177.8m or 1.2x headline EBITDA (2014: £186.6m or 1.3x headline EBITDA)
- Return on capital employed of 18.6% (2014: 16.9%)

Organic growth driven by facilities management

- Strong organic growth of 6.1% in FM, with margins at 6.0% and an excellent retention rate of 96%
- Transformational partnership delivering integrated FM for Lloyds Banking Group extended until 2022
- Our homecare and social housing businesses have been impacted by market pressures. We remain confident of longer-term opportunities in these businesses

De-risked the business by completing business exits

- We have completed the exit from our mechanical and electrical engineering construction and Asset Management businesses. Exceptional charges incurred were £15.9m and £45.7m respectively (2014: £13.6m and £25.4m), in line with previous guidance; there will be no further provisions or exceptional charges relating to either of these businesses
- Significantly reduced the potential volatility of the group's earnings going forward

Well positioned for growth

- 85% of 2015/16 budgeted revenue secured (prior year: 84%)
- Sales pipeline buoyant at £9.7bn (2014: £8.2bn) and order book remains strong at £9.0bn (2014: £8.7bn)
- Launching a £20m entrepreneurial fund to back management teams under the 'Mitie Model', to start up new businesses or invest in and grow existing small businesses

Ruby McGregor-Smith CBE, Chief Executive of Mitie Group plc, commented:

"Mitie has made good progress this year. We have repositioned the business and lowered our risk profile. Our facilities management business accounts for c.85% of group revenue and is a UK market leader.

"We see considerable opportunities across our markets, to provide clients with higher quality, innovative services that save them money. We also see this as a positive environment in which to start and grow businesses, and we plan to back entrepreneurs to do this through our £20m 'Mitie Model' entrepreneurial fund.

"We are only as good as all our people, and supporting and developing them is critical to our ongoing success.

"We are focused on generating profits backed by cash, maintaining strong margins and growing the dividend. With a substantial order book and sales pipeline, we are now well placed to deliver good growth. We look ahead with confidence."

[1] Headline results exclude other items. Other items comprised: exceptional charges in relation to design and build contracts in Energy Solutions of £45.7m (2014: £25.4m); the results of the mechanical and electrical engineering construction business, with revenue of £7.6m (2014: £78.5m) and a trading loss of £15.9m (2014: £13.6m loss); acquisition related and integration costs of £0.9m (2014: £5.1m); and the amortisation of acquisition related intangible assets of £10.1m (2014: £11.0m).

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Mitie will be presenting its preliminary results for the year ended 31 March 2015 at 09.30 on Monday 18 May 2015. A live webcast of the presentation will be available online at www.mitie.com/investors at 09.30. The recorded webcast of the presentation and a copy of the accompanying slides will also be available on our website later in the day. Mitie expects to publish its Annual Report and Accounts (containing financial statements that comply with IFRS) in June 2015 and copies will be available from Mitie's registered office and on its website www.mitie.com. Mitie's Annual General Meeting will take place at 14.30 on 13 July 2015.

Legal disclaimer

This announcement contains forward-looking statements. Such statements do not relate strictly to historical facts and can be identified by the use of words such as 'anticipate', 'expect', 'intend', 'will', 'project', 'plan', and 'believe' and other words of similar meaning in connection with any discussion of future events. These statements are made by the Directors of Mitie in good faith based on the information available to them as at 18 May 2015 and will not be updated during the year. These statements, by their nature, involve risk and uncertainty because they relate to, and depend upon, events that may or may not occur in the future. Actual events may differ materially from those expressed or implied in this document and accordingly all such statements should be treated with caution. Nothing in this document should be construed as a profit forecast.

Except as required by law, Mitie is under no obligation to update or keep current the forward-looking statements contained in this report or to correct any inaccuracies which may become apparent in such forward-looking statements.

High resolution images are available for the media to download free of charge from www.flickr.com/Mitie_group_plc

Overview

This has been a year of significant progress for Mitie. We have repositioned the business to focus on our profitable and successful facilities management (FM) business. We have also completed the exit from our mechanical and electrical engineering construction and Asset Management businesses. Whilst this has come at a significant cost, this action has significantly reduced the potential volatility of the group's future earnings. We are confident that the right long-term decisions have been made for the business and we now have a substantially lower risk profile.

Our FM business has continued to perform strongly, with a steady flow of contract awards and retentions across our key sectors, generating strong organic revenue growth of 6.1%. There are significant market opportunities that will enable us to further grow our share of single, bundled and integrated work, across all of our service lines. Our focus has always been on building long-term partnerships with our clients. The extension of our integrated FM contract with Lloyds Banking Group this year, through to 2022, was particularly significant.

The other two main areas we work in – social housing and healthcare – experienced a challenging year, as a result of pricing pressure in both these markets. However, we still see good long-term opportunities to deliver growth in both markets.

Results

During the year, headline revenue grew by 5.8% to £2,266.2m (2014: £2,142.6m), of which 4.9% was organic. Headline operating profit increased by 0.9% to £128.6m (2014: £127.5m), reflecting a margin of 5.7% (2014: 6.0%). Headline profit before tax increased by 0.7% to £114.1m (2014: £113.3m) and headline earnings per share increased by 2.1% to 24.8p (2014: 24.3p).

Our statutory results include £72.6m of other items (2014: £44.9m), of which £62.5m are non-recurring (2014: £33.9m). The key non-recurring items are: £15.9m of trading losses incurred as part of our exit from our mechanical and electrical engineering construction business (2014: £13.6m); exceptional charges of £45.7m relating to our Asset Management business (2014: £25.4m) and costs resulting from acquisitions and related integration costs of £0.9m (2014: £5.1m). Statutory profit before tax was £41.5m (2014: £68.4m) and statutory earnings per share was 9.7p (2014: 13.4p).

Cash generation was excellent, with cash inflows from operations of £113.2m (2014: £124.1m), representing excellent conversion of headline EBITDA to cash of 95.1% (2014: 102.4%). The balance sheet remains robust with net debt at the year-end of £177.8m or 1.2x headline EBITDA (2014: £186.6m or 1.3x). It is our aim to increase return on capital employed and it was 18.6% (2014: 16.9%).

In July 2014 the group completed a refinancing of its revolving credit facility through a syndicate of six banks which secured £275m of committed facilities for a further five years at margins favourable to the previous facility. Including US Private Placement notes, the group now has committed funding of £527m in place to support future growth.

During this period, our order book has increased by £0.3bn to £9.0bn (2014: £8.7bn). Our sales pipeline currently stands at £9.7bn (2014: £8.2bn) and our forward revenue visibility is excellent, with contracted revenue for the year ending 31 March 2016 at 85% of budgeted revenue (prior year: 84%).

Dividend

The Board's policy is to grow the dividend at least in line with the underlying earnings of the group, while maintaining dividend cover at a prudent level. The final dividend proposed by the Board has increased by 6.6% to 6.5p per share (2014: 6.1p per share), bringing the full year dividend to 11.7p per share (2014: 11.0p per share), an increase of 6.4%. This results in a dividend cover of 2.1x (2014: 2.2x). Subject to shareholder approval at the Annual General Meeting (AGM), the dividend will be paid on 4 August 2015 to shareholders on the register at 26 June 2015.

Board and corporate governance

Corporate governance remains an important and committed area of focus for the Board. The priorities during the year were our growth strategy, the exit from loss-making businesses, the ongoing review of performance and risk and the composition of the Board.

On 31 July 2014, Bill Robson stepped down as an Executive Director of the Board. We thank him for his contribution and are delighted that he remains as part of the executive team, in his role as Managing Director of our Property Management division.

On 1 October 2014, Crawford Gillies stepped down from his role as Chairman of the Remuneration Committee; and he will step down as a Non-Executive Director of the Board at the AGM on 13 July 2015. We thank him for his valuable contribution to the Board. Jack Boyer, Non-Executive Director, has taken on the role of Chairman of the Remuneration Committee.

David Jenkins will retire from the Board in December 2015. He will step down as Chairman of the Audit Committee and Senior Independent Director at the AGM. We thank David for his valuable contribution to date and for his commitment to the group by continuing on the Board to ensure a smooth transition. Larry Hirst, who has been a Non-Executive Director for the past five years, will be appointed Senior Independent Director at the AGM.

Mark Reckitt will be appointed as a Non-Executive Director of the Board with effect from 1 July 2015. He will be appointed Chairman of the Audit Committee as David's successor, and will also be appointed to the Nomination and Remuneration Committees. Mark brings significant expertise and experience, having held senior business, strategy and finance roles at Smiths Group plc, Kraft Foods Inc., and Cadbury plc. He is Non-Executive Director and Chairman of the Audit Committees at both Cranswick plc and J D Wetherspoon plc.

Outlook

Mitie has made good progress this year. We have repositioned the business and lowered our risk profile. Our Facilities Management business accounts for c.85% of group revenue and is a UK market leader.

We see considerable opportunities across our markets, to provide clients with higher quality, innovative services that save them money. We are only as good as all our people, and supporting and developing them is critical to our ongoing success.

We are focused on generating profits backed by cash, maintaining strong margins and growing the dividend. With a substantial order book and sales pipeline, we are now well placed to deliver good growth. We look ahead with confidence.

Developments during the year

This has been a year of important contract awards and retentions. With repeat business being an excellent indicator of a company's strengths and the most important driver of our own organic growth, it was rewarding to again see our contract retention rate in FM above our target of 90%, at 96%.

During the year we were particularly delighted to extend our transformational partnership to deliver integrated FM for Lloyds Banking Group. Our initial five-year contract commenced in 2012 and the new agreement will extend it through to the end of 2022. This is one of the biggest private sector FM contracts of its type and is an excellent example of two organisations working in partnership.

At Heathrow Airport, our proactive working relationship has led to an expansion of our FM contracts there to include additional security services such as hold baggage screening and immigration presentation services, and we see significant opportunities to further expand our presence across the Heathrow estate.

We were also awarded a number of major contracts with new clients during the year. Jones Lang LaSalle has appointed us to deliver FM services across its UK property portfolio, in a contract valued in excess of £85m over three years.

Our Environmental+ business was awarded a £90m first-generation outsourcing contract to deliver soft FM services for seven years, across three sites of the Royal Cornwall Hospitals NHS Trust. We also made good progress in the areas of waste management, landscaping and pest control. The waste business was awarded its largest ever contract with a multinational consumer goods company, for a value of £18m over three years. Our landscaping and pest control businesses benefited from a very strong year of retention as well as cross-selling to our existing client base. It extended or retained contracts with valued clients including the Co-op, Sainsbury's and Mitchells & Butlers.

The ethos of employee share ownership has always been at the heart of our business. The 'Mitie Model' underpins our entrepreneurial culture and is a key differentiator in the market; we continue to use this to attract great management teams and build our service offering. We believe this is the best environment in recent years in which to start and grow new businesses, and we plan to back entrepreneurs to do this through the launch of a £20m entrepreneurial fund.

Our catering business, Gather & Gather, is an example of where our equity model is resulting in very strong performance. We brought in a management team four years ago, who invested in the business and have since more than trebled its revenues and transformed our offering. It launched its offering in Ireland during the year and has had notable success there already with the award of landmark new contracts, including Primark and LinkedIn, generating revenue of £15m per annum.

Our Care and Custody business was also built using the Mitie model, and just four years after entering the market, it is now the largest provider of immigration detention services to the Home Office. During the year we successfully mobilised the eight-year, £180m contract to manage and maintain the Colnbrook and Harmondsworth detention centres for the Home Office, and this contract is progressing well.

In January 2015, we were pleased to acquire the remaining 49% of Mitie Compliance. This is a business which we acquired a majority stake of in 2011, then called Direct Enquiries. The management team retained a minority stake, with an incentive to continue building the business, based on the Mitie model. It has been very successful, having grown into one of the UK's leading compliance consultancies. It helps clients to stay compliant with building legislation, which is vital to sustain safe, robust and legally compliant operations. It provides comprehensive technology-led, evidence-based auditing services and has extensive experience in providing compliance services for some of the UK's biggest businesses.

In November 2014, we acquired a majority stake of Source8, the real estate, technology and risk management consultancy. It provides advisory and business support services to governmental and non-governmental organisations on the implementation of real estate, technology and risk management solutions globally. Its clients include leading global corporations, and the business has particular expertise in emerging markets and complex environments. Source8 brings a strategic offering with strong growth potential and consulting capabilities both in the UK and overseas. The high quality management team has retained a minority stake in the business, and are incentivised to grow the business, again using our unique equity model. This purchase is enabling us to build on our consultancy offer and is another example of how we are working hard to deliver a greater breadth of the FM services that our clients rely on.

In October 2014 we acquired Procius, which specialises in pre-employment screening. It has particular expertise in the aviation and transportation sectors. The acquisition is providing our security business with extra capabilities and is supporting its growth as one of the UK's largest providers of pre-employment screening.

Our homecare and social housing businesses both work predominantly in the local government sector. Local authorities have significant challenges and as a result we have experienced pricing pressure in both of these businesses, which has negatively impacted their financial performance. In both businesses, we are focused on working with clients who truly value the people who deliver such important services, and with whom we are able to develop long-term, sustainable relationships.

In our homecare business, against this market backdrop, we have closed or streamlined a number of branches where the cost pressures are most intense. In regions where pricing has reached levels that are not economically viable, we have withdrawn from bidding altogether, which has resulted in a lower volume of hours worked during the year. We have concurrently continued to invest in resources and infrastructure to grow the business for the long term. Recruitment remains one of the biggest challenges in this market and we have taken a number of steps during the year to address this issue.

We remain confident of the longer-term opportunities in the healthcare market – the fundamental demand for care for the elderly, which can be provided more cost-efficiently in the home, is growing steadily and projected to grow faster in the years to come. We anticipate growth will come from working with partners such as the NHS to improve the overall delivery of public health services at a lower cost, through a significantly improved operating model in care at home. We will also strengthen our position in the complex care market, where our Complete Group business is performing steadily.

Exiting non-core businesses

In 2012, we made the decision to reduce our exposure to cyclical, high risk, construction-related markets. This was not an easy decision, and a very difficult course of action for Mitie, but it was undoubtedly the right thing to do for our long-term future.

We have now completed our exit from the legacy, loss-making mechanical and electrical (M&E) engineering construction businesses as well as our Asset Management business. Both were characterised by design and build risk, high overhead costs and cyclicality. The M&E construction business closed before the end of the financial year, with exceptional losses of £15.9m for the period. In our Asset Management business, all operational and financial risk on the remaining design and build contracts has been assessed and a charge of £45.7m is included in Other items (see Note 3). Beyond these amounts, no further exceptional charges will be incurred from either of these businesses.

Operational performance

Facilities Management

	2015 Headline	2014 Headline	Growth
Revenue			
Soft FM	£1,280.3m	£1,190.8m	7.5%
Hard FM	£621.1m	£595.3m	4.3%
	£1,901.4m	£1,786.1m	**6.5%**
Operating profit			
Soft FM	£81.9m	£74.8m	9.5%
Hard FM	£31.4m	£25.6m	22.7%
	£113.3m	£100.4m	**12.8%**
Operating profit margin			
Soft FM	6.4%	6.3%	+0.1ppt
Hard FM	5.1%	4.3%	+0.8ppt
	6.0%	5.6%	**+0.4ppt**
Order book	**£7.6bn**	£7.4bn	**2.7%**

Our core FM business comprises two divisions: Soft FM, which includes cleaning and environmental services, security, and catering and front of house; and Hard FM, which consists of a range of technical and building services. Our integrated FM offering brings together the full range of soft and hard FM services in a single tailored proposition.

There has been a slight change to the way we report our FM results this year, with our Energy Solutions business now incorporated into Hard FM because it supports the strengths and objectives of that division.

Developments during the year

The FM business performed very well throughout the year, delivering strong organic growth of 6.1%, through important contract awards and extensions. The operating profit margin improved in both the Soft and Hard FM divisions, reflecting good market conditions and a continued focus on operational efficiency.

Client satisfaction is central to our success and we were rated the top overall service provider in the FM industry for the second consecutive year in the 2014 i-FM brand survey. The same survey also identified us as the most innovative provider with the best brand identity, and placed us either first or second in several of the service categories, including integrated FM, technical FM, cleaning and security.

We have made considerable progress developing our FM business, working with our clients to deliver both tactical and strategic support to their activities. For our largest clients, we utilise our extensive experience to provide: tailored consultancy services to support their strategic objectives; operational solutions to manage and oversee the demands of complex and changing estates; and trained people who carry out day-to-day, bespoke FM services. Our ability to deploy such broad expertise demonstrates our value to clients, supports the generation of new, profitable revenue streams and positions us as a clear leader in our chosen markets. In addition, the introduction of a wider mix of service lines has enabled us to support our margins through the introduction of consultancy activities to support our clients' strategic estate management objectives, with margins consistent with those achieved by other consultancy or professional services businesses. In the second half of the year, we have seen a significant contribution from our consultancy stream in FM, and we expect revenues in this area to continue to develop. Our operationally-led, professional expertise and experience in FM is highly valued by our clients and the provision of selected FM consulting services will also incorporate our activities from Source8 and Utilyx going forward.

Our international presence remains relatively small. In continental Europe, we support a small number of key clients; in some countries through a self-delivery model and in others using supply chain management. In Ireland, we have made excellent progress since our entry into that market in 2010, where our revenues have trebled over that time. Our catering business, Gather & Gather, has now expanded into Ireland and has made excellent progress with the award of a number of exciting contracts there during the year. Elsewhere, our recent acquisition, Source8, provides property consulting services across the globe for a range of UK, European and US based businesses.

Our Care and Custody business is also continuing to expand its presence in the justice sector, where we look after a number of immigration removal centres. In 2014, we successfully mobilised our £180m, eight-year contract to manage and maintain two immigration centres. Three years after entering the market, we are now the largest provider of immigration detention services to the Home Office. The mobilisation process included merging the two centres into one, helping two discrete groups of staff adopt a new operating model based on a central team, consistent operations and centralised services such as the control room.

Integrated FM

Our integrated FM business incorporates the full range of hard and soft FM services. During the year it generated revenue of £0.7bn, a 10% increase on the prior year.

With the integrated FM UK market valued at around £22bn, we continued to prosper and grow, underlining a clear trend for clients to outsource multiple FM services to a single partner as it offers them greater access to value added advice beyond day-to-day operations.

Our clients see us as their trusted advisor – we manage all services delivered on the account and are the single point of contact from an operational, tactical and strategic perspective. Delivering over 95% of the services through our specialist businesses means we also offer our clients a level of ownership, performance and value that is a critical differentiator.

Clients also view a provider’s track record as a way for them to achieve assured quality and our broad expertise across multiple sectors has underpinned much of our success this year. In the financial and professional sector, in addition to extending our contract with Lloyds Banking Group, we were awarded a new contract with a major insurance and professional services company. In the technology and communications sector, we retained and extended our contracts with both Vodafone and Eircom.

Expertise in other areas, such as technology, is also critical to our success. Investment in systems, such as our management platform Miworld, has enabled us to provide greater data and management information and therefore insight into strategic decision making – helping clients reduce total cost of occupancy while still improving service quality and responsiveness.

Soft FM

Cleaning and environmental services

We are one of the UK's largest providers of cleaning, pest control, landscaping, waste management and winter gritting, employing over 30,000 people.

The cleaning business today is more sector oriented, with a sharp focus on the transport, commercial, retail, manufacturing, leisure and health sectors. The year's highlights included contract retentions with clients including Ascot Racecourse, Standard Life and Heathrow Airport, as well as new agreements with Santander and Arriva, where we clean, fuel and garage 1,600 buses every day.

In the healthcare sector, we secured major cleaning contracts with Marie Curie, Hull NHS Trust, Epsom and St Helier Hospitals, as well as a soft FM contract with Royal Cornwall Hospitals NHS Trust.

In the retail and consumer goods sector, our waste management business was awarded its largest contract to date with a multinational consumer goods company, providing services across 22 sites, with a value of £18m over three years. Our pest control business also retained its largest contract, with Sainsbury’s, for a further two years.

Our landscaping business is growing rapidly; during the year it was awarded its largest ever contract, as part of the FM services we will be delivering for Jones Lang LaSalle.

Security

We provide customers with total security management, from traditional manned security to technology-led services such as remote monitoring and pre-employment vetting services. The addressable market for our services is around £2.5bn, which is now growing at approximately 1% per annum following industry contraction.

We follow a risk-based approach built on people, technology and consultancy and see excellent opportunities in sectors including critical security environments (CSE), the public sector, and transport and aviation. In CSE, we work for risk-averse clients who need high standards of security, such as AWE, Cumbrian Collaboration, Lockheed Martin and BAE. In the public sector, we gained several new clients, notably in the health and education sector. We continue to dominate the aviation and transport sector, where we work with clients including Eurostar, Eurotunnel, Birmingham Airport, airlines at Heathrow Airport and Virgin Atlantic Airways.

Catering and front of house

With the UK contract catering market estimated at £4.2bn, our Gather & Gather catering business continues to thrive and grow in this market. It has created a differentiated offer based on innovative, locally-sourced food and hand-roasted coffee. During the year it was awarded important new contracts, including with White Rose, TSB and Gloucester Police. It also expanded into Ireland, through contracts with Primark and LinkedIn. In London, Gather & Gather opened its first retail café, The Bench, situated in the new Goldsmiths’ Centre in Clerkenwell.

The focus for our events hospitality business, Creativevents, shifted during the year, from a predominantly venue-based operation to an outdoor events business. Highlights included the Chelsea Flower Show, the RHS Hampton Court Show, Royal Ascot Silver Ring and Winter Wonderland at Hyde Park.

The front of house team made steady progress during the year, with a regular flow of contract awards and retentions, both standalone and as part of our integrated contracts.

Hard FM

We deliver a full range of technical and building services to clients across a broad range of market sectors. We are the largest provider of these services in the UK, employing over 5,000 people in this area of the business, as well as training over 120 apprentices at any one time.

Our focus is on building long-term relationships with clients, managing and maintaining all of their mechanical and electrical engineering maintenance needs. We also provide additional, critical specialist services, which extend our offering and bring valuable new opportunities to the business. These include heating, cooling, lighting, fire and security, water treatment, compliance, building controls, roofing and projects.

The business performed well during the year, continuing to grow with existing clients and building new relationships. Highlights include maintaining two of the largest, state of the art, data centres in the UK and new work awarded with Heathrow and Gatwick airports, BBC Worldwide, Turner Broadcasting, Tesco and AB-InBev.

Our lighting business, the largest in the UK, has had a good year, with demand for LED lighting projects driving growth in this area. We utilise the latest technology to improve visual quality as well as significantly improving energy savings and efficiency.

Our compliance business is one of the fastest growing in the UK. Changing legislation means that our clients need to stay a step ahead, and we have the broadest range of services and are the market leaders in our use of technology in this area.

With energy continuing to be a major factor for all our clients, our energy proposition provides the analytics and solutions that help improve efficiency and reduce costs. Through our Utilyx consultancy, we enable clients to take a more strategic approach to energy issues, helping them buy better and use smarter. Utilyx is one of the largest buyers of business energy in the UK, on behalf of its clients, making it an energy partner of choice. In 2014, Utilyx was named Most Trusted Consultancy and also Large Consultancy of the Year at the Energy Live Consultancy Awards.

We are differentiated by our national scale, but have a focus on local delivery, enabling us to service both regional and national clients. We have continued to invest in technology during the year, for example market-leading auditing tools and engineering systems, which allows us to provide truly integrated, end-to-end solutions. We have also focused on our account management capabilities and our infrastructure, ensuring we continue to provide quality services and maintain our proven track record.

Property Management

	2015 Headline	2014 Headline	**Growth**
Revenue	£273.4m	£264.8m	3.2%
Operating profit	£10.4m	£14.4m	(27.8%)
Operating profit margin	3.8%	5.4%	(1.6ppt)
Order book	£1.0bn	£0.8bn	25.0%

Our Property Management business serves a wide range of clients in the domestic housing market, including housing associations and local authorities, through long-term contracts. Whilst the business delivered good growth in revenues, there was some pricing pressure in its markets during the year. We experienced an acceleration of revenues in the second half of the financial year and the pipeline of future opportunities is strong.

Property management works in whatever way best meets clients' needs. This includes via a variety of models such as bespoke partnering models, strategic planning, investment consultation and stock surveys. An increasing number of existing clients are joining the trend towards bundled services and we have also seen a renewed emphasis on the quality of service delivery. Although currently the majority of revenues are derived from the public sector, the business is moving towards a sharper focus on the private rented sector, which currently accounts for 17% of the UK housing market and is experiencing high levels of growth.

Over the last 12 months we were awarded a number of property management contracts with clients such as Circle Housing, Orbit, London & Quadrant Housing Association and A2 Dominion, while retaining key contracts with clients including Leeds Council and Sovereign Housing.

We are the market leaders in painting and repair services, with national coverage, and during the year we secured new contracts with Home Group and A2 Dominion, amongst others. We also provide domestic heating services and have identified increasing opportunities to supply boiler replacements, insulation and associated projects. Our insurance services business, which performs repair services on behalf of insurance companies, has also made good progress during the year. We anticipate good growth across these service offerings over the coming year.

Healthcare

	2015 Headline	2014 Headline	**Growth**
Revenue	£91.4m	£91.7m	(0.3%)
Operating profit	£4.9m	£12.7m	(61.4%)
Operating profit margin	5.4%	13.8%	(8.4ppt)
Order book	£0.4bn	£0.5bn	(20.0%)

We provide homecare (also known as adult social care) services to people who require help and support due to illness or disability, through our MiHomecare business. We also have Complete Group, which provides nurse-led complex care solutions in the home. Today, homecare is in most cases publicly funded and privately delivered.

The financial performance of this business has been impacted significantly as a result of the local authority spending cuts, which is the primary client base of this business. In the last year, we continued to focus resource on branches that were able to perform to the standards that we expect and our service users deserve, and exit regions where local authority cost pressures are most intense. The other major short term challenge in the homecare market relates to recruiting and retaining the right number of high quality care workers. We are investing in recruitment, training and development programmes in order to ensure a pipeline of well-trained, committed staff.

While the branch closures impacted our performance during the year, we are confident of the longer-term growth drivers in the homecare market, which is valued at £17bn. Like other developed nations, the UK has an ageing population, with the number of over 85s expected to double in the next 25 years. Homecare services undoubtedly benefit both the person receiving care and the body funding that care: people often prefer to remain in their own homes whenever possible; and central government and local authorities recognise homecare as a more cost-efficient alternative to care in hospitals or retirement homes. We expect this will also drive a long-term trend towards integrating health and social care provision.

Growth in the medium to long term will come from two main sources. Firstly, our MiHomecare brand continues to win important new contracts. The second area where we anticipate growth is in working with partners such as the NHS to improve the delivery of public services. Such partnerships combine the best of both private and public sectors and can lead to a marked improvement in quality accompanied by increased efficiency and reduced costs. We have continued to invest in the business with a view to these medium and long-term opportunities, and during the year, we were part of the UnitingCare Partnership, which was awarded a contract to provide older people's healthcare and adult community services in Cambridgeshire and Peterborough.

Financial review

Positioned for future growth

Our business has changed fundamentally over the past ten years. Our revenue has grown by £1.5bn to £2.3bn through both strong organic growth and acquisitions. We have invested in our facilities management offering to create the leading integrated FM brand in the UK, to strengthen our order book and enhance our margins by exiting our cyclical mechanical and electrical engineering and Asset Management businesses. Our group has delivered strong organic growth and built an order book of £9.0bn with a high quality client base. We have maintained a strong cash performance, returned £0.3bn in dividends to our shareholders over ten years and grown the dividend per share every year.

Organic growth of 4.9% outperforms the sector

Headline revenue grew by 5.8% to £2.3bn. This represented organic growth of 4.9% which outperformed the FM sector average of 3.1%.

Mitie has a strong track record of delivering organic growth with an average of 4.5% over the past five years. This has been achieved by focusing on our core facilities management offering both by winning work with new customers and expanding our service offering with existing customers.

Strong margins, growing profitability

Headline operating profit grew by 0.9% to £128.6m. Our operating profit margin was 5.7%, in line with our target range of 5.5% to 6.5%. It is our medium term objective to grow margins above 6.0%.

Reshaping our business for future growth

We have recognised the impact of a number of non-recurring and non-cash items which are separately presented within Other items. We have incurred charges as a result of the exit from two businesses which no longer meet our growth, risk or return expectations. As a result, we have repositioned our business for long term growth.

During the year we completed the exit from our loss-making mechanical and electrical (M&E) engineering construction business with exceptional losses of £15.9m for the period. In our Asset Management business, all operational and financial risk on the remaining design and build contracts has been assessed and a charge of £45.7m has been incurred. Beyond these amounts, no further exceptional charges will be incurred from either of these businesses. Further details of Other items are set out in Note 3.

Generating sustainable shareholder value

Headline profit after tax of £90.0m resulted in basic headline earnings per share of 24.8p, an increase of 2.1% on prior year (2014: 24.3p).

Including Other items, statutory profit after tax of £35.7m resulted in statutory basic earnings per share of 9.7p (2014: 13.4p).

In 2013, the Board approved a share purchase policy to maintain share numbers at a broadly consistent level year-on-year, with the aim of ensuring that the interests of shareholders are not diluted by the issue of shares that support the group's various share schemes, nor by the issue of shares as consideration for earn outs under the Mitie Model. To this end, in 2015 the group bought back 3.7 million shares (2014: 5.8 million) at a cost of £10.7m. The shares purchased are held in Treasury. The total number of shares the group holds in Treasury is 9.5 million.

The average number of shares in issue in the year was 359.3 million (2014: 359.9 million).

Returning cash to shareholders

The group has a strong track record of dividend growth, having consistently increased dividends annually since the group was listed on the London Stock Exchange in 1987 and paid £175m in cash dividends to shareholders in the last five years. It is now our policy to grow dividends at least in line with underlying earnings. This year's cash returns to shareholders fully reflect our continued confidence in the business and have not been discounted by the impact of non-recurring charges and additionally reflect growth of 6.4% compared with growth in headline basic earnings per share of 2.1%. The full year dividend recommended by the Board is 11.7p per share (2014: 11.0p per share), reflecting a cover of 2.1x (2014: 2.2x) headline earnings per share.

During the year, total dividends of £40.5m were paid to shareholders (2014: £38.1m).

Return on capital employed

Our return on capital employed (ROCE) for the year is 18.6%. ROCE is calculated as headline operating profit after tax (adjusted for the proforma, full year effect of acquisitions) divided by capital employed. Capital employed is calculated as net assets excluding net debt less non-controlling interests.

Our ROCE demonstrates our ability to generate returns from the capital employed by our business. We focus on our ROCE through the management of our asset base and profit streams and take into consideration returns on capital when we invest to maximise the profitability of the group. By generating returns that exceed our weighted average cost of capital, currently 7.4%, we are ensuring that our investment decisions add value to our business.

Balance sheet

At 31 March 2015, the Group had £378.3m of net assets.

Goodwill and other intangible assets of £541.0m are held on the balance sheet. In relation to net assets, this profile is typical of our sector, which is people based and low in capital intensity, and of businesses growing through acquisition. Details of the group's goodwill is set out in note 8.

Our group has a limited requirement for investment in property, plant and equipment and accordingly capital expenditure as a percentage of revenue is 1.0% and is expected to remain close to 1% going forward. Our principal investment requirement in capital terms is in working capital. Working capital management is a key focus for the group.

Our revenue has grown by over 30% in the past five years to £2.3bn. Our working capital balances have been managed to stay in line with the growth of our business and working capital investment has remained relatively constant.

Short-term working capital balances at 31 March 2015 were (£48.5m) or £10.0m after the inclusion of non-current trade and other receivables. The net working capital outflow per the cash flow statement of £2.6m reflects our ongoing focus on working capital management.

Excellent cash conversion

Our profits are strongly backed by cash flows. Cash conversion measures our success in converting operating profit (measured by earnings before interest, tax, depreciation and amortisation 'EBITDA') to cash and reflects both the quality of our earnings and the effectiveness of our cash management activities. As a key indicator of our business performance, we target headline cash conversion of 80% which we have consistently exceeded over the past five years. This year, headline cash inflows from operations were £144.6m (2014: £152.4m), representing headline cash conversion of 95.1% (2014: 102.4%).

On a statutory basis, cash conversion was 126.5% (2014: 107.3%). The consistency of our cash generation has been a key feature of our results and remains a major focus going forward.

Net debt

As at 31 March 2015, net debt was £177.8m, a reduction of £8.8m on the prior year. Strong free cash flow of £57.5m has enabled us to return £40.5m to shareholders through growing dividend payments.

We remain comfortably within each of our banking covenants. As at 31 March 2015, net debt stood at 2.0x statutory EBITDA (2014: 1.6x) and 1.2x headline EBITDA (2014: 1.3x).

Committed facilities to fund future growth

In July 2014 the group completed a refinancing of its revolving credit facility through a syndicate of six banks which secured facilities for a further five years at margins favourable to the previous facility. The group now has committed funding of £527m in place to support our future growth opportunities.

Our interest rate exposure is predominantly fixed, at around 4% per annum.

The group has a centralised treasury function whose principal role is to ensure that adequate liquidity is available to meet funding requirements as they arise, and that financial risk is effectively identified and managed. Treasury policies and procedures are approved by the Board. No transactions of a speculative nature are undertaken. Dealings are restricted to those banks with suitable credit ratings and counterparty risk and credit exposure is monitored frequently.

Acquisitions

During the year we acquired two businesses which added £10m to group revenue and £2m to group operating profit on a pro forma basis.

On 16 October 2014, we acquired Procius Limited, the leading UK pre-employment screening company, for total consideration of up to £2.3m.

On 26 November 2014, we acquired a 51% stake in Source Eight Limited, a real estate, technology and risk management consultancy for a maximum initial consideration of £2.95m. Further cash consideration may be payable in respect of put options over the remaining 49% stake bringing total consideration for a 100% stake to a maximum of £15.5m. At 31 March 2015, a liability of £8.0m has been recognised in respect of the put options which are potentially exercisable in tranches between 2017 and 2019.

From the date of ownership, the acquired businesses have contributed headline revenue of £3.7m and headline operating profit of £0.6m to the group, which is in line with our expectations.

Driving entrepreneurialism through equity participation

Mitie operates an entrepreneurial investment programme known as the Mitie Model. Investment companies are structured so that the management team takes an equity stake of up to 49% in a business which they grow over a five to ten-year period, and may eventually be acquired by Mitie in full, should the acquisition criteria in the respective Articles of Association and shareholder agreements be met. Mitie has supported over 100 start-up businesses to grow using the Mitie model. Currently, Mitie holds majority interests in 11 Mitie Model companies with a carrying value of £3.3m.

On 30 January 2015, Mitie Group plc acquired the remaining 49% share in Direct Enquiries Holdings Limited. The total consideration was £5.6m being satisfied by £1.8m in cash paid during the year and £3.8m paid in cash in April 2015.

This purchase and other acquisitions are discussed in more detail in Note 14.

Tax contribution

Our tax strategy is to manage all taxes, both direct and indirect, such that we pay the appropriate amount of tax in each country whilst ensuring that we respect the applicable tax legislation and utilise, where appropriate, any legislative reliefs available. This tax strategy is reviewed, regularly monitored and endorsed by the Board.

Mitie is a significant contributor of tax in the UK, paying £522m in 2015 (2014: £599m). This comprised £15m of UK corporation tax and £507m of indirect taxes including business rates, VAT and payroll taxes paid and collected.

The group's headline tax charge was £24.1m (2014: £25.6m). The effective headline rate was 21.1% for the year (2014: 22.6%). As Mitie is predominantly UK based, our effective rate of tax reflects the UK statutory rate of tax.

After adjusting for the tax credit on other items of £18.3m (2014: £5.7m), the statutory income tax charge was £5.8m (2014: £19.9m), an effective rate of 14.0% (2014: 29.1%).

Pensions

Our financial strength and balance sheet remain unaffected by any significant pensions deficit, with the net deficit of all the defined benefit pension arrangements included on the balance sheet being £35.8m (2014: £19.1m).

During the year we completed the actuarial triennial valuation of the Mitie Group scheme. The scheme actuarial deficit was £6.0m at 31 March 2014. We have agreed with the trustees that no cash injection into the scheme is currently required, but have committed to potential cash injections of up to a total of £11m over ten years should the funding position deteriorate materially.

The accounting deficit on Mitie Group plc's principal defined benefit scheme at 31 March 2015 was £34.9m (2014: £17.0m), reflecting a reduction in bond rates. The performance of scheme assets has, however, remained strong in the year; the scheme has also benefited from the positive impact of amendments made to the terms of the Mitie Group defined benefit pension scheme during the previous year.

The group also makes contributions to customers' defined benefit pension schemes under Admitted Body arrangements as well as to other arrangements in respect of certain employees who have transferred to the group under TUPE. Mitie's net defined benefit pension obligations in respect of schemes in which it is committed to funding amounted to £0.9m (2014: £2.1m).

Statutory and non-statutory measures of performance

Our financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the group. We have elected to provide some further disclosures and performance measures in order to present our financial results in a way that best demonstrates the performance of our business.

The results described as "headline" report the performance of the trading activity of our core business along with the central overhead required to manage the group. The headline measure illustrates the performance of the underlying activities of the group, and is a non-statutory measure.

We have separately disclosed any restructuring and acquisition-related items together with the results of the engineering construction and Asset Management businesses, which we have exited. These items are described as Other items within the income statement and in related parts of this announcement. The Other items measure of our results is a non-statutory measure. In the current year, Other items comprise:

- The results of the mechanical and electrical engineering construction business we have exited
- Exceptional charges in respect of design and build Asset Management contracts
- Acquisition related charges, including amortisation of acquisition related intangible assets

The sum of the headline and other items columns are the statutory reported results of the business and reflect the full trading result of the group, reported in accordance with IFRS. This presentation is consistent with the way in which we manage and report on our business internally and is consistently applied to assist in the explanation of our performance.

New and retained contracts

Client	*Contract*	*Timeframe*	*Estimated total value*
Technology and communications			
LinkedIn	A new contract for Gather & Gather to provide catering services in at LinkedIn's headquarters	5 years	ND
Vodafone	Retained and extended an integrated FM contract to deliver services including fabric and engineering maintenance, workplace management, security and cleaning across 1,500 Vodafone sites	5 years	£250m
BBC Worldwide	A new contract delivering the full range of FM services including maintenance and repairs, cleaning, catering, security and front of house services at BBC Worldwide's new offices in Television Centre, White City, London	3 years + 3 years + 3 years	ND
Turner Broadcasting	A new contract to deliver FM services at three of the broadcaster's sites, including maintenance and repairs, cleaning, front of house, waste management and mailroom services	4 years	£4m
Interxion	Awarded a contract to provide a range of security services to its London data centre campus	3 years	ND
International technology company	Gather & Gather were awarded a new contract to deliver catering services in the UK and Ireland	3 years	€30–40m
Transport			
Heathrow Airport	Expanded existing relationship to provide security services and hard FM to Terminals 3, 4, 5, the Heathrow Express and in the headquarter building, the Compass Centre and the Heathrow Academy	3 years	£40m
Arriva	Awarded a new contract to clean buses at depots across the UK	5 years	£20m
Eurostar	Retained a contract to deliver a range of security services at all UK terminal stations	3 years	ND
Finance and professional services			
Lloyds Banking Group	Extended transformational partnership delivering integrated facilities management across the bank's entire UK branch and office estate	7 years	ND
Santander	A new contract to provide cleaning services to around 1,000 branches and banking centres across the UK	3 years	ND
Standard Life	Retained and expanded a contract to provide cleaning, gritting, landscaping, pest control and catering	ND	ND
Bank of America	Retained a contract to provide front of house services, which includes reception, switchboard, helpdesk and meeting and event bookings for the bank at four locations across the UK	3 years	ND
Major high street insurance company	Appointed to provide hard FM services to the group's property portfolio	3 years	£6m
Major insurance and professional services company	Awarded a contract to provide the full range of FM services at 47 buildings across the UK and Ireland	5 years	£40m
Retail and leisure			
AB InBev	Appointed to provide installation, maintenance and repairs to drinks dispense equipment in the brewer's 25,000 outlets across the UK. This builds on our existing contract delivering cleaning, security, catering and technical FM services across 37 European countries	5 years	c.£30m
Gunwharf Quays shopping centre	Awarded a new contract to manage the Portsmouth retail outlet's guest relations team	ND	ND
Ascot Racecourse	Re-secured a cleaning contract, building on our existing security and events catering offering	3 years	£6m
Ladbrokes	Awarded the UK's largest LED lighting project with the high street bookmaker	30 weeks	£9m
Fujitsu	Retained a contract to provide security services at over 40 locations in the UK	3 years	ND
Multinational consumer goods company	Appointed to deliver waste management services to 22 UK sites, including 13 production sites	3 years	£18m
Primark	A new contract delivered by Gather & Gather, providing catering services in the UK and Ireland	3 years	ND
Sainsbury's	Retained a contract to deliver pest control	2 years	ND
Property management			
Jones Lang LaSalle	Awarded a significant new contract to provide a range of FM services including technical FM and landscaping services across the group's UK property portfolio	3 years	£85m
Education			
Queen Mary University	Awarded a contract to deliver hard FM services including maintenance and repairs, fire protection, water treatment and building audit services to 64 buildings over three campuses	5 years + 2 years	£5m
Durham University	Extended an IFM contract delivering a comprehensive range of services including cleaning, landscaping, pest control and security	3 years	£5m

Client	*Contract*	*Timeframe*	*Estimated total value*
Healthcare			
Larchwood Care Homes	A new contract to deliver hard FM services to care homes across the UK	3 years	£10m
Royal Cornwall Hospitals NHS Trust	Awarded a first-generation outsourcing contract to deliver soft FM services across three sites	7 years	£90m
Marie Curie Cancer Care	Awarded a contract with Marie Curie Cancer Care to provide cleaning, laundry and hostess services for their hospices in the West Midlands and Cardiff and the Vale	3 years	£1m
Social Housing			
L&Q Housing Association	Re-secured a planned works contract to deliver internal refurbishment works to properties across London	5 years	£9m
A2Dominion	Extended our existing contract to service two planned maintenance contracts plus a cyclical decoration and repair works contract covering their properties in London and the South	2 years	£35m
Circle Housing	Appointed to provide responsive repairs and maintenance services to customers at Circle Housing Old Ford, managing 6,500 homes in East London	1 year	£6m
Orbit East and Orbit South	Secured a contract to deliver pre-paint repairs, redecoration and associated works to approximately 18,000 properties. This is in addition to our existing work with the client and brings the total contract value to £157m over eight years	5 years	£5m
Derwent Living	Appointed to carry out internal and external cyclical decoration, pre-decoration repairs, minor roofing repairs and small works	7 years	£5m
Home Group	Awarded a painting contract to provide pre-painting repairs, external refurbishment and internal redecoration to communal spaces	4 years	£6m
Central government			
Home Office	Mobilised our contract to manage and maintain Colnbrook and Harmondsworth detention centres	8 years + 3 years	£180m (phase 1)
Homecare			
Surrey County Council	A new contract to deliver homecare services	7 years	£19m
London Borough of Hillingdon	A new contract to deliver homecare services for 300 service users	5 years + 1 year + 1 year	£16m
London Borough of Brent	A new contract to deliver homecare services	4 years	£4m
Hampshire County Council	A new contract to deliver homecare services	4 years	£4m
London Borough of Redbridge	A new contract to deliver homecare services, including reablement and complex care	4 years	£3m
London Borough of Hounslow	A new contract to deliver homecare services	3 years	£2m

ND = not disclosed

Consolidated income statement

For the year ended 31 March 2015

	Notes	2015 Headline £m	2015 Other Items[1] £m	2015 Total £m	2014 Headline £m	2014 Other Items[1] £m	2014 Total £m
Continuing operations							
Revenue	2	**2,266.2**	**7.6**	**2,273.8**	2,142.6	78.5	2,221.1
Cost of sales		**(1,928.3)**	**(17.4)**	**(1,945.7)**	(1,819.3)	(76.5)	(1,895.8)
Gross profit		**337.9**	**(9.8)**	**328.1**	323.3	2.0	325.3
Administrative expenses		**(210.0)**	**(62.8)**	**(272.8)**	(196.3)	(46.9)	(243.2)
Share of profit of joint ventures and associates		**0.7**	**–**	**0.7**	0.5	–	0.5
Operating profit	2	**128.6**	**(72.6)**	**56.0**	127.5	(44.9)	82.6
Investment revenue	4	**0.3**	**–**	**0.3**	1.2	–	1.2
Finance costs	4	**(14.8)**	**–**	**(14.8)**	(15.4)	–	(15.4)
Net finance costs		**(14.5)**	**–**	**(14.5)**	(14.2)	–	(14.2)
Profit before tax		**114.1**	**(72.6)**	**41.5**	113.3	(44.9)	68.4
Tax	5	**(24.1)**	**18.3**	**(5.8)**	(25.6)	5.7	(19.9)
Profit for the year		**90.0**	**(54.3)**	**35.7**	87.7	(39.2)	48.5
Attributable to:							
Equity holders of the parent		**89.3**	**(54.3)**	**35.0**	87.5	(39.2)	48.3
Non-controlling interests		**0.7**	**–**	**0.7**	0.2	–	0.2
		90.0	**(54.3)**	**35.7**	87.7	(39.2)	48.5
Earnings per share (EPS)							
– basic	7	**24.8p**	**(15.1)p**	**9.7p**	24.3p	(10.9)p	13.4p
– diluted	7	**24.2p**	**(14.7)p**	**9.5p**	23.6p	(10.6)p	13.0p

Notes:

1 Other items are as described in Note 3.

Consolidated statement of comprehensive income

For the year ended 31 March 2015

	2015 £m	2014 £m
Profit for the year	**35.7**	48.5
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of net defined benefit pension liability	**(15.0)**	2.4
Income tax relating to items not reclassified	**3.0**	(1.0)
	(12.0)	1.4
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(2.0)**	(0.6)
Gains on hedge of a net investment taken to equity	**1.1**	0.2
Cash flow hedges:		
Gains/(losses) arising during the year	**13.4**	(10.1)
Reclassification adjustment for (losses)/gains included in profit and loss	**(14.6)**	12.1
Income tax credit/(charge) relating to items that may be reclassified	**0.2**	(0.8)
	(1.9)	0.8
Other comprehensive (expense)/income for the financial year	**(13.9)**	2.2
Total comprehensive income for the financial year	**21.8**	50.7
Attributable to:		
Equity holders of the parent	**21.1**	50.5
Non-controlling interests	**0.7**	0.2

Consolidated balance sheet

At 31 March 2015

	Notes	2015 £m	2014 £m
Non-current assets			
Goodwill	8	**464.4**	459.6
Other intangible assets		**76.6**	79.3
Property, plant and equipment		**53.3**	56.7
Interest in joint ventures and associates		**1.1**	0.9
Financing assets	9	**8.0**	20.4
Trade and other receivables	10	**58.5**	41.2
Deferred tax assets		**13.4**	8.4
Total non-current assets		**675.3**	666.5
Current assets			
Inventories		**11.0**	7.4
Trade and other receivables	10	**421.4**	491.6
Cash and cash equivalents		**96.4**	89.1
Total current assets		**528.8**	588.1
Total assets		**1,204.1**	1,254.6
Current liabilities			
Trade and other payables		**(476.0)**	(525.6)
Current tax liabilities		**(5.2)**	(11.0)
Financing liabilities		**(1.8)**	(2.7)
Provisions	12	**(4.9)**	(1.2)
Total current liabilities		**(487.9)**	(540.5)
Net current assets		**40.9**	47.6
Non-current liabilities			
Trade and other payables		**(8.0)**	–
Financing liabilities		**(279.2)**	(273.0)
Provisions	12	**(7.4)**	(8.8)
Retirement benefit obligation		**(35.8)**	(19.1)
Deferred tax liabilities		**(7.5)**	(9.3)
Total non-current liabilities		**(337.9)**	(310.2)
Total liabilities		**(825.8)**	(850.7)
Net assets		**378.3**	403.9
Equity			
Share capital		**9.4**	9.3
Share premium account		**122.6**	118.9
Merger reserve		**80.1**	101.2
Share-based payments reserve		**7.2**	2.6
Own shares reserve		**(47.5)**	(37.2)
Other reserves		**0.4**	0.4
Hedging and translation reserve		**(6.4)**	(4.3)
Retained earnings		**209.2**	210.0
Equity attributable to equity holders of the parent		**375.0**	400.9
Non-controlling interests		**3.3**	3.0
Total equity		**378.3**	403.9

Consolidated statement of changes in equity

For the year ended 31 March 2015

	Share capital £m	Share premium account £m	Merger reserve £m	Share-based payments reserve £m	Own shares reserve £m	Other reserves £m	Hedging and translation reserve £m	Retained earnings £m	**Attributable to equity holders of the parent £m**	Non-controlling interests £m	**Total £m**
At 1 April 2013	9.3	108.0	97.6	1.9	(20.3)	0.3	(5.9)	210.6	**401.5**	3.8	**405.3**
Profit for the year	–	–	–	–	–	–	–	48.3	**48.3**	0.2	**48.5**
Other comprehensive income	–	–	–	–	–	–	1.6	0.6	**2.2**	–	**2.2**
Total comprehensive income	–	–	–	–	–	–	1.6	48.9	**50.5**	0.2	**50.7**
Shares issued	0.1	10.9	3.6	–	–	–	–	–	**14.6**	–	**14.6**
Dividends paid	–	–	–	–	–	–	–	(38.1)	**(38.1)**	(0.1)	**(38.2)**
Purchase of own shares	–	–	–	–	(19.8)	–	–	–	**(19.8)**	–	**(19.8)**
Share-based payments	–	–	–	0.7	2.9	–	–	1.1	**4.7**	–	**4.7**
Tax on share-based payment transactions	–	–	–	–	–	–	–	1.0	**1.0**	–	**1.0**
Share buybacks	(0.1)	–	–	–	–	0.1	–	(7.4)	**(7.4)**	–	**(7.4)**
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	–	(6.1)	**(6.1)**	(0.9)	**(7.0)**
At 31 March 2014	9.3	118.9	101.2	2.6	(37.2)	0.4	(4.3)	210.0	**400.9**	3.0	**403.9**
Profit for the year							-	35.0	**35.0**	0.7	**35.7**
Other comprehensive expense	–	–	–	–	–	–	(2.1)	(11.8)	**(13.9)**	–	**(13.9)**
Total comprehensive income	–	–	–	–	–	–	(2.1)	23.2	**21.1**	0.7	**21.8**
Shares issued	0.1	3.7	–	–	–	–	–	–	**3.8**	–	**3.8**
Dividends paid	–	–	–	–	–	–	–	(40.5)	**(40.5)**	(0.1)	**(40.6)**
Purchase of own shares	–	–	–	–	(10.7)	–	–	–	**(10.7)**	–	**(10.7)**
Share-based payments	–	–	–	4.6	0.4	–	–	1.4	**6.4**	–	**6.4**
Tax on share-based payment transactions	–	–	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Transfer between reserves	–	–	(21.1)	–	–	–	–	21.1	**–**	–	**–**
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	–	(5.9)	**(5.9)**	(0.3)	**(6.2)**
At 31 March 2015	9.4	122.6	80.1	7.2	(47.5)	0.4	(6.4)	209.2	**375.0**	3.3	**378.3**

Consolidated statement of cash flows

For the year ended 31 March 2015

	Notes	2015 £m	2014 £m
Operating profit		**56.0**	82.6
Adjustments for:			
Share-based payment expense		**6.5**	5.0
Defined benefit pension charge/(credit)		**4.0**	(6.1)
Defined benefit pension contributions		**(3.1)**	(3.6)
Acquisition costs	3	**0.3**	0.7
Depreciation of property, plant and equipment		**19.7**	16.1
Amortisation of intangible assets		**13.8**	17.0
Other non-cash movement in Other items		**19.0**	–
Share of profit of joint ventures and associates		**(0.7)**	(0.5)
Loss/(gain) on disposal of property, plant and equipment		**0.3**	(0.7)
Operating cash flows before movements in working capital		**115.8**	110.5
Increase in inventories		**(3.8)**	(0.8)
Decrease/(increase) in receivables		**53.4**	(2.4)
(Decrease)/increase in payables		**(50.9)**	16.8
Decrease in provisions		**(1.3)**	–
Cash generated by operations	15	**113.2**	124.1
Income taxes paid		**(15.5)**	(18.2)
Interest paid		**(13.1)**	(14.3)
Facility extension fees		**(2.0)**	–
Acquisition costs	3	**(0.3)**	(0.7)
Net cash from operating activities		**82.3**	90.9
Investing activities			
Interest received		**–**	1.2
Purchase of property, plant and equipment		**(23.0)**	(20.6)
Purchase of subsidiary undertakings, net of cash acquired	14	**(0.5)**	(10.7)
Dividends received from joint ventures and associates		**0.5**	–
Investment in financing assets		**(0.3)**	0.8
Purchase of other intangible assets		**(3.9)**	(6.2)
Disposals of property, plant and equipment		**1.8**	6.0
Net cash outflow from investing activities		**(25.4)**	(29.5)
Financing activities			
Repayments of obligations under finance leases		**(2.0)**	(3.6)
Proceeds on issue of share capital		**3.8**	8.9
Bank loans repaid		**0.6**	(2.8)
Purchase of own shares		**(10.7)**	(19.8)
Share buybacks		**–**	(7.4)
Equity dividends paid	6	**(40.5)**	(38.1)
Non-controlling interests dividends paid		**(0.1)**	(0.1)
Net cash outflow from financing		**(48.9)**	(62.9)
Net increase/(decrease) in cash and cash equivalents		**8.0**	(1.5)
Net cash and cash equivalents at beginning of the year		**89.1**	90.8
Effect of foreign exchange rate changes		**(0.7)**	(0.2)
Net cash and cash equivalents at end of the year		**96.4**	89.1
Net cash and cash equivalents comprise:			
Cash at bank		**96.4**	89.1
		96.4	89.1

Reconciliation of net cash flow to movements in net debt	Notes	2015 £m	2014 £m
Net increase/(decrease) in cash and cash equivalents		**8.0**	(1.5)
Effect of foreign exchange rate changes		**(0.7)**	(0.2)
Decrease in bank loans		**1.4**	3.5
Non-cash movement in private placement notes and associated hedges		**(1.3)**	2.2
Decrease in finance leases		**1.4**	1.6
Decrease in net debt during the year		**8.8**	5.6
Opening net debt		**(186.6)**	(192.2)
Closing net debt	13	**(177.8)**	(186.6)

Notes to the consolidated financial statements

For the year ended 31 March 2015

1 Basis of preparation and significant accounting policies

The preliminary announcement is based on the group's financial statements for the year ended 31 March 2015 which are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union.

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the group's annual financial statements for the year ended 31 March 2014 except for the adoption of IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosures of Interests in Other Entities', IAS 27 (Revised) 'Separate Financial Statements' and IAS 28 (Revised) 'Investments in Associates and Joint Ventures'. These standards clarify aspects of the basis for consolidation. The adoption of these standards has had no impact on the results or financial position of the group.

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Annual Report and Accounts.

The financial information set out in the preliminary announcement does not constitute the company's statutory accounts for the years ended 31 March 2015 or 2014, but is derived from those accounts. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered following the company's Annual General Meeting. The auditor has reported on those accounts; the reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying the reports and did not contain statements under Section 498(2) or (3) Companies Act 2006.

2 Business and geographical segments

The group manages its business on a service division basis. These divisions are the basis on which the group reports its primary segmental information.

Business segments – structure during the year

					2015					2014
	Revenue £m	**Headline revenue[1] £m**	**Headline operating profit[1] £m**	**Headline operating profit margin[1] %**	**Profit before tax £m**	Revenue £m	Headline revenue[1] £m	Headline operating profit[1] £m	Headline operating profit margin[1] %	Profit before tax £m
Soft FM	**1,280.3**	**1,280.3**	**81.9**	**6.4**	**79.6**	1,190.8	1,190.8	74.8	6.3	72.2
Hard FM	**609.7**	**609.7**	**30.0**	**4.9**	**24.2**	579.4	579.4	30.0	5.2	22.6
Property Management	**273.4**	**273.4**	**10.4**	**3.8**	**9.9**	264.8	264.8	14.4	5.4	15.1
Healthcare	**91.4**	**91.4**	**4.9**	**5.4**	**0.4**	91.7	91.7	12.7	13.8	8.4
Energy Solutions	**11.4**	**11.4**	**1.4**	**12.3**	**-**	15.9	15.9	(4.4)	(27.7)	(5.0)
Other Items (Note 3)	**7.6**	**–**	**–**	**–**	**(72.6)**	78.5	–	–	–	(44.9)
Total	**2,273.8**	**2,266.2**	**128.6**	**5.7**	**41.5**	2,221.1	2,142.6	127.5	6.0	68.4

With effect from 1 April 2015 Energy Solutions is being reported as part of Hard FM. Soft FM, Healthcare and Property Management remain unchanged. A proforma analysis of the financial results of the business for the year ended 31 March 2015 is set out below.

Business segments – structure from 1 April 2015

					2015					2014
	Revenue £m	**Headline revenue[1] £m**	**Headline operating profit[1] £m**	**Headline operating profit margin[1] %**	**Profit before tax £m**	Revenue £m	Headline revenue[1] £m	Headline operating profit[1] £m	Headline operating profit margin[1] %	Profit before tax £m
Soft FM	**1,280.3**	**1,280.3**	**81.9**	**6.4**	**79.6**	1,190.8	1,190.8	74.8	6.3	72.2
Hard FM	**621.1**	**621.1**	**31.4**	**5.1**	**24.2**	595.3	595.3	25.6	4.3	17.6
Property Management	**273.4**	**273.4**	**10.4**	**3.8**	**9.9**	264.8	264.8	14.4	5.4	15.1
Healthcare	**91.4**	**91.4**	**4.9**	**5.4**	**0.4**	91.7	91.7	12.7	13.8	8.4
Other Items (Note 3)	**7.6**	**–**	**–**	**–**	**(72.6)**	78.5	–	–	–	(44.9)
Total	**2,273.8**	**2,266.2**	**128.6**	**5.7**	**41.5**	2,221.1	2,142.6	127.5	6.0	68.4

The revenue analysis above is net of inter-segment sales which are not considered significant.

No single customer accounted for more than 10% of external revenue in 2015 or 2014.

The Improvement to IFRS 8 issued in April 2009 clarified that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker and consequently no segment assets are disclosed.

Geographical segments

					2015					2014
	Revenue £m	**Headline[1] revenue £m**	**Headline[1] operating profit £m**	**Headline[1] operating profit margin %**	**Profit before tax £m**	Revenue £m	Headline[1] revenue £m	Headline[1] operating profit £m	Headline[1] operating profit margin %	Profit before tax £m
United Kingdom	**2,190.7**	**2,183.1**	**126.8**	**5.8**	**40.0**	2,149.5	2,071.0	125.7	6.1	66.9
Other countries	**83.1**	**83.1**	**1.8**	**2.2**	**1.5**	71.6	71.6	1.8	2.5	1.5
Total	**2,273.8**	**2,266.2**	**128.6**	**5.7**	**41.5**	2,221.1	2,142.6	127.5	6.0	68.4

Notes:

1 Headline revenue and operating profit exclude other items which are analysed in Note 3.

3 Other items

The group's chosen supplementary measure of performance is operating profit before other items. The group separately identifies and discloses restructuring and acquisition related items (termed 'other items').

The results of the mechanical and electrical engineering construction businesses which are being exited are also presented in Other items. During the year those businesses generated revenue of £7.6m (2014: £78.5m) and incurred a trading loss of £15.9m (2014: £13.6m). The businesses being exited do not meet the definition of discontinued operations as stipulated by IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' because the businesses have not been disposed of and there are no assets classified as held for sale. Accordingly the disclosures within non-headline items differ from those applicable for discontinued operations.

Within our Asset Management business, which became part of our Energy Solutions division, there are a small number of contracts where the forecast operational and financial performance has deteriorated and where returns were highly uncertain. As a result of significant deterioration in the forecast performance of three key remaining contracts, together with the decision taken by mutual agreement with a customer to exit one contract which crystallised a loss, exceptional charges of £45.7m (2014: £25.4m) have been included in other items. £27.2m of the £45.7m charge relates to the most material of these projects, O-Gen Plymtrek Limited:

The group has a 30% non-controlling equity interest in a special purpose company, O-Gen Plymtrek Limited ('O-Gen'), to which Mitie had extended subordinated debt. The balance of the subordinated debt included within Financing assets was £nil at 31 March 2015 (2014: £13.4m before provisions). As a result of a number of factors, and in particular the combination of not having a majority of directors on the Board and having no veto rights over substantive matters, the group's interest in O-Gen is accounted for as an associate and is held at nil value (2014: nil). The Energy Solutions division had a contract to construct and operate a renewable energy plant for O-Gen which had been subject to delays and considerable cost overruns. In the year ended 31 March 2014, these delays and overruns gave rise to exceptional charges of £17.1m which were included within the exceptional charges in Energy Solutions of £25.4m. These charges included impairment losses of £8.7m in respect of the subordinated debt and £3.0m in respect of trade and other receivables. At 31 March 2014, the group's trade and other receivables included a balance of £6.1m before provisions in respect of the plant design and build contract. In our 2014 Annual Report and Accounts, the group disclosed a contingent liability with a maximum value of £20.6m in relation to guarantees provided in respect of O-Gen. At 30 September 2014, the group reassessed its exposure to O-Gen and, due to the deterioration in financial returns, accrued its potential liability under its guarantee arrangements of £19.4m together with other charges of £9.6m relating to the residual financial exposure to the project. In December 2014, after notification of further delays to the construction programme, the group decided to stop construction of the energy plant. As a consequence, the main funder of the project exercised its rights under one of the project's financing agreements and on 27 March 2015 Mitie paid £15.9m in cash to settle its residual liability to the funder. O-Gen sold its interest in the energy plant in March 2015. A total of £27.2m (2014: £17.1m) of exceptional charges have been recognised in respect of the project during the year and are included within Other items. These charges include impairment losses of £4.7m (2014: £8.7m) and £3.1m (2014 £3.0m) in respect of the group's subordinated debt and trade and other receivables respectively. At 31 March 2015, all financial assets in relation to O-Gen were fully impaired (2014: £13.4m and £6.1m gross carrying values in respect of the subordinated debt and trade and other receivables respectively) and Mitie has no remaining obligations or liabilities in connection with the project.

Acquisition costs in the year to 31 March 2015 relate to the acquisition of Procius Limited and Source Eight Limited.

Other items impacted administrative expenses with the exception of £9.8m of trading losses (2014: £2.0m profit) which impacted gross profit.

			2015			2014
	Restructuring and acquisition related costs £m	**Businesses being exited £m**	**Other items £m**	Restructuring and acquisition related costs £m	Businesses being exited £m	Other items £m
Revenue	**–**	**7.6**	**7.6**	–	78.5	78.5
Cost of Sales	**–**	**(17.4)**	**(17.4)**	–	(76.5)	(76.5)
Administrative expenses:						
Overheads	**–**	**(6.1)**	**(6.1)**	–	(15.6)	(15.6)
Exceptional charges in relation to design and build Asset Management contracts in Energy Solutions	**(45.7)**	**–**	**(45.7)**	(25.4)	–	(25.4)
Restructuring costs relating to the integration of Complete Group (2014: Enara and Complete Group)	**(0.6)**	**–**	**(0.6)**	(4.4)	–	(4.4)
Acquisition costs	**(0.3)**	**–**	**(0.3)**	(0.7)	–	(0.7)
Amortisation of acquisition related intangibles	**(10.1)**	**–**	**(10.1)**	(11.0)	–	(11.0)
Restructuring of Mitie Group defined benefit pension scheme	**–**	**–**	**–**	10.2	–	10.2
Other items before tax	**(56.7)**	**(15.9)**	**(72.6)**	(31.3)	(13.6)	(44.9)
Tax on other items	**15.0**	**3.3**	**18.3**	3.7	2.0	5.7
Other items net of tax	**(41.7)**	**(12.6)**	**(54.3)**	(27.6)	(11.6)	(39.2)

4 Investment revenue and finance costs

Investment revenue

	2015 £m	2014 £m
Interest on bank deposits	**0.3**	0.2
Other interest receivable	**–**	1.0
	0.3	1.2

Finance costs

	2015 £m	2014 £m
Interest on bank facilities	**1.4**	2.1
Interest on private placement loan notes	**9.6**	9.5
Bank fees	**2.8**	2.3
Interest on obligations under finance leases	**0.2**	0.3
(Gain)/loss arising on derivatives in a designated fair value hedge	**(3.7)**	3.8
Loss/(gain) arising on adjustment for the hedged item in a designated fair value hedge	**3.8**	(4.0)
Net interest on defined benefit pension scheme assets and liabilities	**0.7**	1.4
	14.8	15.4

5 Tax

	2015 £m	2014 £m
Current tax	**9.7**	19.1
Deferred tax	**(3.9)**	0.8
	5.8	19.9

Corporation tax is calculated at 21.0% (2014: 23.0%) 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:

	2015			2014		
	Headline £m	**Other items £m**	**Total £m**	Headline £m	Other items £m	Total £m
Profit before tax	**114.1**	**(72.6)**	**41.5**	113.3	(44.9)	68.4
Tax at UK rate of 21.0% (2014: 23%)	**23.9**	**(15.2)**	**8.7**	26.0	(10.3)	15.7
Reconciling tax charges for:						
Non-tax deductible charges	**0.7**	**0.1**	**0.8**	0.6	0.2	0.8
Energy Solutions contract exit costs	**–**	**(3.2)**	**(3.2)**	–	3.3	3.3
Overseas tax rates	**0.1**	**–**	**0.1**	0.2	–	0.2
Impact of change in statutory tax rates	**–**	**–**	**–**	(1.0)	–	(1.0)
Prior year adjustments	**(0.6)**	**–**	**(0.6)**	(0.2)	1.1	0.9
Tax charge for the year	**24.1**	**(18.3)**	**5.8**	25.6	(5.7)	19.9
Effective tax rate for the year	**21.1%**	**25.2%**	**14.0%**	22.6%	12.7%	29.1%

In addition to the amounts charged to the consolidated income statement, a tax credit relating to retirement benefit costs and hedged items amounting to £3.2m (2014: £1.8m charge) has been taken directly to the statement of comprehensive income and £0.1m relating to share-based payments has been charged (2014: £1.0m credited) directly to equity.

The effective tax rate on Headline profits is generally higher than the statutory tax rate due to entertaining costs, commercial property depreciation and share-based payment charges not being wholly tax deductible and tax losses incurred overseas. In the prior year this was offset by the restatement of deferred tax items for the legislated change in the UK corporate tax rate from 23% to 20%.

The effective tax rate on Other items generally differs from the statutory rate due to tax relief not being obtained for certain acquisition costs. In the prior year tax relief was not fully recognised on provisions relating to the exit from Energy Solutions design and build contracts, as the form of the exit from certain joint venture arrangements was not agreed. Exit from these contracts was completed in the current year and tax relief is now recognised on the basis of the actual costs incurred.
Accordingly, the higher effective tax relief rate in the current year reflects a reversal of the lower effective rate in the prior year. The prior year charge in 2014 was due to the lapse of historic tax losses in businesses being exited and is not repeated in the current year.

6 Dividends

	2015 £m	2014 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2014 of 6.1p (2013: 5.7p) per share	**21.9**	20.5
Interim dividend for the year ended 31 March 2015 of 5.2p (2014: 4.9p) per share	**18.6**	17.6
	40.5	38.1
Proposed final dividend for the year ended 31 March 2015 of 6.5p (2014: 6.1p) per share	**22.9**	21.9

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

7 Earnings per share

Basic and diluted earnings per share have been calculated in accordance with IAS 33 'Earnings Per Share'.

The calculation of the basic and diluted EPS is based on the following data:

	2015 £m	2014 £m
Net headline profit attributable to equity holders of the parent	**89.3**	87.5
Other items net of tax	**(54.3)**	(39.2)
Net profit attributable to equity holders of the parent	**35.0**	48.3

Number of shares	2015 million	2014 million
Weighted average number of Ordinary shares for the purpose of basic EPS	**359.3**	359.9
Effect of dilutive potential Ordinary shares: share options	**10.4**	11.1
Weighted average number of Ordinary shares for the purpose of diluted EPS	**369.7**	371.0

	2015 p	2014 p
Headline basic earnings per share[1]	**24.8**	24.3
Basic earnings per share	**9.7**	13.4
Headline diluted earnings per share[1]	**24.2**	23.6
Diluted earnings per share	**9.5**	13.0

Notes:

1 Headline revenue and operating profit exclude other items which are analysed in Note 3.

The weighted average number of Ordinary shares in issue during the year excludes those accounted for in the Own shares reserve.

8 Goodwill

Cost	£m
At 1 April 2013	447.2
Acquisition of subsidiaries	12.7
Impact of foreign exchange	(0.3)
At 1 April 2014	459.6
Acquisition of subsidiaries	5.7
Impact of foreign exchange	(0.9)
At 31 March 2015	**464.4**
Accumulated impairment losses	
At 1 April 2013	–
At 1 April 2014	–
At 31 March 2015	–
Carrying amount	
At 31 March 2015	**464.4**
At 31 March 2014	459.6

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. Additions during the year relate to goodwill recognised on two acquisitions and finalisation of the acquisition accounting for acquisitions made in the prior year. More details are presented in the Acquisitions note (Note 14).

Goodwill has been allocated to CGUs, which align with the business segments, as this is how goodwill is monitored by the group internally. Goodwill has arisen principally on the acquisitions of Initial Security in 2006, Dalkia Technical Facilities Management in 2009 and Enara in 2012.

	Discount rate 2015 %	Discount rate 2014 %	**Goodwill 2015 £m**	Goodwill 2014 £m
Soft FM	**8.7**	9.8	**171.3**	168.1
Hard FM	**8.7**	9.8	**83.8**	83.8
Property Management	**10.0**	11.0	**85.2**	85.2
Healthcare	**10.0**	11.0	**106.6**	105.0
Energy Solutions	**10.0**	12.0	**17.5**	17.5
			464.4	459.6

The group tests goodwill at least annually for impairment or more frequently if there are indicators that goodwill may be impaired.

Key assumptions

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

Management recognise that there has been a deterioration in the profitability of the Healthcare business in the last financial year. The decline has been driven by a combination of market pricing pressures due to local authority spending cuts and difficulties in recruiting and retaining healthcare workers in a significantly improving jobs market. We have undertaken a complete review of the business resulting in changes to the operating model and a reinvigorated business plan which supports our long term view of the growth rates for this business.

Growth rates and terminal values

The group prepares cash flow forecasts derived from the most recent one year financial budgets approved by the Board, extrapolated for four future years by the expected growth applicable to each unit with a terminal value using an inflationary growth rate assumption in the range 2.0% - 2.5% dependent on the CGU.

Discount rates

The pre-tax rates used to discount the forecast cash flows from CGUs are derived from the Company's post-tax Weighted Average Cost of Capital, which was 7.4% (2014: 8.2%) at 31 March 2015, and adjusted for the risks specific to the market in which the CGU operates. All CGUs have the same access to the group's Treasury functions and borrowing lines to fund their operations.

Sensitivity analysis

A sensitivity analysis has been performed and the Directors have concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of any of the Soft Facilities Management, Hard Facilities Management, Property Management and Energy Solutions CGUs. In particular, a 1% increase in the discount rate or a 1% decrease in the terminal value growth rate would not result in impairment in any of these CGUs.

Further sensitivity testing was performed for the group's Healthcare CGU as it has seen deterioration in profitability in the last financial year following two years of good performance. The Directors believe that the assumptions within the business plan for the Healthcare business are reasonable and there is headroom between the carrying value of goodwill for that CGU and the net present value of the future cash flows that are expected to be generated by the business. There continues to be significant focus on and investment in the healthcare business and the Directors continue to see long term growth opportunities in the domiciliary care market. The Directors recognise that it is possible that an impairment to the healthcare goodwill could be identified if the performance of the business does not improve as expected over the longer term in line with the business plan. Factors that could cause deterioration in the future cash flows of the business compared to the plan and cause an impairment in goodwill include;

- the inability to recruit and retain staff at appropriate wage rates;
- the inability to win new and retain contracts to provide care hours at sustainable prices; and
- an adverse structural change to outsourcing of care in the UK caused by changes in UK Government policy.

We have considered the impact of a range of sensitivities on the headroom between the recoverable amount and the carrying value of the goodwill attributable to the Healthcare CGU. The carrying value of goodwill (and other intangible assets) becomes equal to its recoverable amount following the application of the following sensitivities:

- an increase in the pre-tax discount rate of 3%; or
- a fall in the terminal value growth rate to a negative long-term inflationary assumption of 1%; or
- a 34% reduction in operating profit by year 5 compared to the plan.

9 Financing assets

	2015 £m	2014 £m
Derivative financial instruments	**6.8**	–
Loans to joint ventures and associates	**1.2**	14.8
Infrastructure assets	**–**	5.6
	8.0	20.4
Included in current assets	**–**	–
Included in non-current assets	**8.0**	20.4
	8.0	20.4

10 Trade and other receivables

	2015 £m	2014 £m
Amounts receivable for the sale of services	**202.3**	259.0
Allowance for doubtful debt	**(8.4)**	(6.2)
Trade receivables	**193.9**	252.8
Amounts recoverable on construction contracts	**8.1**	13.0
Mobilisation costs (Note 11)	**30.6**	30.3
Accrued income	**192.6**	183.4
Prepayments	**38.2**	28.9
Other debtors	**16.5**	24.4
	479.9	532.8
Included in current assets	**421.4**	491.6
Included in non-current assets	**58.5**	41.2
	479.9	532.8

Ageing of trade receivables:

	2015 £m	2014 £m
Neither impaired nor past due	**149.7**	198.6
Not impaired and less than three months overdue	**34.6**	36.5
Not impaired and more than three months overdue	**13.5**	21.3
Impaired receivables	**4.5**	2.6
Allowance for doubtful debt	**(8.4)**	(6.2)
	193.9	252.8

Movement in the allowance for doubtful debt:

	2015 £m	2014 £m
Balance at the beginning of the year	**6.2**	6.0
Impairment losses recognised	**5.6**	2.5
Amounts written off as uncollectable	**(2.4)**	(1.1)
Amounts recovered during the year	**(1.0)**	(1.2)
	8.4	6.2

The average credit period taken on sales of services was 26 days (2014: 37 days).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

11 Mobilisation costs

Mobilisation costs	2015 £m	2014 £m
At 1 April	**30.3**	23.2
Additions	**19.6**	15.7
Amounts recognised in the income statement	**(19.3)**	(8.6)
At 31 March	**30.6**	30.3
Included in current assets	**12.4**	13.7
Included in non-current assets	**18.2**	16.6
	30.6	30.3

All bid costs are expensed through the income statement up to the point where contract award or full recovery of the costs is virtually certain. The confirmation of the preferred bidder for a contract by a client is the point at which the award of a contract is considered to be virtually certain.

For repeat service-based contracts (single and bundled contracts), costs incurred after confirmation of preferred bidder, but before the commencement of services under the contract, are defined as mobilisation costs. These costs are capitalised and included within trade and other receivables on the balance sheet provided that the costs relate directly to the contract, are separately identifiable, can be measured reliably and that the future net cash inflows from the contract are estimated to be no less than the amounts capitalised. The capitalised mobilisation costs are amortised over the life of the contract, generally on a straight-line basis, or on a basis to reflect the profile of work to be performed over the life of the contract if the straight-line basis is not considered to be appropriate for the specific contract to which the costs relate. If the contract becomes loss making, any unamortised costs are written off immediately.

12 Provisions

	Deferred contingent consideration £m	Insurance reserve £m	**Total £m**
At 1 April 2014	7.8	2.2	**10.0**
Amounts recognised in the income statement	–	0.1	**0.1**
Amounts recognised through goodwill	1.1	–	**1.1**
Utilised within the captive insurance subsidiary	–	(1.4)	**(1.4)**
Amounts recognised through equity	2.5	–	**2.5**
At 31 March 2015	11.4	0.9	**12.3**

Included in current liabilities	**4.9**
Included in non-current liabilities	**7.4**
	12.3

The provision for insurance claims represents amounts payable by Mitie Reinsurance Company Limited in respect of outstanding claims incurred at the balance sheet dates. These amounts will become payable as each year's claims are settled.

The deferred contingent consideration recognised through goodwill of £1.1m relates to the acquisitions of Procius Limited and Source Eight Limited (see Note 14).

Amounts recognised through equity of £2.5m arises from transactions with non-controlling interests and comprises £3.8m in respect of the purchase of the remaining 49% in Direct Enquiries Holdings Limited net of a £1.3m release in respect of Mitie Security Holdings Limited (see Note 14).

13 Analysis of net debt

	2015 £m	2014 £m
Cash and cash equivalents	**96.4**	89.1
Bank loans	**(13.9)**	(15.3)
Private placement notes	**(263.6)**	(245.2)
Derivative financial instruments hedging private placement notes	**6.8**	(10.3)
Net debt before obligations under finance leases	**(174.3)**	(181.7)
Obligations under finance leases	**(3.5)**	(4.9)
Net debt	**(177.8)**	(186.6)

14 Acquisitions

During the year a net cash outflow of £0.5m arose on the acquisitions set out below:

	£m
Procius Limited	**2.0**
Source Eight Limited	**2.2**
Direct Enquiries Holdings Limited	**1.8**
Mitie Security Holdings Limited	**(5.5)**
Net cash outflow on acquisitions	**0.5**

Current year acquisitions
Entities acquired during the year contributed £3.7m to revenue and £0.6m to the group's headline operating profit for the period. If the acquisitions had taken place at the start of the period, the group's headline revenue and operating profit would have been approximately £2,272m and £130m respectively.

The acquisitions enhanced our overall offering to clients. The goodwill arising on the acquisitions is attributable to the underlying profitability of the companies in the acquired group, expected profitability arising from new business and the anticipated future operating synergies arising from assimilation into Mitie. None of the goodwill recognised is expected to be deductible for income tax purposes.

Purchase of Procius Limited
On 16 October 2014, Mitie acquired the leading UK pre-employment screening company Procius Limited ('Procius') from the management team for a total consideration of £3.1m (£2.3m on a cash free basis). The transaction has been accounted for by the acquisition method of accounting in accordance with IFRS 3 (2008). The provisional information on the acquisition is provided below.

Purchase of Source Eight Limited
On 26 November 2014, Mitie acquired a 51% stake in the real estate, technology and risk management consultancy Source Eight Limited ('Source8') for initial consideration of £2.5m paid in cash on completion and up to £0.8m of deferred contingent consideration. Further cash consideration may be payable in respect of put options over the remaining 49% bringing total consideration for a 100% stake up to a maximum of £15.8m (£15.5m on a cash free basis). The transaction has been accounted for by the acquisition method of accounting in accordance with IFRS 3 (2008). The provisional information on the acquisition is provided below.

Fair value	Procius £m	Source8 £m	Total £m
Net assets acquired			
Intangible assets	1.0	0.9	1.9
Trade and other receivables	0.3	2.8	3.1
Cash and cash equivalents	0.8	0.3	1.1
Trade and other payables	(0.6)	(2.2)	(2.8)
Corporation tax	–	(0.2)	(0.2)
Deferred tax liability	(0.1)	(0.1)	(0.2)
Net assets acquired	**1.4**	**1.5**	**2.9**
Non-controlling interests	–	(0.7)	(0.7)
Goodwill	1.7	2.5	4.2
Total consideration	**3.1**	**3.3**	**6.4**
Satisfied by			
Cash	2.8	2.5	5.3
Deferred contingent consideration	0.3	0.8	1.1
Total consideration	**3.1**	**3.3**	**6.4**

The non-controlling shareholders of Source8 have options to put their shareholding to Mitie Group plc. Accordingly, a financial liability of £8.0m has been recognised and a corresponding entry has been recorded against retained earnings. The options are exercisable in tranches between 2017 and 2019.

Purchase of non-controlling interests
During the year Mitie purchased 49% of the share capital of Direct Enquiries Holdings Limited for a cash consideration of £5.6m of which £1.8m was paid in the current year and £3.8m was paid in April 2015.

In February 2015, Mitie reduced its original business valuation of the acquisition of Mitie Security Holdings Limited in March 2013, which resulted in a net cash inflow of £5.5m.

Prior year acquisitions
The provisional acquisition accounting for prior year acquisitions as disclosed in the 2014 Annual Report and Accounts was reviewed during the period resulting in a reduction of the fair value of net assets acquired of £1.5m and an increase of goodwill of £1.5m. These adjustments comprise an adjustment to estimates made at the end of the prior year and within a year from the date of acquisition in line with the requirements of IFRS 3 'Business Combinations'. The adjustments have not materially changed the net assets of the group and therefore the 2014 comparative information has not been restated. The final information on prior year acquisitions is shown below.

Purchase of Complete Care Holdings Limited
On 15 January 2014, Mitie acquired the high acuity care provider Complete Care Holdings Limited ('Complete Group') for a total consideration of £9.0m. The transaction has been accounted for by the acquisition method of accounting in accordance with IFRS 3 (2008). The provisional acquisition accounting in the 2014 Annual Report and Accounts was reviewed during the period resulting in a reduction of the fair value of net assets acquired of £1.5m and an increase in goodwill of £1.5m to £8.0m. The final information on the acquisition is provided below:

	Fair value £m
Net assets acquired	
Intangible assets	2.1
Trade and other receivables	2.8
Cash and cash equivalents	0.2
Trade and other payables	(4.1)
Net assets acquired	1.0
Goodwill	8.0
Total consideration	9.0
Satisfied by	
Cash	9.0
Total consideration	9.0

15 Notes to the consolidated statement of cash flows

			2015			2014
	Headline £m	**Other items £m**	**Total £m**	Headline £m	Other items £m	Total £m
Operating profit/(loss)	**128.6**	**(72.6)**	**56.0**	127.5	(44.9)	82.6
Adjustments for:						
Share-based payment expense	**6.5**	**–**	**6.5**	5.0	–	5.0
Defined benefit pension charge/credit	**4.0**	**–**	**4.0**	4.4	(10.5)	(6.1)
Defined benefit pension contributions	**(3.1)**	**–**	**(3.1)**	(3.6)	–	(3.6)
Acquisition related items	**–**	**0.3**	**0.3**	–	0.7	0.7
Depreciation of property, plant and equipment	**19.7**	**–**	**19.7**	16.1	–	16.1
Amortisation of intangible assets	**3.7**	**10.1**	**13.8**	5.2	11.8	17.0
Other non-cash movements in Other items	**–**	**19.0**	**19.0**	–	–	
Share of profit of joint ventures and associates	**(0.7)**	**–**	**(0.7)**	(0.5)	–	(0.5)
Loss/(gain) on disposal of property, plant and equipment	**0.3**	**–**	**0.3**	(0.7)	–	(0.7)
Operating cash flows before movements in working capital	**159.0**	**(43.2)**	**115.8**	153.4	(42.9)	110.5
Increase in inventories	**(3.8)**	**–**	**(3.8)**	(0.8)	–	(0.8)
Decrease/(increase) in receivables	**36.6**	**16.8**	**53.4**	(2.4)	–	(2.4)
(Decrease)/increase in payables	**(45.9)**	**(5.0)**	**(50.9)**	2.2	14.6	16.8
Decrease in provisions	**(1.3)**	**–**	**(1.3)**	–	–	–
Cash generated by operations	**144.6**	**(31.4)**	**113.2**	152.4	(28.3)	124.1
Cash conversion						
Operating profit	**128.6**		**56.0**	127.5		82.6
Depreciation	**19.7**		**19.7**	16.1		16.1
Amortisation	**3.7**		**13.8**	5.2		17.0
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**152.0**		**89.5**	148.8		115.7
Cash conversion[1]	**95.1%**		**126.5%**	102.4%		107.3%
Free cash flow						
Cash generated by operations			**113.2**			124.1
Purchase of property, plant and equipment			**(23.0)**			(20.6)
Purchase of other intangible assets			**(3.9)**			(6.2)
Disposals of property, plant and equipment			**1.8**			6.0
Income taxes paid			**(15.5)**			(18.2)
Interest paid (including facility extension fees)			**(15.1)**			(13.1)
Free cash flow			**57.5**			72.0

1 Cash conversion is calculated as cash generated by operations as a percentage of EBITDA