Beyond FM... to the **Connected Workspace**

Mitie Group plc
Annual Report and Accounts 2017

Our sustainability and business goals are intertwined, and this year you will find sustainability content discussed throughout this report.

You can find further information on the sustainability section of our website.

www.mitie.com/sustainability

Key financials - continuing operations

£2.14bn
Adjusted revenue[1]
(2016: £2.13bn)

£82.0m
Adjusted operating profit[1]
(2016: £95.2m)

£147.2m
Net debt
(2016: £178.3m)

4.0p
Dividends per share
(2016: 12.1p)

£6.5bn
Order book[2]
(2016: £6.6bn)

£8.7bn
Sales pipeline[3]
(2016: £7.9bn)

£2.13bn
Reported revenue
(2016: £2.15bn)

£(42.9)m
Reported operating loss
(2016: profit £107.6m)

- Revenues maintained in a challenging environment
- New Connected Workspace strategy launched
- New cost saving initiatives commenced
- New management team and organisational structure in place
- Disposal of domiciliary healthcare business
- Accounting Review completed
- Lender definition amendment agreed and covenants in compliance

1. For this year Alternative Performance Measures have been provided to adjust for one-off items in both FY17 and FY16 to reflect more meaningful analysis of our underlying operating performance before other items. For details see pages 26 and 27 and the Appendix on page 174.
2. Order book is the value of secured contracts at 31 March 2017.
3. Sales pipeline is the total contract value of opportunities at 31 March 2017.

For further information

Visit our corporate website
mitie.com/investors

Visit our facebook page
facebook.com/mitiepeople

Follow us on twitter
@wearemitie

Watch our latest content
youtube.com/user/mitiegroupplc

Mitie is the UK's leading provider of outsourced Facilities Management services.

We are in the business of saving our customers money.

We have embarked on a journey to go **Beyond FM...to the Connected Workspace** – a place where people interact seamlessly with colleagues, clients, spaces and technology, to give their very best and at the lowest cost by joining up all of the information and intelligence we have on what goes on at work.

Mitie is changing from a company that simply manages facilities, to a strategic partner that enables new ways of working and better collaboration, engagement and innovation in today's evolving workspace.

We provide a range of services...

Cleaning & Environmental Services	£395m	Security	£404m
Catering	£134m	Engineering Services	£797m
Professional Services & Connected Workspace	£91m	Public Services	£304m

...to a blue chip customer base.

A year of change

Overview

This year has been one of substantial challenges for Mitie, with financial performance falling short of our expectations.

The Board has dealt with these challenges at pace and taken the appropriate action. Mitie remains a resilient business with revenue broadly unchanged despite the challenges and wider economic uncertainties. The Board has implemented its succession plans, with new and effective leadership in place to guide Mitie through its next phase of growth and development.

The Board has taken decisive action in four principal areas.

We have implemented the succession plans, agreed by the Board in late 2015, for the key roles of Chief Executive, Chief Financial Officer and Chairman. We are pleased to have appointed Phil Bentley as CEO in December 2016 and Sandip Mahajan as CFO in February 2017. As planned, following the senior management succession, the Chairman's succession will take place with the appointment of Derek Mapp at the AGM on 26 July 2017. There have also been a number of new appointments to the Executive Leadership Team. With refreshed leadership in place, the business is in a strong position to focus on the future.

We have completed a comprehensive, independent and management review of our accounting policies, judgements made under those policies and the balance sheet (the Accounting Review). Based on the results of the review, and the new information available to the Board, the Board has taken the appropriate action and agreed substantial balance sheet write-downs and prior year adjustments. The balance sheet has now been addressed and a number of measures implemented to strengthen the Finance function and financial disciplines within the business.

We decided during the year to focus on our core business and against continuing to fund the ongoing losses and long-term turnaround plan of our healthcare business. The domiciliary healthcare business was exited in February 2017 and has resulted in a substantial impairment of goodwill and loss on disposal.

We have conducted a strategic review and launched a technology and investment-led strategy which will maximise the potential of our facilities management (FM) business and address the longer term opportunity of moving "Beyond FM…to the Connected Workspace".

Mitie remains a market leader in the provision of FM services and has a portfolio of blue-chip clients. Revenues, profits and cash flows have demonstrated their resilience and net debt was lower than expected at the year end. We are making significant investments in our people and our transformation programme will deliver significant cost efficiencies in the future. Leveraging technology and extending our customer proposition into strategic consultancy will support our future growth aspirations and strong UK market position.

The challenges of the past year are now behind us, and the Board can look forward, with a new management team in place and a new strategy launched, to restoring and then increasing shareholder value in the years ahead.

People

This has been a difficult year for the people working in our business and I would personally like to thank them for their dedication to Mitie and their determination to provide quality services to our customers every day. As a business we continue to look to the future, investing in apprenticeships and training, ensuring that Mitie is a good place to work for people of all backgrounds.

Results

During the year, reported revenue reduced slightly to £2.13bn (2016: £2.15bn) and the operating loss for the year was £(42.9)m (2016: profit £107.6m) with basic earnings per share decreasing to (14.7)p (2016: 20.1p). Adjusted operating profit[1] decreased to £82.0m (2016: £95.2m).

Net debt at the year-end was £147.2m (2016: £178.3m). The Group has agreed an amendment to its loan agreements with its debt providers that has allowed it to make more conservative accounting judgements and remain in compliance with its covenants. Net assets of the Group reduced by £271.7m to £89.8m.

During this period, our order book[2] has remained flat at £6.5bn (2016: £6.6bn). Our sales pipeline[3] currently stands at £8.7bn (2016: £7.9bn).

Dividend

The Board has reduced the dividend to reflect the lower earnings of the business, improve the balance sheet and provide investment capability in the future. Accordingly the Board has decided not to recommend a final dividend this year, making the full year dividend 4.0p per share (2016: 12.1p per share). The Board will be reviewing its dividend policy in the future.

Board and corporate governance

As Chairman of the Company, one of my primary responsibilities is to make sure that the business has the appropriate systems and procedures in place to ensure that it does the right thing from the perspective of ethics and values and that it acts in a way that protects the interests of shareholders and wider stakeholders. This year the Board has prioritised succession planning, the performance of the business, risk management, internal audit, the long-term financial stability of the Group, and the Accounting Review.

In addition to the Accounting Review, the Board has found that improvements were required in the approach to risk management and internal audit and has made changes in both those areas. The detailed results of the review are shown on pages 46 to 48.

The Board has also decided that it will conduct a tender process for the appointment of new external auditors in the coming months.

There have been a number of significant changes to the Board during the year.

Ruby McGregor-Smith left the business after nine years as Chief Executive and 15 years on the Board. Suzanne Baxter left after 10 years as Group Finance Director. The Board has implemented a comprehensive induction programme for Phil Bentley and Sandip Mahajan to ensure a smooth transition into their new roles.

Nivedita Krishnamurthy Bhagat joined the Board as a Non-Executive Director on 1 June 2017. Nivedita is CEO, Cloud Infrastructure Services UK, Ireland and Northern

> **“We are investing in a change programme to improve our customer proposition, increase operational efficiency, streamline processes, leverage technology and develop and retain our people.”**

Europe, for Capgemini SA and brings to the Board considerable experience in technology and selling professional services to corporate clients.

It is the intention of the Board to recruit additional Non-Executive Directors to make sure that the composition of the Board is appropriate, with the right balance of skills and experience to meet the future requirements of the business.

I will be stepping down as Chairman and from the Board at the AGM on 26 July 2017 after 10 years on the Board and nine as Chairman. I am pleased that we have been able to appoint Derek Mapp as my successor. Derek will ensure robust corporate governance and provide strong challenge to the management team. He has substantial experience, having sat on the boards of public companies for over 20 years and been in non-executive chairman roles for the past nine years. He is currently non-executive chairman of both Informa plc and Huntsworth plc, following an extensive career in ownership, managerial, operational and commercial roles in service industries.

Outlook

It has been a challenging year but we are confident that our new management team, led by Phil Bentley, is capable of taking the business through its next stage of growth and development.

Mitie is a business with an outstanding client base, great people and a diverse portfolio of long-term FM contracts. We are investing in a change programme to improve our customer proposition, increase operational efficiency, streamline processes, leverage technology and develop and retain our people.

We expect a return to modest growth in underlying profits this year. As the transformation programme is rolled out and the customer proposition enhanced over time, we are confident in our ability to restore and enhance future shareholder value.

Roger Matthews
Chairman

1. Alternative Performance Measures. See pages 26 and 27 and the Appendix on page 174.
2. Order book is the value of secured contracts at 31 March 2017.
3. Sales pipeline is the total contract value of opportunities at 31 March 2017.

Building the foundations for creating shareholder value

Dear Mitie shareholder,

I am delighted to be presenting my first annual review, having been appointed Chief Executive last December. My principal role as CEO is to lead and inspire our 53,000 Mitie colleagues to deliver great service and great ideas to our clients. At Mitie we are in the business of saving our customers money and generating long-term shareholder value. We do this by giving more; more to our clients and more to our people.

I have visited many of our operations and spoken to a huge number of Mitie colleagues. I am full of admiration for the service our colleagues, day in, day out, give to our customers. They are full of ideas on how we can do things even better. I have also met a large number of our valued clients and gained an understanding of what we are doing well and where we need to work harder. In the main I am encouraged by the quality of what we deliver every day, but it is clear that by joining up the best of Mitie, we can do even more.

Strategy

Following a full strategic review of industry trends and our strengths and weaknesses, we have developed a strategy giving us a clear way forward to build the foundations for creating shareholder value. We have developed four strategic imperatives to achieve our objective of growing customer lifetime value by offering compelling propositions and delivering the basics brilliantly.

We are confident that delivering this agenda will create real shareholder value.

1. Put our Customers at the heart of the business

At Mitie we have some great customers, but we have to give them more. There are over 3,000 major customers and there is significant untapped potential in our core business to promote cross-selling and the bundling of our service lines. To harness this we are investing in strategic account management, introducing a Net Promoter Score (NPS) programme and tailoring our customer propositions based on a deep understanding of customers' needs and sector requirements.

We are increasing our commercial focus on our most valuable market segments and those accounts with the highest potential lifetime value. And to defend our core business and deliver profitable growth we are expanding our proposition into real estate professional services. We aim to lead the market in providing value-added consulting services through the use of technology and data, providing greater insights of the cost drivers in customer workspaces as we take them "Beyond FM… to the Connected Workspace".

2. Transform our Cost base and restore our balance sheet strength

At Mitie our aim is to be the most efficient in our industry and have the lowest cost base. We have launched Project Helix to change the DNA of Mitie. This involves simplifying our legal structures, standardising our processes and rationalising our systems – in short, materially reducing our cost base. This is the most significant driver to increase shareholder value in the medium term.

We have moved to a structure with six business divisions. We are consolidating support and back office functions to reduce duplication, leverage best practice and increase efficiency. We have created single functional support across Mitie in Finance, HR, IT and Legal. We are introducing the Mitie Way of doing things once and consistently across the Group, whether that is accounting, back office and administration, people development, payroll, sales generation, incentivisation and reward, and in our legal and commercial approach. The Mitie Way will also ensure that workflow management for our engineers and technicians is as automated as possible.

There are three waves to the cost transformation programme. The first wave is completed and has eliminated duplication and excess capacity in our management structure. This has resulted in annualised savings of £10m. The second wave is addressing our short-term operational efficiencies by removing activities that have no benefit to customers, such as cross-charging between Mitie companies. This will be completed in 2019 and will result in annualised savings of £15m starting in FY19. The third wave is the enterprise-wide deployment of integrated systems and workflow processes. This is underway and will be rolling out in 2017 with run rate benefits of £20m expected to start in FY19.

3. Build a winning culture and develop and retain our People

We aim to have the best trained and most motivated workforce in our industry.

We are introducing a Mitie Way of talent management to develop and retain our people and create a winning culture that will make Mitie stand out from our peer group with a focus on recruitment, induction, development, appraisal and reward. We will be increasing investment in our people to make sure that they are engaged and have the skills they need to do their jobs with clear development opportunities to enable them to give their best during their Mitie career.

We are redesigning incentives across the business, linking them to the overall success of Mitie. Management incentives will be aligned to reward cross-selling and behaviours that demonstrate our one team ethos and customer centric approach.

We will also be making clear to all our colleagues the behaviours we expect from them. Our customers have entrusted us with a duty of care to them and we must not let them down. As we reduce management layers and increase accountability we will be empowering our people to make the decisions that improve our customer service on a daily basis.

4. Uplift our investments in Technology to provide insights and make Mitie the easiest company to do business with

We are increasing our investment in technology to be at the forefront of the industry. To develop a market-leading proposition in the Connected Workspace we are creating a distinctive offer for our customers and automating our own internal processes.

In our clients' premises, we are investing in sensors and the latest mobile technology to understand what goes on inside a building. And we are building new analytical tools to process these vast amounts of data and to translate it into insights on how to save money.

Business performance

Since I took over at Mitie, it is clear that we have had a number of challenges. Our revenues have been flat, whilst our costs have been increasing. I am determined to reverse those trends and expect to see margins improve to between 4.5% and 5.5% in the medium term.

We have completed a review of our balance sheet which has led to a number of one-off accounting charges, and in completing the sale of our loss-making non-core Healthcare business in February 2017, we have had to take further write-offs. As a consequence our profits are down year-on-year and our reserves have fallen. The structural levels of debt within the business need to be reduced despite a better than expected year-end net debt of £147.2m (2016: £178.3m), after utilisation of £110.7m (2016: £82.2m) of non-recourse, sale of receivables arrangements.

Revenues have stayed broadly flat. Adjusted operating profit[1] has reduced to £82.0m (2016: £95.2m). Reported operating profit before other items reduced to a loss of £(6.3)m (2016: profit £113.9m), after writing off £88.3m as a result of the balance sheet review.

Divisional performance has been mixed. **Cleaning** has been hampered by high overheads and a lack of new business but has been supported by the results of the **Environmental Services** businesses. We have a new management team in place and have started the deployment of Workplace+, our new scheduling system. **Security** has performed well, achieving strong sales growth due to a change in mix between manned guarding and technology. Its results for the year have been depressed by the addition of the poor performing front-of-house business to the division. **Catering** has had a solid year, consolidating its position in the market as an innovative, lifestyle offer based on healthy ingredients. **Engineering Services** has performed at the level we would expect despite reduced project volumes at the start of the year and reduced contract wins. **Professional Services & Connected Workspace** is a new business, bringing together our property consultancy, project management, energy management and waste consultancy. In **Public Services, Care and Custody** has achieved its targets and has won a number of custodial health contracts starting in FY18. **Property Management** was below target as a result of the slow rate of contract wins and project work flow in the first nine months of the year. However the business has had a successful start to 2017 in terms of contract wins and the confirmation of start dates for projects that had been deferred.

Leadership team

Mitie has many excellent people in the business but we are building a new Executive Leadership Team. We have appointed a new CFO, a new Group HR Director, a new General Counsel & Company Secretary and a new Head of Technology. We have also appointed new Managing Directors in our Cleaning, Security, Engineering Services and Professional Services divisions.

Looking ahead

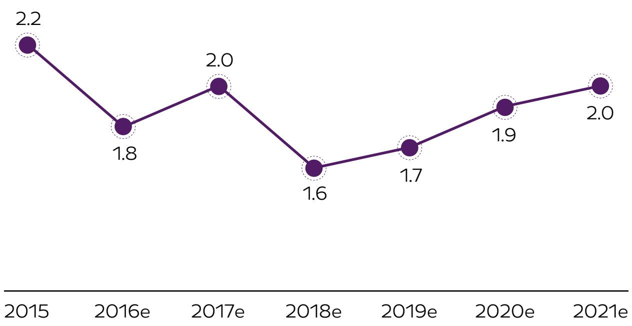
With our new investment-led strategy we believe that there is a significant opportunity to transform Mitie into a more focused, higher growth, higher margin business which in time will result in materially increased shareholder value. We are grateful for your support.

Phil Bentley
Chief Executive

1. Alternative Performance Measures. See pages 26 and 27 and the Appendix on page 174.

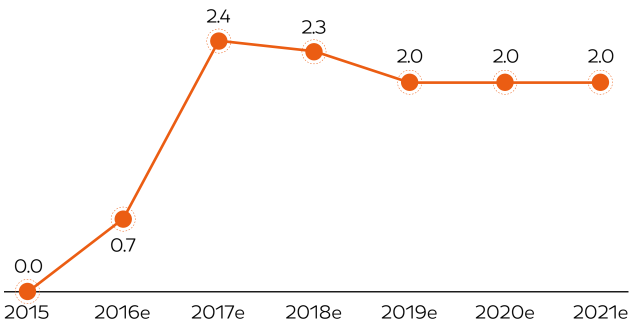
Opportunities and challenges

Chart 1: GDP
(%)



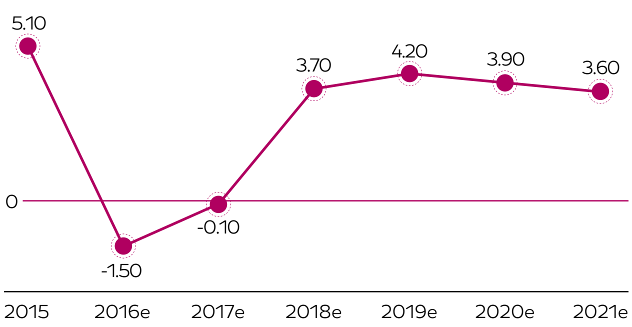
Source: Office of Budget Resposibility (OBR)

Chart 2: CPI
(%)



Source: OBR

Chart 3: Fixed Investments – Business
(%)



Source: OBR

Market segment

2016 was a challenging year weighed down by the vote to leave the European Union and the protracted process that is to follow. In response to this uncertainty we have seen a significant devaluation of the British Pound, as well as an uptick in inflationary pressure (chart 2), and a decline in fixed investment (chart 3) over the last 12 months.

The FM industry has seen a relatively subdued year given the macro-economic backdrop. Anecdotally we have seen a reduction in the number of large contracts come to market and a reduction in project spend across the board. The overall UK FM market is worth in excess of £120bn. Outsourced FM is estimated to be c.60% of the market, of which £45bn is typically addressable for scale players like Mitie.

UK economy

GDP growth declined marginally from 2.2% in 2015 to 1.8% in 2016. Forecasts suggest a subdued growth profile over the next three years (chart 1).

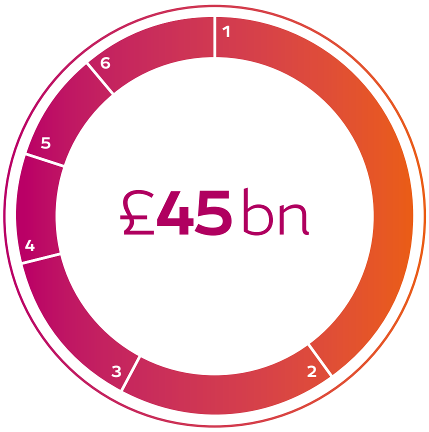
Over the last 12 months, we have seen clients adopt a more risk averse approach to capital spending. Unsurprisingly, fixed investments in the private sector declined in 2016 (chart 3), however a significant rebound is expected by 2018 as the uncertainties surrounding the UK's impending exit from the European Union are worked through.

Public sector funding constraints continue as the government stays on track with its deficit reduction targets. This creates a lasting drive for efficiency and improvements in public sector contracts and a relatively buoyant backdrop for both our Facilities Management and Public Services offers as the government continues to increase outsourced services.

FM industry

The UK FM industry is constantly evolving to address a combination of external factors. These include macro-economic factors mentioned above and legislative changes such as changes to the National Living Wage and the Apprenticeship Levy. We have broken down our core FM markets by service lines (chart 4) and identified the following key trends:

Chart 4: £45bn Addressable Market
(%)



Source: Bain & Company Research

Highly fragmented

There is a broad set of providers with a range of capabilities and services; as a result, different competitors lead in different service lines. No one single provider has a dominant market share in the UK FM market. This suggests ample headroom for scale players to gain share.

Innovation to drive productivity

With the backdrop of increasing wages, innovation in technology is imperative to drive productivity. There is significant demand for high-quality, low-cost services that are responsive and aligned with our customers' strategic goals. This trend is highly prevalent in security services. (See case study on page 19).

Changing workplaces

We have engaged senior property and FM directors through a series of research projects to understand the changing demands of our clients. The core themes we discovered include:

- **Demand for more flexible work spaces** that bolster productivity. Productivity is a common theme across sectors; according to the Leesman Index, only 53% of respondents agree that their workplace allows them to work productively.
- **Need for better analysis**. Analytics is a business priority and the way forward. There is rising demand for accurate and accessible management information, as well as the capability to generate insights, to help our customers make operational and strategic decisions. In our opinion, this is true value-add and allows our customers to make informed decisions on how to drive productivity throughout the workplace environment.
- Our customers want to foster collaboration within their workforce to **drive productivity and output**. This is partly delivered through the physical workspace.

Competitive market dynamics

We have witnessed consistent growth in the integrated facilities management (IFM) market over the last five years. As a result we are seeing a wider pool of competitors, ranging from single service specialists to global IFM specialists and global property advisory firms.

Legislative changes

In April 2016 National Living Wage (NLW) for people over 25 increased from £6.70 to £7.20 per hour. It increased again to £7.50 per hour from April 2017. The government's objective is to increase NLW to 60% of median earnings by 2020, and for it to be over £9 per hour. This is a structural headwind for the entire UK FM industry and we see greater need to invest in innovation and formulate propositions that improve productivity and efficiency.

From April 2017, the Apprenticeship Levy also took effect with a 0.5% charge on payroll for businesses with over £3m payroll. This is estimated to impact Mitie by £4m in FY18.

How Mitie is moving "Beyond FM... to the Connected Workspace"

The facilities management offering has evolved over the past 30 years. Originally conceived as a way to reduce cost and improve quality while allowing organisations to focus on their core business. It has evolved from simple tasking contracts for services to providing strategic advice and execution on global corporate real estate portfolios.

Today with the increased availability and reduced cost of technology it is possible to leverage the considerable amount of data available through the Internet of Things, Guiding Control Systems and enterprise-wide platforms to connect all of the elements of a property portfolio's utilisation, efficiency, cost and environmental impact.

This is the next iteration of the FM market. One that we call the Connected Workspace.

Our customers want to contract with us in different ways, depending on where they are on the facilities journey. Our strategy is to put our customers at the heart of our business so we are set up to provide services however our customers want them, whether that is single, bundled, integrated or connected.

Markets have changed		Savings	Benefits
Single – typical contract length 3 years Allowing a customer to focus on its core business and to have services provided by a business that specialises in that service, generates considerable savings and increases quality.	**Cleaning** **Catering** **Security** **Maintenance**	**up to 20%**	• Best in class • Specialist services • Cost reduction • Scale
Bundled – typical contract length 3-5 years When a customer is comfortable with a single service FM they will often contract more than one service to the same supplier in a bundle.	**Cleaning + Catering** **Security + Maintenance**	**+ 10% incremental savings**	• Synergies • Standard processes • Consistent quality
Integrated – typical contract length 5 years+ Customer relationships can develop to the extent where they trust you to manage and deliver the entirety of their FM services in an integrated contract. These contracts usually involve significant consolidation of the customers' supply chain and transformation of service delivery.	**Management of full suite of services**	**+ 10% incremental savings**	• Streamlined management • Joined-up delivery • Simplified invoicing and reporting

Savings **Benefits**

Connected Workspace

Customers increasingly want more from their suppliers than just service delivery. They want a partner with the ability to collect and analyse all of the available data from their organisation to inform their property strategy, make their workspaces more productive and reduce their operational cost base.

The key to a truly connected workspace is to pool the data together into a virtual data lake with neutral platforms to enable access from a range of applications.

The approach is consultative, looking to establish very long-term relationships across the customer's organisation.

Savings: **a further 10%**

Benefits:

- Corporate Real Estate optimisation
- Sustainability support
- Wellbeing insights
- Cost savings
- Reduced risk
- Productive workspaces

A sound investment case

Mitie is a business with a good base of blue-chip clients and all of the service capability to succeed in Facilities Management and Professional Services. We work in partnership with organisations to deliver long-term savings, managing and maintaining some of the nation's most recognised landmarks for a range of blue-chip public and private sector customers. We are the UK's largest Facilities Management company employing some 53,000 people across the country.

Quality customer base in diversified end markets

- Broad customer base across private and public sectors
- Professional services provide strategic differentiation

High retention rates and significant pipeline

- Long-term relationships as a trusted partner supporting customers' strategies
- High client retention rates
- Good pipeline of future opportunities (£8.7bn)

Innovation and technology capabilities

- Reputation for high-quality efficient services and delivery capability
- Technology investment enables data analytics and insight to enhance decision making and performance
- Partnership launched with Microsoft to develop Connected Workspace

Transformation programme

- Project Helix launched to change our DNA. New workflow, processes and systems
- Plans in place to reduce cost base and improve operational efficiency
- Standardisation of technology

Capital management

- Restoring balance sheet strength
- Buy-back programme ended
- Amendments to Mitie model
- Realign dividend to underlying performance
- Consistent cash flows

Winning culture

- Develop the Mitie Way
- Diversity
- Aligned incentives
- Talent management
- Development and training

A business model that delivers sustainable value

Our model has changed this year to reflect the conditions in our markets and the adjustments we have made to our business. We provide value to our customers by delivering efficient services that support their strategic objectives. Our colleagues are part of a business that is building a winning culture and supports the communities we are part of. We plan to generate long-term returns for our shareholders.

Standardised platforms and applications

Pooling of data

Analysis of trends and insight

Customer facing

Management information

The best advice and account management

Compelling propositions

Long-term relationships

Cross-sell

Lifetime value

Improving NPS

Lowest cost to serve

Streamlined processes

Operational excellence

Responsive to customer needs

Winning culture

Career development

Incentives to perform

Recognition for excellence

Improving engagement

Supported by a strong foundation

of sound business processes and a commitment to fulfilling our responsibilities to the wider community.

Sustainability

- Reduce the environmental impact of our operations
- Improve the diversity, engagement and health and safety of our people

Risk management

- Macro-economic environment creates the operating and investment environment for Mitie and its clients
- Delegated authority protocol

Governance

- Strategy and performance review
- Compliance, ethics and conduct
- Board composition and succession planning
- Audit and internal controls

Our strategic plan to deliver

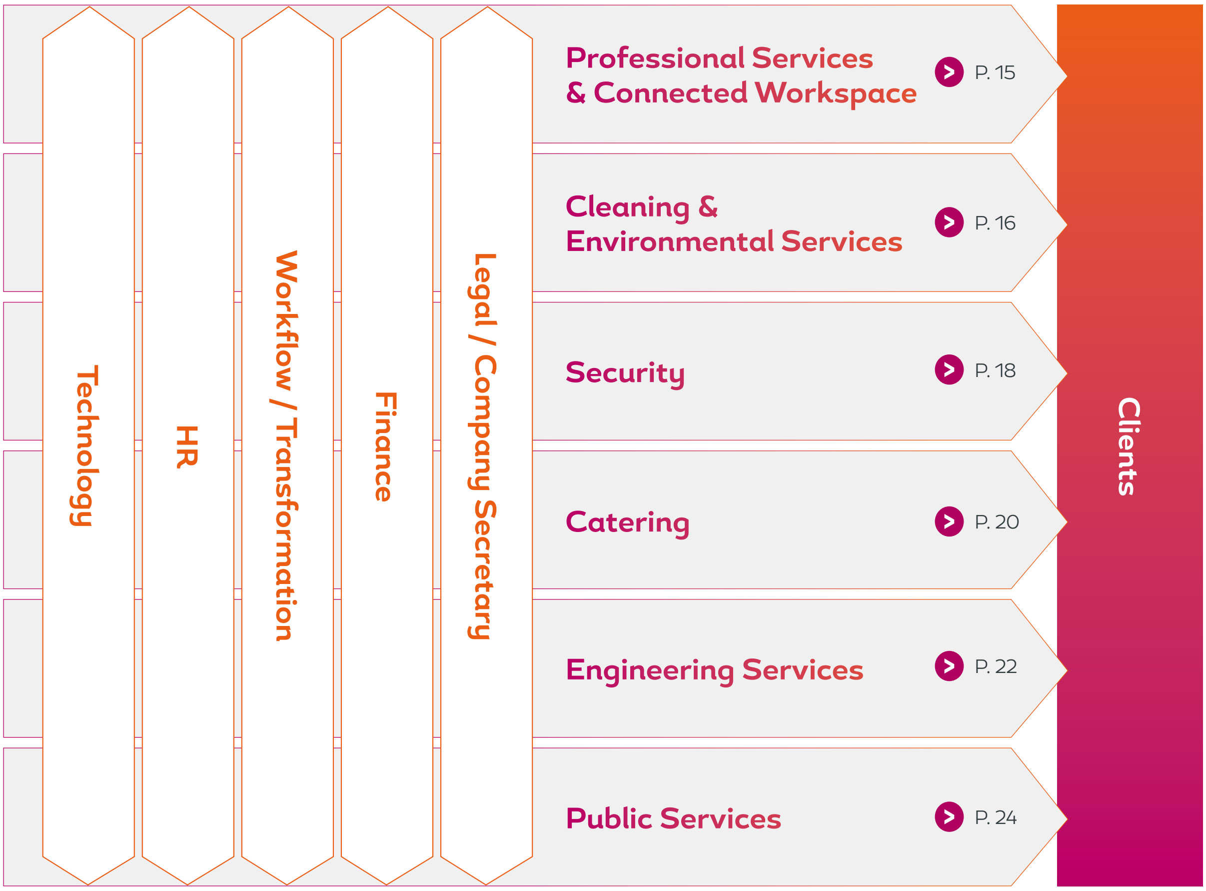
Objective	Goals (KPIs)	FY17
Grow customer lifetime value by offering compelling propositions and delivering the basics, brilliantly, to help customers save money	• Customer Net Promoter Score	-1
	• % UK FM market share	4%
	• % revenue from top 100 clients	63%
	• Forward order book[1] (£bn)	£6.5bn
	• Leverage (Net Debt: EBITDA)	1.8x
	• Overhead cost base (£m)	£195m
	• Net adjusted operating margin[2] (%)	3.8%
	• Employee retention rate	73.5%
	• Employee engagement score	45%
	• Improve safety (RIDDOR AFR[3])	2.02
	• Professional Services & Connected Workspace revenue (£m)	£91m

1. Order book is the value of secured contracts at 31 March 2017.
2. Alternative Performance Measure. See pages 26 and 27 and the Appendix on page 174.
3. For definitions see page 175.

We have introduced a new approach to strategic planning linking our strategies and goals with execution of our key plans, to ensure we deliver our long-term objective of growing customer lifetime value.

Strategies	Plans	FY2017 progress
1 Putting **customers** at the heart of our business	• Launch Beyond FM proposition • Complete Lifetime Value analysis by customer and agree segmentation/strategic management approach • Exit non-core businesses • Introduce strategic account management for 1st tier accounts; develop value propositions for target sectors • Establish new sales capability with sector expertise; optimise Salesforce.com to drive cross-sell performance • Introduce Net Promotor Score across top 100 clients	• Beyond FM proposition launched • Healthcare business exited • Net Promoter Score baseline established
2 Transform our **cost** base, and restore our balance sheet	• Re-engineer workflow processes across our businesses • Consolidate support functions under Group leadership; increase spans of control and reduce layers across the business • Re-engineer billing-to-cash processes to improve cash conversion • Rationalise Property and IT estate • Deliver shared services cost savings • Restore balance sheet strength	• Transformation plans in place for HR, Finance and Workflow management under Project Helix
3 Build a winning culture and develop and retain our **people**	• Build new Executive Leadership Team • Launch Mitie Way of talent management, including high potential programme, leadership training, and performance management • Launch Mitie Way of health, safety & environmental, ensuring consistency and compliance • Define Mitie values and roll out new ways of working • Align management incentives to strategy delivery • Standardise titles and salary bands	• New Executive Leadership Team in place
4 Uplift investment in **technology** to provide customer insights and ease to do business with	• Create a Connected Workspace technology team by increasing investment, capex and opex, to enable Internet of Things services and customer insights • Implement a partnership with a world-class technology service provider • Standardise and automate processes across the business; integrate data, analytics and systems wherever practical	• Technology team in place • Partnership with Microsoft in place

The shape of our business today



Optimally structured business

In January 2017, the Company announced a new organisation structure and a new leadership team. The financial and operating performance of our six divisions reflect this new organisation, and the way we run the business. A restructure of the support functions is also underway to ensure P&L accountability and consistent policies across our group functions.

Business KPIs

In addition to the Group KPIs detailed in the preceding pages, we have highlighted a select number of business KPIs linking strategy directly to execution.

Managing our business responsibly

We manage Mitie for long-term success. We operate in a responsible way, in accordance with our code of conduct, minimise our impact on the environment and recognise that diversity among our employees will benefit our organisation. There is one woman on our Board of Directors and seven men, 103 female senior managers and 458 men, and 21,066 women across the Group in total, compared with 31,732 men.

We also realise that our engagement with the communities where we operate contributes towards our licence to operate.

Health & Safety is a priority, and this year our RIDDOR reportable rate improved by 4% to 2.02 per 1,000 people. Our employee engagement score changed to 45%, and our Net Promoter Score (NPS) measurement of customer satisfaction changed to -1.

Full details of our strategy for sustainability, our statistics and our achievements during the year can be seen on our website **www.mitie.com/sustainability**

Professional Services & Connected Workspace

Professional Services & Connected Workspace is our new consultancy services division that thinks strategically, operates collaboratively, and leverages technology to make a real difference to our clients' real estate and facilities services. By combining our consultancy capabilities with strategic account management, we are advising our clients on how to save them money and improve their working environments. Linking these capabilities with the new technologies and analytics incorporated in our Connected Workspace platform, we are very well placed to take our services Beyond FM. Mitie has over 3,000 major clients and a wide product offering, which provides us with a wealth of opportunities to deliver more to our clients by cross-selling and expanding service delivery.

The professional services team brings together our consultancy businesses, including Source8, Mitie Waste and Utilyx (Energy Services), allowing us to develop and provide comprehensive and joined-up propositions for our clients. Our capabilities are aligned with our Real Estate and Facilities Management offerings, and include property and real estate, technology, risk management, energy and sustainability. Our strategic sales and account management team has been re-built under new leadership, with new processes, to better target and manage our most important strategic accounts.

Within this division we are building the Connected Workspace solutions and capabilities. The Connected Workspace is a set of evolving technology-driven solutions that will enable Mitie to improve the delivery of facilities services and provide superior value to our clients. For example, we are supporting a 20% estate reduction target through design and smarter workplace management for one of our largest customers. We are using real-time data capture for analysis and monitoring to drive efficiencies through occupancy-based energy controls and maintenance regimes.

Performance

£m	2016 Restated	2017
Revenue	97.9	90.9
Adjusted revenue[1]	97.9	90.9
Operating profit before other items	5.5	4.2
Adjusted operating profit[1]	5.6	6.7
Order book	190	221

FY2017 operational highlights

The division reported £90.9m of revenue and £4.2m of operating profit before other items. The adjusted operating profit was up 20% from previous year. This is a relatively new division, formed in the last quarter of FY17. Over the last 12 months, the combined business saw a significant increase in consulting activities with existing and new clients. Despite revenue decline from the Waste business, it secured contracts with JLL, a large national leisure operator, and expanded existing contracts with Network Rail and Manchester Airport Group. The professional services team was engaged to deliver strategic planning, real estate reduction, and design and move projects for prestigious clients such as ED&F Man.

Next 12 months

Our focus is to differentiate Mitie's proposition in the market through the provision of world-class professional services and industry-leading Connected Workspace solutions. With the reach of our products, the extent of our client base and our 53,000 colleagues, we will collect and analyse real-time data, and develop targeted strategies that enhance the productivity and wellbeing of our clients' workspaces.

1. Alternative Performance Measure. See pages 26 and 27 and the Appendix on page 174.

Cleaning & Environmental Services

We remain one of the largest cleaning services providers in the UK, offering a full suite of cleaning services as well as specialist services, such as pest control, landscaping, and gritting. The new division unites our Cleaning business with our Pest Control and Landscaping businesses (Environmental Services). Waste Management, which previously sat within Environmental Services, has been realigned with Professional Services due to the advisory nature of its services.

FY2017 operational highlights

The business reported £395.4m of revenue and £6.0m of operating profit before other items. Adjusted operating profit was down 14% year on year to £20.3m. The significant under performance in Cleaning was partly offset by the strong performance from Environmental Services.

Cleaning

It was a difficult year for Cleaning, with revenue down 5% with further deterioration in margins. The business faces significant structural headwinds from service commoditisation, low barriers to entry, and price competition.

Despite a difficult trading year, the business secured a number of contracts with high-profile customers, including an expanded street furniture cleaning and maintenance contract with Transport for London (TfL), a renewal with Hinchingbrooke Health Care NHS Trust and an expansion with Amazon.

Our client retention rate for FY17 was below expectations. Our NPS score tells a similar story, with a slippage of 4 points, but we anticipate an improvement as we realign our sales force and bolster our proposition post the recent restructure.

We recognise the structural headwinds of the overall Cleaning sector and we are responding to these pressures by: extending our capabilities into more technical areas of work; simplifying our overhead structure; and introducing improved technology for better workforce management.

To improve our workforce management and employee engagement, we have accelerated the implementation of Workplace+, a handheld-enabled, all-in-one operations portal for scheduling, payslips and supplies. In FY16, there were no cleaning operatives on Workplace+, at the end of FY17 there were 15%, and our target is to have more than 80% of our operatives on the portal by the end of FY18. The wide adoption of Workplace+ will also allow the business to better communicate with our employees, measure and analyse the productivity patterns of our operatives, and enable rapid roll-out of best practices.

Performance

£m	2016 Restated	2017
Revenue	408.7	395.4
Adjusted revenue[1]	407.1	399.0
Operating profit before other items	25.5	6.0
Adjusted operating profit[1]	23.6	20.3
Order book	894	811

Operational KPI highlights	2016	2017
NPS	-10	-14
Workplace+	0%	15%

Technology has a key role to play in the shift towards a demand-based workforce where cleaning is performed at optimal efficiency. It will also allow us to improve employee engagement, enhance our internal communications, cement the Mitie Way of doing things, and create genuine efficiencies through a 'connected' workforce.

Environmental Services

The Environmental Services segment has outperformed this year, contributing c.50% to overall divisional adjusted operating profits. We saw strong revenue growth of 23% and adjusted operating profit growth of 4%.

The pest control business had a solid year with continued organic profit growth. It renewed contracts with Mitchell & Butler, Young's and Homeserve. The business continues to expand by targeting growth in food manufacturing, retail and distribution, as well as through innovative solutions such as drone technology. Used with a number of our clients, drone technology enables safer and more efficient inspections. The business has also invested extensively in an operations platform, to improve the efficiencies of our technicians, customer experience and reporting.

Landscaping has had an exceptional year following the successful mobilisation of contracts secured at the end of FY16. The business has commenced work on several new contracts: Merseyrail, NHS Property Services, JP Morgan and The Southern Co-operative. However earnings from gritting were softer than expected due to a milder than average winter in the UK.

Next 12 months

Over the next 12 months, the focus will be on looking after our customers better, by getting the basics right. This means simplifying our business structure and making operations more efficient and effective. Our goal is to transform our cost base by eliminating role duplication and ineffective processes, and to improve productivity by using existing toolkits and standardising how we operate.

1. Alternative Performance Measure. See pages 26 and 27 and the Appendix on page 174.

Birmingham Airport

Birmingham Airport's aim each day is to deliver a truly world-class service for the nine million passengers that travel through the airport each year.

With an increasing footfall and an environment that is continuously changing, the highest standard of facilities is core to enhancing the passenger experience.

Our promise from the beginning has been to exceed all stakeholders' expectations: our client's, customers' and employees', which is underpinned by our continual drive towards innovative and technology-led solutions.

This year, we've introduced robotic technology, which has improved operational efficiencies, helped to deliver an exceptional cleaning performance, and assisted our cleaners who were using manually operated auto-scrubbers.

As an additional resource to our cleaning team at Birmingham Airport, the robotics have enabled our cleaners to focus on higher-skilled, value-added tasks, resulting in increased staff morale and productivity.

Furthermore, by utilising ultraviolet light technology, the robot removes 99.9% of viruses and bacteria, and their advanced water saving systems reduce the consumables required for cleaning, leading to significant costs savings for the client.

Birmingham Airport is the UK's

3rd largest

airport outside of London

We clean

11,000

square metres at Birmingham Airport's terminal

For the second year, we've received the Kimberley-Clarke Golden Service Award for the

Best Cleaned

Transport Hub with Birmingham Airport

Security

We are currently the 2nd largest integrated security services provider in the UK, uniquely delivering a full suite of services and products, including security personnel, remote monitoring, mobile response solutions, and fire and security systems - all underpinned by a risk-based ethos. Working across all sectors we are the leading provider in the transport and aviation and retail sectors along with critical security environments.

The new Security division comprises Security Management, Front of House, Document Management, and our employee vetting business - Procius. The grouping of these businesses allows us to further develop our technology capabilities and enhance solutions in a collaborative and integrated way. Our goal is to build upon and strengthen our market-leading position, continue to influence buying behaviours, and cement long-term partnerships with our customers through innovative operating models.

In a highly competitive market, our focus is to deliver sustainable growth through a converged service offering, challenging traditional procurement approaches by raising awareness of risk-based, technology-driven solutions. We want to be known as industry and thought leaders in risk-based deployment, across all the sectors we operate in. We strive to attract and retain our customers through the provision of exceptional service, and we are pleased to report a 67% increase in our NPS score in FY17.

Performance

£m	2016 Restated	2017
Revenue	364.4	404.2
Adjusted revenue[1]	364.4	404.2
Operating profit before other items	20.8	16.1
Adjusted operating profit[1]	19.8	19.9
Order book	776	876

Operational KPI highlights	2016	2017
NPS	9	15
Customer retention	77%	84%
Staff retention	79%	81%

FY2017 operational highlights

The division reported £404.2m of revenue and £16.1m of operating profit before other items. Adjusted operating profit remained relatively flat, margin deteriorated, impacted by contract losses from Front of House. Strong sales performance has resulted in a 13% growth in our order book to £876m.

Earlier this year, we were awarded an expanded contract with leading supermarket chain, Sainsbury's, where we have implemented a risk-based deployment model, applying software and handheld technology to capture incidents and analyse data to drive informed decision making.

Over the last 12 months, the Security Management team has renewed a number of major contracts, including Citigroup, Technicolor, John Radcliffe Hospital, DP World and Strathclyde Passenger Transport. Customer retention rate closed at 84% vs. 77% in the prior year. In FY17, our new business wins came in at 30% above the previous year. Notable contract awards include the expansion of Sainsbury's, London City Airport, BNP Paribas and the NHS Property Services. Our sales pipeline has doubled year-on-year to £1.2bn. We believe this is only the beginning of a paradigm shift towards innovative risk-based solutions, and we will continue to refine our proposition and look to gain further market share to become the industry's leading security provider.

Our Document Management business had a solid year with 100% client retention and organic growth across its portfolio. Similar to security, the document management market is trending towards the increased use of technology. The business has a national footprint offering a full range of document process outsourcing services ranging from managed print solutions and outsourcing of mail room activities to a complete customised restructuring of document work flows and processes. Recent deployments include the implementation of hybrid mail into the second largest local authority in the UK as well as one of the largest private sector landlords and new mail tracking technology into clients including: PwC, Holman Fenwick Willan and Herbert Smith Freehills.

Our front of house business was the recipient of the prestigious Customer Focus Award at this year's UK Customer Satisfaction Awards. However, our trading performance was significantly impacted by contract losses. In FY18 the business will undergo a rebrand and repositioning of its offering in the market, which will strengthen its market position and ensure our delivery meets our customers' needs. The business is looking to advance under new leadership and move towards sustainable growth for the coming years.

Procius, our employee vetting business, which is one of the UK's largest providers and the leader in the transport and aviation sector of pre and post-employment screening and criminal records checking services, continues to deliver strong growth. In FY17, we saw an increasing demand for our services across existing customers such as British Airways, Jet2 and EasyJet along with significant contract wins, including Ovo Energy and Arsenal Football Club. Procius has also widened its product offering to cover a broader range of employment lifecycle services, which will deliver further growth opportunities in FY18.

Next 12 months

We expect further growth in FY18, supported by a solid delivery model – combining risk analysis, technology deployment, off-site monitoring and responsive services and we will continue to refine our proposition in order to challenge and lead the market with our approach to transformational client contracts.

1. Alternative Performance Measure. See pages 26 and 27 and the Appendix on page 174.

Sainsbury's

Our partnership with Sainsbury's is based on transparency and innovation, and built around a unique Safer Community model designed to ensure the safety of colleagues, visitors and members of the public.

Sainsbury's Safer Communities (SSCs) was introduced to pilot a new way of working within the security management contract. We analyse the risk profile of each store and create a tailored security service based on an individual store's threat profile; because we understand that some stores are more likely to be a target to shoplifting than others, and that posting four security guards in a low-risk store is a poor use of our client's budget. By deploying our multi-skilled security officers in line with risk, we can improve safety while reducing the cost of the service.

Technology underpins how we work together, with several market-leading systems implemented to enhance the efficiency and effectiveness of the contract, including our Security Manager and Resilience (SMART) tool.

SMART provides real-time incident management and alerts, building systems monitoring, and risk pattern and crime trend analysis. It's also linked with automatic number plate recognition (ANPR) cameras at Sainsbury's fuel station forecourts. By using our SMART system's business intelligence module, Sainsbury's can now analyse and share relevant information within its business to prevent repeat offenders across their estate.

Sainsbury's is the UK's second largest supermarket and employs around

161,000 people

In November 2016, we were awarded a

3-year

contract to deliver integrated risk management, technology and manned guarding services across its entire UK portfolio

We employ

2,500

security colleagues across its 1,400+ UK locations

Catering

Our goal is to be recognised as the UK and Ireland's most distinctive, tech-enabled workplace catering experts, where the wellbeing of our clients' employees is high on the agenda. We look to achieve this by concentrating on our core strength: creating food with personality, served by people who are passionate about delivering the highest quality of service. Our catering division is comprised of Gather & Gather – our core brand, and Creativevents – our specialist outdoor catering business.

Our people have always played a major part in our overall proposition, and we are proud to report our staff retention rate increased to 71% in FY17.

In FY17, Gather & Gather received two prestigious awards in recognition of its innovative approach. The first award was the BIFM Brand Impact Award, recognising Gather & Gather's founding mission of 'bringing food and people together' to enhance the workplace. The second award was won by head chef, Clark Crawley, who won Gold as part of the English National Culinary team in the Culinary Olympics.

FY2017 operational highlights

The business reported revenue of £134.3m and operating profit before other items of £4.7m. Despite a solid 6% top line growth, Adjusted operating profit was flat due to contrasting performances between Creative Events and Gather and Gather.

Gather & Gather delivered solid revenue growth, underpinned by a number of new wins in Ireland, including a contract expansion with LinkedIn. Our order book remains relatively stable at £458m. We have also established a new baseline for NPS of 6.

External market forces such as food inflation have pushed up our cost base and impacted our margin. Food inflation is an ongoing factor. We believe that our core offering is attractive and marketable, as we pay particular attention to the provenance of our ingredients, how the food is served and how it impacts workplace productivity. We continue to win contracts over bulge bracket competitors due to our customised approach to service delivery.

Food is an integral driver of workplace productivity, and we are engaging our own team and industry experts to develop technology that will form a key pillar of Mitie's overall connected workspace proposition. For example, Gather & Gather has introduced a mobile application to improve the customer experience. The app is live with a number of prestigious clients, allowing our customers to pre-order, collect loyalty rewards, leave feedback and receive targeted push notifications.

Creativevents had a challenging year, impacted by external factors such as adverse weather conditions and reduced attendances at events following terrorism incidents in Europe. Furthermore, we continued to exit non-profitable contracts after recent changes to management. Despite the challenging backdrop of FY17, we continue to provide retail bars, food and hospitality for a range of prestigious clients, including Royal Ascot, the RHS Chelsea Flower Show, the Farnborough Air Show and Lord's Cricket Ground.

Performance

£m	2016 Restated	2017
Revenue	126.6	**134.3**
Adjusted revenue[1]	126.6	**132.7**
Operating profit before other items	5.4	**4.7**
Adjusted operating profit[1]	5.3	**5.3**
Order book	463	**458**

Operational KPI highlight	2016	2017
NPS	N/A	**6**
Staff retention	70%	**71%**
Employee engagement	65%	**75%**

Next 12 months

The focus over the next 12 months is to fine-tune our offering, and broaden the Gather & Gather brand and its reach. We have established a strong presence in the media sector but there are attractive opportunities in the financial and professional services sector. Our goal is to build on our recent contract wins, and show that we can adapt our style to suit professional services firms.

Gather & Gather operates two bars at the top of the Shard skyscraper – London and western Europe's tallest building – and are expecting to serve over 660,000 visitors in 2017.

1. Alternative Performance Measure. See pages 26 and 27 and the Appendix on page 174.

Creating an inspirational environment with Vodafone

With workplace and employee wellbeing becoming increasingly important to the corporate agenda, organisations' property and people objectives have never been more aligned.

Gather & Gather is supporting clients to achieve their workplace wellbeing initiatives by placing food, social spaces and people at the heart of decision making.

Since securing the food services contract for Vodafone's UK property portfolio in 2016, we've worked closely with the Vodafone wellbeing team and Nuffield Health to create a wellbeing partnership which supports mental, social and physical health. By working collaboratively across the service lines, it enables us to identify health concerns on a site by site basis and tailor specific health promotion programmes, whilst taking into consideration demographics, purchasing habits and food trends.

We've introduced a Live Well range of nutritionally balanced and portion-controlled food options, designed by our team of nutritionists and development chefs, along with dedicated wellbeing ambassadors on every site. Additionally, we hold regular nutrition workshops and consultation days with the Gather & Gather nutritionists, as we believe customer engagement and education is key to influencing food purchasing behaviours.

We believe that whatever the time of day, the need for food creates a chance to connect. It's not simply about serving up an outstanding breakfast or lunch; it's about taking the opportunity to bring people together to create a happier, healthier and more productive workforce.

In January 2016, we secured a

5-year

contract to provide food services across Vodafone's UK property portfolio

We were awarded the Hospitality Assured accreditation by the Institute of Hospitality, just

6 months

after being appointed

Gather & Gather cater for

9,000

Vodafone employees every day across 12 locations

Engineering Services

We are one of the leading providers of engineering services in the UK, delivering technical and building maintenance services across a wide range of sectors and real estate assets. In addition to our core maintenance offer, we provide critical specialist services such as heating, cooling, lighting, water treatment and building controls.

We have combined our Hard FM business, and the management team of Integrated FM, into one division: Engineering Services. Engineering services has historically been the service line with the largest share of our integrated contracts; therefore, by combining and streamlining operations, we can create financial and operational synergies.

FY2017 operational highlights

The overall business reported revenue of £797.4m and operating profit before other items of £0.2m. The Adjusted operating profit declined 9.8% to £37.9m. Adjusted operating margin also declined from 5.3% to 4.7%. The underlying trading performance has been impacted by lower margin on chargeable works. Nevertheless with contract extensions and new business wins our order book remains steady at £3.3bn.

Despite the challenges above, we continued to pursue a number of large opportunities and have delivered the following:

- extension and expansion our contract with Thales
- retention of Allianz Insurance
- expansion of our contract at Heathrow Airport
- an extension with the Scottish Parliament
- retention and expansion with Manchester Airport Group
- an extension with Lakeside North Harbour business centre.

The business also successfully mobilised contracts with NHS Property Services and CTIL with combined revenue in excess of £40m p.a.

We see a significant amount of untapped potential in both revenue and margins, given our critical mass in the UK. With this in mind, we have fast-tracked the roll-out of a standardised mobile workflow solution, MiJobs. Prior to MiJobs, the business had several different mobile-enabled workflow solutions, and we have migrated all mobile engineers to MiJobs over the last 12 months. Our national footprint coupled with more effective workflow management, will mean improved operational efficiency and superior service delivery for our customers.

Next 12 months

Over the next 12 months, our focus is on getting the basics right. The business is embarking on a multi-year transformation programme, designed to standardise and simplify our operations to deliver the most efficient and effective service, at the lowest cost to our clients.

Performance

£m	2016 Restated	2017
Revenue	800.3	797.4
Adjusted revenue[1,2]	788.4	809.1
Operating profit before other items	53.7	0.2
Adjusted operating profit[2]	42.0	37.9
Order book	3,325	3,259

Operational KPI highlights	2016	2017
NPS	+16	-16
MiJobs mobile roll out	0%	100%

This will begin with the integration of our core workforce, to create a highly flexible and skilled team with the optimum support systems. We will automate work flow management for scheduling, tasking and billing. Our engineers will have the necessary training and tools to operate in the safest and most effective manner and deliver the highest quality of service for our customers.

Longer term, our vision is to use technology to link outputs to the Connected Workspace, providing the most responsive and valued service in the market. By using a combination of existing building systems and environment sensors, along with energy data, asset data, and workplace data, we will provide tailored solutions to suit each client's unique requirements.

1. The difference between 'Reported' and 'Adjusted' revenue relates largely to adjustments to POC balances and accrued income as part of the Accounting Review.
2. Alternative Performance Measure. See pages 26 and 27 and the Appendix on page 174.

Engineering: The Scottish Government

Achieving a unique carbon status

In July 2016, we helped the Scottish Government retain its unique status as the only government in the world to hold the Carbon Trust Triple Standard.

The Carbon Trust Standards are independent certifications recognising organisations that successfully measure, manage and reduce their greenhouse gas emissions, water use and waste, while demonstrating leadership within their industry by making real year-on-year progress.

We've been providing a range of FM services to the Scottish Government since 2010, from security and landscaping to engineering and waste management. We also maintain and monitor the building fabric, heating and lighting, which was instrumental in helping the Scottish Government achieve its sustainability ambitions.

We complete

19,000

planned preventative maintenance tasks for the Scottish Government per year, covering an expansive geographic area from Stranraer to the Shetlands.

Public Services (Property Management and Care & Custody)

Property Management

The Property Management business provides a wide range of maintenance services in the UK, predominantly to clients in the social housing sector. The business also delivers claims handling and repair services for insurance companies, and is the largest painting and commercial refurbishment roofing provider in the UK.

FY2017 operational highlights

Property Management reported revenue of £257.7m and an operating loss before other items of £4.5m. Adjusted operating profit was disappointing at £12.3m down 24% year on year. This was impacted by a shortfall of in-year project revenue, affecting both top-line growth and the overall blended margin.

Revenue from the social housing business was negatively impacted by delays in client capital spend, with its adjusted profit also impacted by a reduction in higher margin project works. In adjusted profit terms, the painting business had a positive year, and the roofing business remained relatively flat versus previous year.

In light of the performance during the year, the Board has carefully reviewed the carrying value of goodwill and while it is confident that the business plan is deliverable, it has also come to the conclusion that an impairment of £15.0m is appropriate, reducing the goodwill to £70.2m (FY16: £85.2m)

The business has had a challenging trading year. Nevertheless, our order book has remained buoyant, growing 4% to £663m. The current order book contains over £100m of annual revenues held within long-term (c.10yr) partnering contracts in housing, with a blue chip client list.

Even though our NPS score declined marginally year-on-year, we did achieve a 100% in year success rate on long-term maintenance housing contract re-bids.

Under new leadership, the sales and marketing team has relaunched its value proposition to address the changing landscape of the social housing market, developing two new propositions:

- Integrated Property Management – bundling services to provide enhanced asset management services
- Partnership Solutions – to provide innovative long-term solutions to address sector spending challenges

Our goal is to differentiate our offering in a relatively commoditised market, by creating long-term partnerships, thinking differently, and working innovatively to achieve our customer's strategic goals.

We have seen some early traction, with notable wins including a 7+7yr Integrated Property Management contract with national social housing provider, Home Group, worth ~£12.5m p.a; and a 5+5+5yr Integrated Property Management contract with new client Islington and Shoreditch Housing Association.

Performance

£m	2016 Restated	2017
Revenue	313.5	257.7
Adjusted revenue	313.5	257.7
Operating profit/(loss) before other items	16.8	(4.5)
Adjusted operating profit[1]	16.2	12.3
Order book	639	663

Operational KPI highlights	2016	2017
NPS	43	40

Technology has been an integral part of our integrated and partnership offerings, as it brings efficiency and decision making benefits to our clients. For example, the introduction of our thermal-imaging drone service to help with home surveys. We will continue to invest and deploy technology to improve the value we provide to our customers.

Next 12 months

The main focus for the next 12 months is to get the basics right, invest in our people, deliver the highest quality service to customers – at the right cost for our clients – and continue to invest in the communities in which we work.

The London Borough of Hammersmith & Fulham (H&F) has welcomed our thermal-imaging drone service to help survey its homes and quickly identify repairs. In place of unsightly and expensive scaffolding, the drones detect problems with buildings faster, resulting in an improved service for H&F tenants, and long-term cost savings for the client.

1. Alternative Performance Measure. See pages 26 and 27 and the Appendix on page 174.

Care & Custody

Our Care & Custody business delivers a range of public services for vulnerable adults in secure environments, on behalf of the UK government. These include managing immigration detention centres for the Home Office, forensic medical examiner (FME) and custody support services for police forces across England and Wales, and offender healthcare provision in two prisons on behalf of NHS England.

FY2017 operational highlights

Care & Custody had a good year, delivering revenue growth of 31% up from £35.5m in previous year to £46.4m. Operating profit before other items was £2.1m in FY2016 and £2.2m this year. Adjusted operating profit was £2.9m up 7.4% year on year, despite building some overhead relating to upcoming bids.

Following the acquisition of Tascor Medical Services (now Care & Custody Health), we have won c.£50m of new business over the year. Expansion into the forensic medical services market helped secure several flagship contract wins in the police FME segment. We have also seen significant growth in the sales pipeline, with an increase from £1.6bn to £2.9bn due to several large Home Office contracts coming to market.

One of our flagship contract awards was for the provision of FME services to Greater Manchester Police; a contract which also includes liaison and diversion services, delivered through partnerships with the NHS and the Cheshire and Greater Manchester Community Rehabilitation Company. We envisage this model of contract being adopted by other police forces, which should bolster our pipeline in the future.

In order to deliver high-quality services, we need to attract and retain the highest quality people. We have created specific career paths and provide access to training and education. We are currently pursuing a number of options to develop training and apprenticeships for detention custody officers, clinicians and managers, to upskill them and to create long-term careers for ambitious and motivated individuals who want to join our team. We see this approach as vital to helping secure a sustainable recruitment pipeline; with an ageing and tightening labour market, attracting and retaining talented individuals in this sector can be difficult.

Performance

£m	2016 Restated	2017
Revenue	35.5	**46.4**
Adjusted revenue[1]	35.5	**46.5**
Operating profit before other items	2.1	**2.2**
Adjusted operating profit[1]	2.7	**2.9**
Order book	310	**244**

Operational KPI highlights	2016	2017
Inspector feedback	Good	**Good**
Absence rate	6%	**8%**

Next 12 months

Our focus is to build on existing relationships, ensuring we have a clear understanding of our clients' needs, and design solutions that meet and exceed their expectations. This involves maintaining the highest standards for those in our care. We recognise that our policies and processes must reflect and respond to relevant legislation, and actively embrace external regulatory scrutiny. We underpin these principles by promoting a culture of openness, transparency and high performance.

On the Greater Manchester Police contract, our specialist staff will conduct early health assessments of approximately 134,000 detainees in custody over a three year period.

1. Alternative Performance Measure. See pages 26 and 27 and the Appendix on page 174.

Laying the foundation

It has been a challenging year for Mitie, with a reported operating loss and reduced adjusted trading performance. We faced a balance sheet that was less prudent than ideal, and have seen instances of accounting error requiring adjustments to prior year accounts. As a result, the Group has taken decisive action to correct the accounting errors and bring its accounts to a more balanced position, and reached agreement with its lenders on these changes. Our approach has been designed to restore confidence in the Group's financial reporting. This lays the foundation of a more stable financial position, paving the way for the Group to implement its Connected Workspace strategy.

Reported financial performance

An analysis of the year-on-year movement in reported revenue and operating profit before other items from continuing operations is as follows:

	2017 £m	2016 restated £m
Revenue	**2,126.3**	2,146.9
Operating (loss)/profit before other items	**(6.3)**	113.9
Other items	**(36.6)**	(6.3)
Operating (loss)/profit	**(42.9)**	107.6

Reported revenue was £2,126.3m (2016: £2,146.9m), a modest decline due to the revenue impact of the Accounting Review, offset by favourable currency movements. As a consequence of the Accounting Review, prior year errors, goodwill impairments and costs of change, the operating loss was £(42.9)m (2016: profit £107.6m). Altogether this constitutes a disappointing year for the Group.

Accounting Review

As announced in the January 2017 trading update, the new Executive Management Team, with the approval of and working closely with the Audit Committee, commissioned a wide-ranging Accounting Review. This Accounting Review included independent support from KPMG to review and advise management on the most material balance sheet judgements in relation to long-term complex contracts, accrued income, work in progress and mobilisation, as well as providing support to management in considering some complex and technical accounting analysis. The fieldwork concluded in May 2017 and its findings have since been approved by the Audit Committee.

The Accounting Review identified a number of prior year errors that, due to their materiality, required the restatement of results for periods before 31 March 2017. The nature of these errors is outlined in Note 1 and led to an error of £60.5m, of which £26.0m is a restatement of goodwill impairment in FY16, £20.9m relates to other adjustments in FY16 and £13.6m relates to earlier years. As a consequence, the net impact of prior year adjustments in FY16 is £20.9m before other items. Throughout this report, the FY16 comparatives are described as "Restated" which means they are stated after adjustment for these errors.

In response to the Accounting Review, the Group has included additional material balance sheet write-downs of £44.9m and has created new provisions and accruals of £14.8m resulting in a pre-tax adjustment to net assets of £59.7m. These are additional to the £14.0m of one-off charges identified in the January 2017 trading update.

A key finding of the Accounting Review was that the Group's accounting was less conservative than its peers. In response, £39.7m of additional asset write-downs were recognised which were more judgemental in nature, and would result in no future cash outflow.

Management considers that the Accounting Review and resulting write-down of the balance sheet at 31 March 2017 reflects a fair and balanced assessment process.

Alternative Performance Measures

The results of the Accounting Review, which led to both prior year adjustments as well as asset write-downs of a non-recurring nature, make it difficult to assess underlying operating performance, which is a key focus for both investors and others seeking to assess the Group's performance. Therefore, for FY17 (and for comparatives in the year ending 31 March 2018), Alternative Performance Measures have been provided to adjust for both other items and one-off items in both FY17 and FY16, to reflect more meaningful analysis of our like-for-like operating performance (referred to as "adjusted revenue" and "adjusted operating profit").

In considering its presentation of adjusted revenue and adjusted operating profit, management has sought to ensure that items considered to be non-recurring reflect a fair and balanced position. Reported operating loss of £6.3m (2016: profit £113.9m) is increased to an adjusted operating profit of £82.0m (2016: £95.2m) through recognition of one off items of £88.3m (2016: £18.7m). Where appropriate, management has sought to reflect a like-for-like position in arriving at its adjusted revenue and adjusted operating profit for 2016. The most material items are as follows:

Impairment and amortisation of intangible assets

As part of the Accounting Review, management reassessed the valuation of other intangible assets. A total of £10.5m (2016: nil) has been written down from intangible assets. This related to both the ongoing usefulness and the useful life of each asset. The review found that a £3.0m write-down of software and development expenditure was appropriate. In addition, a reduction in anticipated useful life led to an increased amortisation charge of £7.5m. Management does not consider these reflect current trading performance and therefore has treated them as non-recurring.

Adjustment to accrued income on long-term complex contracts

Long-term complex contracts accounted for under the percentage of completion method involve a series of forward-looking assumptions and judgement is required to assess the balance of those assumptions. In its review, management considered that it was appropriate to exclude from the forecast anticipated but uncontracted project work and anticipated energy savings. A total of £20.4m (2016: credit £6.4m) has been written off the accrued income balance on long term complex contracts. In calculating the FY16 adjusted revenue and adjusted operating profit, the non-recurring increase in lifetime margin recognised on a significant contract has been excluded. Management does not consider these to reflect current trading and therefore has treated them as non-recurring.

Accrued income, debtors and prepayments included in trade and other receivables

In its review of trading assets, management considered the degree of judgement in the recognition of accrued income, the recoverability of debtors, the appropriateness of prepayment assets and the valuation of other receivables. Management concluded that it was appropriate to either write off or increase the level of provisions made against such items, totalling £36.4m (2016: 0.1m).

Further items recognised in other categories include impairment of mobilisation assets, other provisions and other one-off items totalling £21.0m (2016: £12.3m).

The Group intends to revert to its usual presentation of profit before other items next year as the Accounting Review is anticipated to be a one-off event. The adjusted operating profit is presented after adding back the £88.3m (2016: credit £18.7m) identified as part of the Accounting Review above.

Adjusted revenue and adjusted operating profit

An analysis of the year-on-year movements in adjusted revenue and adjusted operating profit from continuing operations is as follows:

Adjusted revenue	2017 £m	2016 £m
Cleaning & Environmental Services	**399.0**	407.1
Security	**404.2**	364.4
Catering	**132.7**	126.6
Engineering Services	**809.0**	788.4
Professional Services & Connected Workspace	**90.9**	97.9
Public Services	**304.2**	349.0
Total Group	**2,140.0**	**2,133.4**

Adjusted operating profit	2017 £m	2016 £m
Cleaning & Environmental Services	**20.3**	23.6
Security	**19.9**	19.8
Catering	**5.3**	5.3
Engineering Services	**37.9**	42.0
Professional Services & Connected Workspace	**6.7**	5.6
Public Services	**15.2**	18.9
Corporate Overheads	**(23.3)**	(20.0)
Total Group	**82.0**	**95.2**

The Group's adjusted revenue increased marginally in the year, from £2,133.4m to £2,140.0m. This was principally due to strong revenue growth in Security offset by a significant volume decline in Property Management. Adjusted operating profit has fallen by 14% in the year from £95.2m to £82.0m, driven by volume decline in Property Management and a difficult year for both Cleaning and Engineering Services.

Further review of the adjusted trading results is included in the Operating Review, on pages 14 to 25.

Other items before discontinued operations

Other items (with the exception of goodwill which is described below) total £21.6m (2016: £6.3m). This includes £14.9m of one-off costs of organisation change. The nature of these costs are to support the Group's cost efficiency and transformation programmes and specifically relate to project management support for the change process, together with the costs of redundancy for people leaving the business. Secondly, £6.7m (2016: £6.3m) relates to the amortisation of acquisition related intangible assets and acquisition costs. The tax credit on other items was £4.1m (2016: £1.3m) resulting in other items after tax of £(32.5)m (2016: £(5.0)m).

Tax contribution
We manage all taxes, both direct and indirect, to ensure 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 revenues to the UK Exchequer, paying £534.4m in FY17 (2016: £507m). This comprised £15.4m of UK corporation tax and £519.0m of indirect taxes including business rates, VAT and payroll taxes paid and collected. As our business is primarily based in the UK, our effective tax rate should track the UK statutory tax rate. Due to losses incurred during the year we do not expect to pay any corporate tax in FY18 and will be obtaining a repayment of tax overpaid in prior years. The amount due is shown as a current tax asset on our balance sheet.

Discontinued operations
In February 2017, Mitie completed the disposal of its UK social care division comprising the domiciliary care and homecare businesses, Enara Group Limited and Complete Care Holdings Limited, to Apposite Capital LLP, a specialist healthcare investor, for a cash consideration of £2.

The Group agreed to contribute £9.45m to the funding of trading losses and the cost of the turnaround plan, payable in two tranches. The first tranche (£5.4m) was paid on 1 April 2017 with the second (£4.05m) to be paid on 1 July 2017. The total loss on disposal was £30.4m.

The Audit Committee appointed KPMG to review the circumstances surrounding the judgement made on Healthcare goodwill at 31 March 2016. As a result of the review the Audit Committee has considered that one or more errors had been made in preparation of the plan that was approved by the Board and formed the basis for impairment testing of Healthcare goodwill. Correction of these errors reduces the value in use by £64.0m which results in an impairment to Healthcare of £26.0m at 31 March 2016, and this has been adjusted in the prior year figures. The remaining £81.1m Healthcare goodwill has been written off in the year ended 31 March 2017 along with other intangible assets written off and amortised in the year totalling £11.4m (2016: £10.1m). In addition £0.3m restructure costs have been incurred. These other items, in addition to the trading loss incurred for the period to disposal of £12.0m (2016: £5.9m), resulted in a total loss from discontinued operations of £132.4m (2016: £39.0m), after tax credits of £2.8m (2016: £3.0m).

Dividends
Reflecting the difficult year for the Group, the Board has decided not to recommend a final dividend, leaving the full year dividend at 4.0p (2016: 12.1p). Going forward, the Board will review dividend policy to ensure that the appropriate balance is struck between the Group maintaining its financial position and giving returns to shareholders.

Mitie Model
Mitie historically operated an investment programme known as the Mitie Model. No new Mitie Model arrangements were created during the year and this past construct will be replaced by a more traditional Group LTIP Programme. At 31 March 2017, Mitie holds majority interests in six Mitie Model companies with a carrying value of £2.3m, disclosed as non-controlling interests in the balance sheet.

The Group will be ceasing its practice of buying back shares to offset shares issued under the Mitie Model or future LTIP arrangements.

Balance sheet
The Group's net assets reduced significantly at FY17 to £89.8m (2016: £361.5m). The £271.7m reduction is principally driven by £132.4m relating to the discontinued Healthcare operations, along with £59.7m of adjustments relating to the Accounting Review and £29.6m of net actuarial loss on the Group's pension schemes.

Goodwill and intangible assets
Goodwill and other intangible assets of £397.1m (2016: £504.1m) were held on the balance sheet at 31 March 2017. Impairment of the goodwill in relation to Healthcare accounts for £81.1m of this reduction, along with amortisation and impairment charges totalling £36.9m.

In addition, the Board has carefully reviewed the carrying value of goodwill in the Property Management CGU and while it considers that the business plan is achievable, it has also come to the conclusion that considering the balance of risks and opportunities, a disappointing performance in FY17 and sensitivity analysis, an impairment of £15.0m is appropriate, reducing that CGU's goodwill to £70.2m (2016: £85.2m).

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

Working capital and invoice discounting
Operating cash flow improved to £151.1m (2016: £114.6m). In order to properly understand the true working capital performance, it is helpful to strip out both the effects of the one-off write-offs and the utilisation of invoice discounting.

The one-off write-offs either reduce debtors or increase provisions, both of which have the effect of a one-time improvement on working capital, which offsets the reported base level of EBIT.

The Group has used non-recourse invoice discounting for a number of years. During the year, our utilisation of invoice discounting facilities increased by £28.5m (2016: £23.1m). Net other trade payables/receivables increased by £18.0m, largely as a consequence of extending credit terms.

After stripping out these effects, working capital from continuing operations has improved by £18.0m (2016: £(34.4)m).

Cash

As a result of the net working capital movement, net debt at 31 March 2017 was £147.2m (2016: £178.3m).

Net debt and lender covenants

As at 31 March 2017, the Group has £527m of committed funding arrangements. In September 2016, we extended our £275m multi-currency Revolving Credit Facility (RCF) for a further two years to July 2021, with no change to terms. Our £252m of US Private Placement notes are spread over four maturities between December 2017 and 2024.

Mitie's two key covenant ratios are leverage cover (ratio of net debt to EBITDA to be no more than 3x) and interest cover (ratio of EBITDA to net finance costs to be no less than 4x). Following the end of the year, the Group approached its lenders to seek their agreement to exempt further asset write-downs of £39.7m from covenant calculations. These write-downs are judgemental in nature and will not result in future cash outflows. Lender approval was received and these write-downs are included in these accounts. Due to the technical provisions of IAS 1 and the timing of this approval being received after the year end, it has been necessary to classify the drawn amounts under the RCF and the US Private Placement notes (total £309.3m) as current rather than non-current liabilities.

Retirement benefit schemes

The net deficit on our defined benefit pension schemes was £74.2m (2016: £35.5m). The increase has been principally driven by a 95 basis point reduction in the discount rate used by the Group to determine its pension obligations, arising from a reduction in corporate bond yields. The accounting deficit on Mitie's principal defined benefit scheme at 31 March 2017 was £70.7m (2016: £34.4m). Whilst this deficit has fallen since the half year by £10.5m, Mitie intends to develop a deficit reduction plan in the autumn of 2017, once the actuarial triennial valuation at 31 March 2017 is completed.

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 deficit in respect of schemes in which it is committed to funding amounted to £3.5m (2016: £1.1m).

The Group has commenced consultation with those employees who continue to accrue benefits under defined benefit arrangements with a view to moving to a defined contribution basis in line with the majority of employees in the Company and the wider market.

Articles – borrowing powers

Due to the reduction of net assets, it has become necessary to address the borrowing powers limit contained in the Company's Articles of Association. The borrowing powers limit is a constitutional requirement and is not connected with the Group's ability to borrow money from commercial lending markets but is an internal constitutional constraint. The limit is currently set at 2x adjusted net assets, which the Board believes is insufficient cover in light of the write-offs reported in the financial statements, given the normal intra-year swings in net debt. Therefore, the Company is holding an Extraordinary General Meeting on 12 June 2017 to seek shareholders' permission to increase this limit to a fixed amount of £1.5bn. This does not indicate that the Company wishes to increase its level of indebtedness per se; rather control over the Company's ability to raise funding continues to be primarily limited through the application of lender covenant ratio requirements, as detailed above. However, our lenders do require the Company to be compliant with its Articles at all times.

Next steps

After a challenging year the foundations are laid enabling us to drive forward our transformation programme with a robust control environment to support our new strategy.

Principal risks and uncertainties

Mitie faces many risks and opportunities which are managed and mitigated through our risk management framework. Our Group risk register contains those risks and uncertainties that the Board believes to be the most significant, following consideration of our business and functional risk registers, with the potential to impact materially upon our strategy, our financial and operational performance, and ultimately our reputation.

We also recognise that there are additional external pressures that we know will impact our risk profile, such as political and economic risk, commodity price increases and new legislation. Our risk management programme does, and will, flex to accommodate those additional external influences. In response to the challenges that we have faced in FY17, which have resulted in an operating loss for the year, significant write downs and prior year adjustments, we have made significant changes to the way we manage risk across the business. We have made structural and personnel changes that will improve the evaluation of risks and uncertainties and how the organisation responds to them. The Board has conducted a robust assessment of the principal risks and the risk management framework now covers 13 high-level risk areas that affect Mitie. These will be embedded into the risk registers across the business.

In addition to the changes made as a result of what has happened during this financial year, we recognise that we have a significant transformation programme underway, adding an additional internal dimension to our risk and control environment. A specific risk has been added to our register this year covering the management of risk around our transformation programme.

The challenging environment in which we operate requires a risk management framework in which we can confidently identify, assess, mitigate and manage our risks and take advantage of opportunities presented. This framework enables the Board to make more informed decisions. Our key risk categories, continue to be: strategic, financial, operational and regulatory. In a Board context, the increasingly complex risks associated with these themes require careful consideration and anticipation. The principal risks and uncertainties listed here promote an informed discussion and debate on matters that could affect the long-term viability of the business.

As a result of changes in management and comments from shareholders, Mitie conducted a comprehensive Accounting Review this year. The work was complemented by KPMG's review, which covered certain aspects of the material balances of accrued income, mobilisation costs, percentage of completion accounting and the recoverability of trade receivables, as well as the carrying value of certain other assets.

KPMG confirmed that the customer contract related methodologies and policies used by Mitie comply with all relevant accounting standards. However, KPMG commented that our application of percentage of completion accounting is less conservative, albeit still justifiable, than others in the market. In addition, the review has identified a number of prior year material errors.

The outcomes of the Accounting Review are summarised on page 53 of this report.

This year we have continued to embed our risk management system through the continuing use of our risk management tool and we started to introduce audit and risk committees at a business unit level. Progress has been made with the risk management tool and risk registers, including the development of active mitigation plans, which are now in place for all our businesses.

Next year we will expand these meetings to all of our businesses and have an increased focus on the effectiveness of our mitigation plans and controls. We expect to see the control environment change during FY18 as a consequence of changes to our management team, the operational structure and investment in technology.

The heat map below shows the relative importance of the risks that Mitie currently faces.

Risk no	Category	Risk
1	Strategic	Poor contract negotiations, mobilisation and management leading to poor contractual terms/inappropriate risk transfer, operational and financial loss
2	Strategic	Continuing uncertainty of company performance and resourcing requirements through changes (positive and negative) to economic conditions
3	Strategic	Inability to maintain competitive market offering
4	Strategic	Failure in delivery of our significant change agenda
5	Operational	Failure of critical IT infrastructure leading to performance and back office support issues
6	Operational	Cyber risk and/or customer data theft and compliance with data protection regulations
7	Operational	Inability to maintain high health, safety and environmental management standards
8	Operational	Termination or loss at re-bid of a major contract
9	Operational	Inability to attract or retain the right talent in the right place impacting performance capability
10	Financial	Poor operational cash flows and insufficient access to sources of capital leading to the inability to maintain a strong liquidity position
11	Financial	Failure of material counterparty (customer, banker, supplier, insurer etc.) to fulfil its obligations leading to significant contractual or financial exposure
12	Financial	Inability to pass on inflationary pressure on wages and input costs
13	Regulatory	Non-compliance with legal and regulatory requirements (e.g. employment, governance, anti-bribery, modern slavery etc.)

Strategic risks

Risk number: 1

Poor contract negotiations, mobilisation and management leading to poor contractual terms/inappropriate risk transfer, operational and financial loss

Impact on our objectives

1 Putting customers at the heart of our business

2 Transforming our cost base

Our value proposition is to deliver support services to our customers at a lower cost and higher quality than they can provide themselves. Critical to this is our ability to bid, mobilise and deliver large-scale, complex contracts competitively. We have to negotiate and agree contracts with our customers that balance risk and reward, with contractual requirements that are fair, having appropriate contract performance mechanisms to ensure that this is achieved. Incorrectly evaluating the risks involved and entering into contracts with onerous conditions, penalties and one-sided termination clauses would be detrimental to the Group's performance. We have to ensure that the risk profile of contracted services is capable of being properly managed by Mitie and that we have the appropriate skills and resources in the business or in our supply chain to operate contracts successfully. Failure to do so could result in contract termination, penalties and reputational damage.

Failure to properly mobilise a contract creates a high risk of not meeting the performance and financial profile expected. Having a dedicated resource to deal with the mobilisation and the transfer of people to Mitie under TUPE (Transfer of Undertakings and Protection of Employment) is necessary to mitigate that risk.

In FY17 we have conducted reviews into all of our material contracts to assess whether they are operating in accordance with the contractual conditions and are meeting financial performance expectations. The accounting methodology, judgements and assumptions made were also considered. This review has been supported by KPMG as part of their review. As a result of this review a number of adjustments and provisions have been made which are detailed on page 26. The adjustments and provisions made were based on management's best judgement at the time of the review.

We have performed a review of sales and tender approval processes, the procedures for agreeing commercial contract terms and the mobilisation and management of contracts. These will all be updated over the course of FY18 and management reporting will be enhanced to provide greater control over contract performance.

Management mechanisms

- Executive management approval of complex tenders
- Commercial review by legal team
- Delegated authority register
- Client relationship programme
- Use of specialist mobilisation teams for complex contracts
- KPI/SLA formal reviews with customers
- Risk registers in place for large-scale contracts
- Certified quality management systems to ISO 9001

Future plans

- Continue to standardise our processes across Mitie, with regard to the sales process, tender approvals and commercial and legal reviews, mobilisation and contract management as well as embedding risk management accountability and responsibility for our complex contracts.

Risk number: 2

Continuing uncertainty of company performance and resourcing requirements through changes (positive and negative) to economic conditions

Impact on our objectives

1 Putting customers at the heart of our business

2 Transforming our cost base

3 Developing and retaining our talent

4 Developing our technology-led professional services

The success of Mitie is dependent upon both our private and public sector clients continuing to outsource the services that we provide. This will continue as long as we are able to deliver quality services that save our customers money during all phases of the economic cycle. Company performance is impacted by changes in economic conditions largely through the volume of project works and discretionary expenditure from our customers. High levels of work improve company performance and demand for resources, with the opposite for low levels.

Our principal macro-economic exposure remains in the UK, with limited exposure to the wider global economy. We are closely monitoring the outcomes of the EU exit negotiations and any resulting policy changes to determine the impact on future contract opportunities and availability of resources. Regulatory changes such as increases to the National Living Wage and other labour costs, such as the Apprenticeship Levy, provide further challenge.

The UK economy is going through a period of uncertainty, with lower than average growth levels and increasing costs of materials due to the devaluation of the pound. How we recognise and respond to variations in particular sectors by designing service solutions that reduce costs for our customers may impact the Group's ability to win or retain contracts.

Resilience is provided by our diverse business portfolio with customers having varying demands on our resources depending on how they are impacted by the economic cycle.

Management mechanisms

- Maintaining mix of long-term contract portfolio in both the public and private sector
- Focus on higher margin growth areas
- Increasing spread of client base, reducing reliance on individual customers
- Customer retention programme
- Development of Connected Workspace solutions
- Employee engagement programme
- Frequent sales pipeline review
- Targeted and considered acquisition/divestment strategy

Future plans

- Our strategic review, focus on our cost base and the continuation of our strategy of diversification across cyclical markets will support Mitie's resilience to these external factors

Risk number: 3

Inability to maintain a competitive market offering

Impact on our objectives

1 Putting customers at the heart of our business

2 Transforming our cost base

4 Developing our technology-led professional services

Our changing environment requires us to have a clear and appropriate market offering, which provides a competitive advantage and is attractive to our customers. We recognise that cost and margin pressure is an ever present factor in our industry. This creates an imperative to have a low cost base and a differentiated customer proposition.

Failure to maintain a compelling and competitive offering will lead to revenue declines and margin reductions. The strategic review has identified four key areas of focus for Mitie's customers, costs, people and technology. Putting our customers at the heart of our business, increasing the use of technology to provide insights into managing our clients' workspaces more efficiently, reducing our cost base and making Mitie the easiest company to do business with will help to ensure a competitive and attractive market proposition. Failure to achieve those two things would impact Mitie's ability to retain its clients and to secure new contracts, impacting future financial performance. Our new Connected Workspace strategy is key to improving our competitive position.

Management mechanisms

- Project Helix transformation programme
- Enhanced capability within Professional Services
- Development of Connected Workspace solutions
- Strategic concentration on UK
- Executive approval for investment in new sectors/ infrastructure/technologies
- Strategic account management
- Continued pursuit of innovation and best practice

Future plans

- A strategic review of technological opportunities in our markets to develop new technology-led offers for our customers
- Additional sales and marketing capability.

Risk number: 4

Failure in delivery of our significant change agenda

Impact on our objectives

1 Putting customers at the heart of our business

2 Transforming our cost base

3 Developing and retaining our talent

4 Developing our technology-led professional services

We recognise the challenging environment we are operating in today and are responding to this with a transformation programme (Project Helix) to ensure sustainable changes are made to support our new operating model. We are implementing a number of transformational projects, such as business operational efficiency and transformations in our Finance, IT, Procurement and HR.

The intensity and volume of the change programmes, the complex interdependencies, poor programme and solution design, poor implementation or failing to make these changes permanent and sustainable could impact on the delivery of the change agenda. Constraints on our ability to invest may impact on the resources needed to deliver the transformational programmes which could delay or prevent some of them and place our positive return on investment at risk.

Management mechanisms

- Executive sponsorship of the transformation programme
- Programme management, design and governance, supported by an experienced third party, to support and shape our transformation programme and to establish effective governance with clear roles and responsibilities across the programme. This will enable us to have effective supervision, decision making and the necessary controls and management
- Appointing both internal and external people with the right technical and change management skills to drive our transformational projects
- Communication and awareness programmes to ensure our people are engaged and ready for business change
- Focused business assurance activities to ensure we maintain adequate controls

Future plans

- Ongoing oversight for each of the transformation streams by the Executive Leadership Team
- Managing delivery of our transformation to minimise disruption to the business.

Operational risks

Risk number: 5

Failure of critical IT infrastructure leading to performance and back office support issues

Impact on our objectives

1 Putting customers at the heart of our business

2 Transforming our cost base

4 Developing our technology-led professional services

Our operations are increasingly dependent upon technology with a significant increase in both the quantity of data we hold and the number of pieces of critical infrastructure we look after on behalf of our customers. Failure of our IT systems would impact our ability to operate and in some cases our customers' ability to operate.

Depending on its severity an IT failure may also impact our ability to pay our people, our supply chain partners and to submit invoices to our customers. This could have a significant impact on the business.

We continue to expand on the use of technology for our customers and with this we have an increased reliance on systems and controls throughout the business.

Our clients expect greater connectivity of FM services and with that there is an increased requirement on Mitie to provide services data, with performance measurement increasingly dependent on technological solutions.

Failure to invest in the right technology could impact on our potential to provide the operational support needed to enable our contract delivery.

Management mechanisms

- Investment strategy and support for technology development
- Budgetary control and oversight over IT investments
- Standardisation of operational and ERP platforms and software
- Expert consultancy advice sought to support new contract and systems requirements
- Internal teams of experts trained to support new systems

Future plans

- Ongoing monitoring of investment strategy for technical solutions
- Sharing of learning across both customer facing and internal technology investments

Risk number: 6
Cyber risk and/or customer data theft and compliance with data protection regulations

Impact on our objectives

1 Putting customers at the heart of our business

4 Developing our technology-led professional services

Organisations of all types are at an increased risk of cyber-attacks, hacking and ransomware. This has the potential to affect our ability to operate and could damage our reputation.

There is also the risk of reputational damage and financial penalties for failing to adequately protect the data we hold for our customers, end-users, suppliers and our own people. Information is an important asset for the business and needs to be protected at all times from disclosure or misuse. We handle information in many forms and have formal secure technical and procedural controls in place to mitigate risks to the information. The secure processing, maintenance and transmission of sensitive and confidential data is achieved through the integrity of our systems. Appropriately applied information security helps to ensure business continuity and minimise disruption by preventing or minimising the impact of security breaches. Failure to do this would raise questions about how we handle information with care, and reduce confidence in our abilities.

Data protection regulations are undergoing a transformation with the introduction of the General Data Protection Regulation (GDPR) and we have launched our preparation activities to be ready by the enforcement date in May 2018.

Failure to implement and maintain suitable security controls will have an adverse effect on the confidentiality, integrity and availability of both our and our customers' information.

Management mechanisms

- Centralised information security team in place
- Information Security Management System (ISMS) in place and certified to ISO/IEC27001:2013 for key information assets
- IT security controls (including resources, tools and processes) to proactively test, monitor, identify and respond to cyber threats
- Cyber essentials accreditation
- Ongoing Security Awareness For Everyone (SAFE) programme
- Cyber insurance policy

Future plans

- Reviewing and revising data protection methodologies and procedures in line with the General Data Protection Regulation
- Continuing development of technical security controls and capabilities
- Information security a consideration for all new activities and products.

Risk number: 7
Inability to maintain high health, safety and environmental management standards

Impact on our objectives

1 Putting customers at the heart of our business

3 Developing and retaining our talent

We undertake a broad and diverse range of services for our customers, some of which are potentially hazardous and have the potential to cause harm to our employees, our business partners or members of the public, or to damage the environment. Failure to maintain high health, safety and environmental (HS&E) standards may cause death, disability or injury or cause environmental damage. Failure could also lead to regulatory action, financial impact or damage to our reputation.

We maintain an unwavering commitment to safeguarding our people, others who potentially could be affected by our activities, and protecting the environment wherever we operate.

Management mechanisms

- Work Safe Home Safe programme
- Certified HS&E management systems to OHSAS 18001 and ISO 14001
- Operations supported by professional HS&E teams
- HS&E performance reviews at all business and Board meetings
- Best practice sharing at HS&E performance meetings
- Legal registers in place together with biannual evaluation of compliance to legal requirements

Future plans

- Enhancing Work Safe Home Safe programme
- Certification of businesses remaining outside of group umbrella certification to the QHSE (9001, 18001 and 14001) standards
- Developing clear and standardised KPIs to monitor progress and improvements
- Reviewing our operating model for the delivery of HS&E services and making changes to ensure that it is fit for purpose.

Risk number: 8
Termination or loss at re-bid of a major contract

Impact on our objectives

1 Putting customers at the heart of our business

2 Transforming our cost base

4 Developing our technology-led professional services

We have a number of large integrated contracts and major service specific contracts, and the risk of termination or loss at re-bid could affect our financial performance and impact our reputation in the market, reducing the number of reference sites. We recognise that termination or loss could be a result of external factors outside our control, such as a change in the strategic priorities of our private sector and government customers. However, we can mitigate the risks by ensuring we have the right business propositions, supported by the right people and the right technology.

Management mechanisms

- Improved CRM capabilities with active relationship management
- Strategic account management teams
- Net Promoter Score
- Professional services & Connected Workspace solutions
- Innovations and best practice

Future plans

- Developing process for exiting contracts successfully
- Launch of 'Beyond FM' putting customers at the heart of the business, with a focus on improving customer satisfaction.

Risk number: 9

Inability to attract or retain the right talent in the right place impacting performance capability

Impact on our objectives

1 Putting customers at the heart of our business

3 Developing and retaining our talent

Failure to retain our existing talent and attract new talent will result in the business being uncompetitive in the market and impact customer satisfaction and financial performance. We must continue to retain our most skilled people at all levels of the organisation, as well as attracting new people to join us, especially during periods of change. We recognise the need to have access to a diverse range of views and experience and to attract specific technical expertise where the market is highly competitive.

Failure to identify and recruit the right talent, and motivate our people could lead to sub-optimal decision making and poor business performance.

Failure to have the right culture in the business with weak controls, a lack of checks and balances and management processes could lead to contract management and accounting errors.

Management mechanisms

- Succession planning and talent management
- Competitive remuneration, terms and conditions
- Talent management and personal development plans related to annual appraisals
- Employee communications
- Business management system
- Mentoring programme

Future plans

- Development of a winning Mitie culture incorporating a review of corporate culture and behaviours
- Employee engagement programme
- Aligned incentives based on a balanced scorecard
- Mitie Way of performance management
- Improved on-boarding.

Financial risks

Risk number: 10

Poor operational cash flows and insufficient access to sources of capital leading to the inability to maintain a strong liquidity position

Impact on our objectives

1 Putting customers at the heart of our business

4 Developing our technology-led professional services

Mitie's balance sheet strength has deteriorated in FY17 and this could limit our ability to grow either organically or through acquisition.

Given that staff costs remain our most significant expenditure, the availability of funding from a variety of sources, strong cash flow and working capital management remain central to our ability to pay our people on time. We also require sufficient working capital to pay suppliers and subcontractors and to invest in our transformational programme. Funding is therefore critical to the ongoing success and continuity of our business. Failure to maintain adequate sources of finance ranging from banking facilities and private placements to supply chain finance and invoice discounting could result in insufficient funding to maintain a strong liquidity position.

Management mechanisms

- Committed long-term funding facilities
- Strong debt and equity relationships
- Supply chain finance and invoice discounting
- Daily monitoring of bank balances
- Regular forecasting of cash flow
- Regular financial performance and balance sheet reviews
- Monthly monitoring of working capital
- Disputes and escalation process

Future plans

- Implement appropriate incentive schemes for management to ensure a focus on cash collection
- Ensure appropriate payment terms with customers and supply chain
- Change of policy to ensure provisions are made for doubtful debts.

Risk number: 11

Failure of material counterparty (customer, banker, supplier, insurer etc.) to fulfil its obligations leading to significant contractual or financial exposure

Impact on our objectives

1 Putting customers at the heart of our business

We are reliant on several counterparties such as insurers, banks, clients and suppliers to maintain our business activities. Our ability to trade and the operational and financial effectiveness of our business could be materially affected by a failure of one of these key counterparties. The need to maintain effective ongoing relationships with our material counterparties is therefore critical if the Group is to meet its strategic objectives.

Management mechanisms

- Annual material counterparty risk reviews and Board approval
- Maintain sufficient committed debt facilities to cope with adverse financial conditions
- Ongoing credit monitoring of material counterparties and exposures
- Active contact with external financial and commercial markets

Future plans

- Exercise continued vigilance in monitoring and managing key counterparty relationships.

Risk number: 12

Inability to pass on inflationary pressures on wages and input costs

Impact on our objectives

2 Transforming our cost base

3 Developing and retaining our talent

In our contracts there are two principal ways of addressing the risk of inflation. The first is to link the price of the contract to an index such as the Consumer Price Index, the second is to build an assumption about inflation into the pricing for later years of a contract. The risk to Mitie is that the assumption we make about future inflationary levels is incorrect.

Since the decision to exit the EU the fall in value of sterling against major currencies has caused commodity price increases and a subsequent increase in the prices we have to pay for many of our materials, especially food.

We have contractual protection from increases in costs either through regulatory change or inflationary pressure in the majority of our contracts. The ability to pass through cost increases is an important element of all contracts.

Management mechanisms

- Commercial review of contracts
- Protective contractual clauses
- Executive review of material tenders
- Annual increase processes
- Delegated authority register
- Customer account management programme

Future plans

- Extending customer management programmes and enhanced focus on contract terms.

Regulatory risks

Risk number: 13

Non-compliance with legal and regulatory requirements (e.g. employment, governance, anti- bribery, modern slavery etc.)

Impact on our objectives

1 Putting customers at the heart of our business

3 Developing and retaining our talent

Failure to adhere to legal and regulatory requirements could lead to fines, prosecutions, loss of our reputation and impact our ability to attract and retain our people.

As a major employer, we have to comply with the complex and developing legal and regulatory frameworks in areas such as taxation, the National Minimum Wage and National Living Wage, the Apprenticeship Levy and the Modern Slavery Act. It is essential that we can demonstrate compliance to avoid the material financial and reputational impacts associated with non-compliance.

Management mechanisms

- Management oversight for legal compliance at audit and risk committee meetings
- Group departments (Tax, Company Secretariat, Finance, QHSE, Legal, HR, Pension) keep fully up to date with regulations
- Specialist advice sought from external experts
- Compliance systems and statements of compliance
- Training provided and guidance for ongoing and new legislation
- Compliance monitoring by Finance, Tax, Enterprise Risk and Payroll functions
- Tax reporting framework in place to meet Senior Accounting Officer requirement
- Code of conduct
- Certified business management systems (BMS) to ISO 9001, ISO 14001, OHSAS 18001 and ISO/IEC 27001 (as per statement of applicability)
- QHSE legal register

Future plans

- Reviews to assess the impact of the existing and changing wage framework
- Further action plans for compliance with the Modern Slavery Act in the supply chain.

Viability Statement

In accordance with section C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the prospects of the Group over a three-year period. This assessment took account of the Group's current position and potential impact of the principal risks of the Group as set out on pages 30 to 36 of the Annual Report. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue operation and meet its liabilities as they fall due over the period to 31 March 2020.

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

At 31 March 2017, the Group had available £257.9m of undrawn committed borrowing facilities. Its borrowing facilities total £526.8m and include a £275.0m Revolving Credit Facility with an expiry date of July 2021 and £251.8m of US Private Placement notes which have a range of maturity dates commencing from December 2017 out to December 2024. Over the period under consideration for viability testing £60.2m of the £526.8m of committed borrowing facilities reaches maturity in December 2017, with a further £40.0m reaching maturity in December 2019. The maturing facilities are comprised of the repayment of the 2010 US Private Placement 7 and 9 year notes. The Group's assessment of viability is not dependent on refinancing these arrangements. The Group utilised £110.7m of invoice discounting at 31 March 2017.

In making this statement, the Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This included the availability and effectiveness of mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on page 46, are considered.

In undertaking its assessment, the Board has considered a detailed financial plan which includes analysis of the forecast and actual performance of the Group's existing contract base, expectation for future growth including sales targets and expected win rates, overhead cost base, expected costs of financing and the availability of future funding facilities. The Group's forecasts of its divisional and consolidated income statement, balance sheet and cash flows are used to perform analysis of forecast headroom on the Group's borrowing facilities and the Group's consequent solvency and liquidity.

A range of scenarios that encompass the principal risks were applied to the plan which included early termination of key contracts; revenue reduction over the plan period; reduced rates of margin on the existing contract base and adverse operating cash performance. The analysis also considered a reverse stress-test scenario to illustrate the reduction in operating margin required to cause a breach of leverage covenant, in combination with the reduced revenue and operating cash scenarios.

The customer and sector diversification of the Group's operations helps minimise the risk of serious business interruption or a catastrophic damage to our reputation. Our largest client constitutes only 7.5% of Group revenue. The Directors considered mitigating factors that could be employed to counter the negative effects of the crystallisation of each of these risks. The main actions included the short-term scaling down of capital expenditure, asset disposals, and limitations to acquisition activity and reductions in cash distributions.

Board of Directors

Roger Matthews
Non-Executive Chairman

Board Committees
Chairman of the Nomination Committee
Member of the Remuneration Committee

Date of appointment to the Board
December 2006

Other current appointments
None

Past roles
Previously a Non-Executive Director of Mitie until his appointment as Chairman in 2008. Roger qualified as a Chartered Accountant with PricewaterhouseCoopers. He held a number of finance roles at Cadbury Schweppes PLC and Grand Metropolitan PLC before becoming group finance director and group managing director at Compass Group PLC and group finance director at J Sainsbury PLC. During the last 12 years he has held a number of non-executive roles including non-executive chairman of Pertemps Network Group Limited and LSL Property Services plc. He was previously a non-executive director at RHM PLC, Zetar PLC and a trustee of Cancer Research UK.

Skills and experience
- Over 25 years as a public company director.
- Experienced FTSE 100 and FTSE 250 director in executive and non-executive roles.
- Extensive experience in outsourcing, retail, hospitality and food manufacturing sectors.
- Significant experience in strategy, international, finance and mergers and acquisitions.
- Chartered Accountant.

Phil Bentley
Chief Executive Officer

Board Committees
Chairman of the Results and Investment Committees

Date of appointment to the Board
November 2016

Other current appointments
None

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

Skills and experience
- Executive and non-executive experience with FTSE 100 public companies for over 15 years.
- Significant strategic and commercial experience, both at national and global level.
- Extensive executive and leadership experience from across industry.
- Extensive financial, audit and risk management systems experience.
- Chartered Accountant, with a Master's degree from Oxford University and an MBA from INSEAD, Fontainebleau.

Sandip Mahajan
Chief Financial Officer

Board Committees
Member of the Results and Investment Committees

Date of appointment to the Board
February 2017

Other current appointments
None

Past roles
Sandip previously worked at Balfour Beatty plc, where he served as group director of finance from 2013 to 2016 and held other roles in project and structured finance in its Investments Division from 2005-2013. Sandip was previously at Ernst & Young and British Airways Plc.

Skills and experience
- Executive experience with FTSE 250 public companies for over 10 years.
- Significant financial and commercial experience in the operational performance of long-term contracts.
- Experience of creating shareholder value by structuring and negotiating complicated long-term deals.
- Track record of leading corporate transactions in the listed environment.
- Chartered Accountant, with an LLB honours law degree from Leicester University.

Larry Hirst, CBE
Senior Independent Director

Board Committees
Member of the Audit, Nomination and Remuneration Committees

Date of appointment to the Board
February 2010

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

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

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

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

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

Jack Boyer, OBE
Independent Non-Executive Director

Board Committees
Chairman of the Remuneration Committee
Member of the Audit and Nomination Committees

Date of appointment to the Board
June 2013

Other current appointments
Non-executive director and member of the nominations, remuneration and audit committees of TT Electronics PLC.

Council member of the board of the Engineering and Physical Sciences Research Council and the Innovate UK Energy Catalyst.

Past roles
Former chairman of Ilika plc; former non-executive director and chairman of the remuneration committee of Laird PLC; deputy chair Advanced Materials Leadership Council. Previously founded and was chief executive officer of companies in the engineering, telecommunications and biotechnology sectors. Investment banker at Goldman Sachs and strategy consultant at Bain & Co.

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

Mark Reckitt
Independent Non-Executive Director

Board Committees
Chairman of the Audit Committee
Member of the Nomination and Remuneration Committees

Date of appointment to the Board
July 2015

Other current appointments
Non-executive director and chairman of the audit committees at both Cranswick plc and Hill & Smith Holdings plc.

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

Skills and experience
- Significant international strategic experience.
- Chartered Accountant.

Derek Mapp
Non-Executive Chairman-elect

Board Committees
None

Date of appointment to the Board
May 2017

Other current appointments
Derek is chair of Informa plc and Huntsworth plc. He is chair of Imagesound, 3aaa and Salmon Developments Limited, which are all privately held companies. Derek also has a number of other business interests.

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

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

Nivedita Krishnamurthy Bhagat
Independent Non-Executive Director

Board Committees
Member of the Audit Committee

Date of appointment to the Board
June 2017

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

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

Skills and experience
- Significant international management experience.
- Extensive technological skills base.
- Chartered Accountant.

Compliance with the UK Corporate Governance Code (the Code)

In September 2015, the Financial Reporting Council (the FRC) considered revisions to its ethical and auditing standards and the UK Corporate Governance Code. In parallel with this, the FRC also consulted on changes to its Audit Committee Guidance. These revisions were designed to implement the provisions of the EU Audit Directive and Regulation, as well as to incorporate other changes such as those relating to auditor reporting standards, and audit obligations under the Statutory Services Order. As a result, the FRC published a revised Code in April 2016. This latest edition of the Code can be found on the FRC's website at www.frc.org.uk.

I can confirm on behalf of the Board that the Group has complied throughout the year with all of the principles and the relevant provisions set out in the April 2016 edition of the Code. Details of how we have applied the principles and complied with the provisions are explained throughout the annual report and, in this section, we explain how the Code is implemented via Mitie's governance framework.

As reported last year, all listed companies must provide their shareholders with a Viability Statement. We have given particular consideration to the impact that the last 12 months has had on Mitie's viability reporting and risk exposure, and our Viability Statement can be found in the strategic report on page 37.

Throughout the year the Board has reviewed and discussed ongoing strategy, risk, financial performance, investor communication and engagement, succession planning, board composition and key matters of governance. This has been done through Board and Committee meetings. An overview of the activities and the effectiveness of each of our Board Committees is explained further on pages 49 to 86.

The Board is responsible to shareholders and other stakeholders for the Group's activities and its long-term success. The value of good governance is recognised by the Board as an area of great importance.

I am well aware that Mitie has faced substantial challenges during the past year, with financial performance falling short of our expectations. The Board has taken decisive action in four principal areas:

- we have implemented succession plans for the Chief Executive Officer, Chief Financial Officer and Chairman;
- we have completed a comprehensive review of our accounting policies and balance sheet, and the appropriate write-downs and prior year adjustments have been made;
- we have disposed of our poor performing healthcare business; and
- we have conducted a strategic review and launched a technology and investment led strategy to maximise the value of our core businesses and which addresses the longer-term opportunity of "Beyond FM… to the Connected Workspace".

Further details are in the Chairman's statement on pages 2 and 3.

Significant steps have been implemented to strengthen the Finance team, financial disciplines and Internal Audit, which will lead to greater transparency in external reporting. The external audit will also be tendered in the next few months – further details are in the Finance review on pages 26 to 29.

The challenges of the past year are behind us, and the Board can now look forward, with a new management team in place and a new strategy launched, to delivering shareholder value in the years to come.

Board composition

During the year, we reviewed the composition of our Board and implemented the succession plan for the role of Chief Executive and Group Finance Director, as well as continued to look for a new Non-Executive Director. External advisors were appointed to support the process, details of which are set out in the report of the Nomination Committee on pages 60 and 61.

Pursuant to the succession plan, Ruby McGregor-Smith stepped down as Chief Executive and Director of Mitie on 12 December 2016, and Suzanne Baxter stepped down as Group Finance Director and Director of Mitie on 10 February 2017.

As part of these changes, we welcomed Phil Bentley as Ruby's successor in the role of Chief Executive Officer. Phil joined as a Director of Mitie on 1 November 2016, and assumed the position of Chief Executive Officer on 12 December 2016. We also welcomed Sandip Mahajan as Suzanne's successor in the role of Chief Financial Officer and Director of Mitie on 10 February 2017.

Additionally, and as announced on 9 May 2017, we appointed Derek Mapp, as Chairman-elect, who will succeed me as Chairman at the close of our Annual General Meeting on 26 July 2017. Derek has substantial experience, having sat on public company boards for over 20 years and been in non-executive chairman roles for the past nine years. He is currently non-executive chairman of both Informa plc and Huntsworth plc, following an extensive career in ownership, managerial, operational and commercial roles in service industries.

As announced on 16 March 2017, we appointed a new Non-Executive Director, Nivedita Krishnamurthy Bhagat, to the Board on 1 June 2017. Nivedita was also appointed as a member of the Audit Committee on that date.

The Board retains its focus on diversity and takes into consideration the diverse demographic of the Group's employee population. Mitie's female population accounts for 39.9% of employees, and its disclosed BME population accounts for 18.9% of employees.

Remuneration policy review

The remuneration policy was approved by shareholders at the Annual General Meeting (the AGM) in July 2015. The Group has operated within the boundaries of the remuneration policy and therefore does not intend to present the policy to its shareholders this year.

Details of how the remuneration policy has been applied are provided in the Directors' remuneration report which can be found on pages 62 to 86.

Roger Matthews
Chairman

Board members

The members of the Board and their accompanying biographies are set out on pages 38 to 40. All Directors are expected to allocate sufficient time to the Company to discharge their responsibilities effectively and, where possible, attend all Board meetings and the AGM. Any time commitment matters are addressed by the Chairman with the Director concerned.

Chairman	Roger Matthews
Board members (executive)	Phil Bentley (from 1 November 2016) Sandip Mahajan (from 10 February 2017)
Board members (non-executive)	Derek Mapp (from 9 May 2017) Jack Boyer Larry Hirst Mark Reckitt Nivedita Krishnamurthy Bhagat (from 1 June 2017)

Key purpose of the Board

The Board is collectively responsible for the sustainable long-term success of the Company and provides leadership and direction to management. Accordingly, the Board reviews and agrees the strategy for the Group, proposed by the Executive Directors, on an annual basis and reviews certain aspects of the strategy at Board meetings during the year. In setting the strategy, the Board takes account of matters such as: market trends; competitive environment; private/public sector approach; international aspects of the business and opportunities; finance; shareholder returns; people and talent; and the Group's corporate structure, ensuring at all times that sufficient consideration is given to risk and internal controls.

Key responsibilities

There are key matters and responsibilities that are set aside to be dealt with exclusively by the Board. These include:

- strategy – including setting Group strategies and objectives;
- structure – including approval of material changes to the Group's structure;
- financial reporting – including approving the Group's Half-Year Report and the Annual Report and Accounts, and approving business plans and budgets and monitoring performance against them;
- internal controls – including ensuring that a sound system of internal controls is maintained which is designed to safeguard assets and ensure the reliability of financial information for both internal use and external publication; and reviewing and monitoring the effectiveness of those risk and control processes, with the assistance of the Audit Committee through Internal Audit and the Group Enterprise Risk framework;
- acquisitions, disposals and contracts – including approving material acquisitions, disposals and business start-ups (including any material transactions outside the normal course of business);
- corporate governance matters – including undertaking a formal and rigorous review annually of its own performance and that of its Committees and individual Directors; determining the independence of Directors and reviewing the Group's overall corporate governance arrangements;
- delegation of authority – including the division of responsibilities between the Chairman and the Chief Executive Officer and approval of terms of reference of Board Committees;
- communication – including making arrangements for dialogue with shareholders and canvassing shareholder opinion;
- people – including changes to the Board, and ensuring adequate succession planning for the Board and senior management;
- policies – including approval of Group policies relating to share dealing, code of conduct, health and safety, corporate social responsibility and ethical trading; and
- other matters – including approval of new material banking facilities; appointment of principal professional advisors; approval of the annual renewal of the Group's insurance arrangements; and material changes to the rules or statement of investment principles of the Group's pension schemes, as well as considering the level of funding required for the Company's pension fund.

Full details of the matters reserved for the Board can be found at www.mitie.com/investors/corporate-governance.

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

Frequency of Board meetings

During the year ended 31 March 2017, there were six scheduled Board meetings.

	Attendance
Number of scheduled Board meetings held in the year:	6
Roger Matthews	6
Ruby McGregor-Smith[1]	4
Phil Bentley[2]	3
Suzanne Baxter[3]	5
Sandip Mahajan[4]	1
Jack Boyer	6
Larry Hirst	6
Mark Reckitt	6

Notes:

1. Ruby McGregor-Smith resigned from the Board on 12 December 2016
2. Phil Bentley was appointed to the Board on 1 November 2016
3. Suzanne Baxter resigned from the Board on 10 February 2017
4. Sandip Mahajan was appointed to the Board on 10 February 2017

Additional ad hoc Board meetings were held, to consider various matters relating to the status of the Company's Healthcare division and appropriate action required to be taken in relation to it, as well as the Company's trading announcement made on 19 September 2016. The Board also held a full day strategy meeting. Given the serious nature of the issues which the Company has faced, the Board has already held five meetings during the current financial year.

Key areas of business

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

- trading updates;
- business divestment, including the trading performance and subsequent disposal of Mitie's Healthcare business;
- succession planning and Board composition;
- capital allocation policy;
- developments in corporate governance;
- principal risks and viability;
- the Modern Slavery Act;
- the impact of the National Minimum and National Living Wage;
- the impact of Brexit on Mitie and our clients;
- gender pay reporting; and
- the Apprenticeship Levy.

Division of responsibilities of the Chairman and the Chief Executive Officer

The Chairman and Chief Executive Officer have clearly defined and separate roles divided between running the Board on the one hand, and the business on the other, whilst maintaining a close working relationship. They have an open dialogue and meet regularly between Board meetings to ensure a full understanding of business issues and facilitate efficient decision making. The document setting out this division of responsibilities is available on the website at www.mitie.com/investors/corporate-governance.

The Chairman

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

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

The Chairman holds meetings with the Non-Executive Directors, without the Executive Directors being present. He is available to consult with shareholders throughout the year and will be available at the AGM.

The Chief Executive Officer

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

He is specifically responsible for:

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

The Chief Financial Officer

The Chief Financial Officer is responsible for:

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

The Non-Executive Directors

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

They are responsible for monitoring high level corporate reporting and satisfying themselves as to the integrity of financial information and the operation of key controls.

They are required to maintain an effective understanding and oversight of the Group's principal risks and the assurance in place relating to those risks, including the results of the internal audit programme.

The Non-Executive Directors play a key role in determining the Remuneration Policy for the Chairman, the Executive Directors, the Company Secretary and members of senior management, and take a primary role in Board succession planning.

They have a responsibility to exercise their independent skill and judgement in carrying out their duties.

The Senior Independent Director

The role of the Senior Independent Director includes acting as a sounding board for the Chairman, serving as an intermediary for the other Directors when necessary, conducting the Chairman's annual performance evaluation and leading any new Chairman appointment process. He also acts as chairman of the Board, in the absence of the Chairman, where necessary.

The Senior Independent Director is available as an alternative point of contact for shareholders should they have concerns which have not been resolved through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer, or for which such contact is inappropriate in the circumstances.

Evaluation of the performance of the Board and its Committees

A performance evaluation of the Board and its Committees is carried out annually to ensure they continue to be effective and that each of the Directors demonstrates commitment to their respective roles and have sufficient time to meet their commitment to the Company.

The Code recommends that the Board of a listed company should undergo an externally-led independent evaluation every three years. In accordance with this, during FY17 the Board underwent an externally facilitated Board review which covered its performance and that of its Committees and individual Directors. The review was undertaken by Condign Board Consulting (Condign), a firm specialising in board effectiveness, which has no other connection with the Company. The process was based upon one-to-one meetings with each of the Directors, and observation of the Board at its Board meeting in March.

Condign shared its conclusions and recommendations following the evaluation with the Board at its meeting in May 2017, and the evaluation of the Chairman was passed to the Senior Independent Director for him to discuss with the Chairman.

The review highlighted the challenging year that the Company has had, the potential reasons for this, and their impact on how the Board had operated during the year, and also considered the Board's efforts to remediate issues as they emerged as well as to pursue succession planning. Against this difficult background, and following key senior executive changes, it was found that the Board had begun to operate in a much more functional, purposeful way, which could, and should, be more effective in delivering value to shareholders in the longer term.

The Board will continue to focus on its composition in the coming year, in particular with regards to the balance of skills and experience appropriate to it, and in relation to its size, in order to ensure appropriate coverage is in place to deal with Mitie's challenges, its future business requirements, and any changes to committee arrangements. The Board will receive regular updates on the development of the customer proposition, presentations from divisional management on the strategic development and performance of their businesses, as well as hearing from, and engaging with, appropriate external parties.

Director re-election

The performance of each Director has been reviewed as part of the annual board evaluation process and the Board is satisfied that they continue to operate effectively and demonstrate clear commitment to their roles. The CEO and CFO will stand for election at the 2017 AGM, as will Derek Mapp and Nivedita Krishnamurthy Bhagat. The other Non-Executive Directors, with the exception of myself, will submit themselves for re-election at the 2017 AGM.

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

Director induction process and training

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

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

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

Following his appointment to the Board in November 2016, Phil Bentley received training and induction sessions with the Chairman, the then Group Finance Director, the Company Secretary, the Group Enterprise Risk Director, the divisional managing directors, the Head of Internal Audit, Deloitte LLP and other key individuals.

Members of the Board are given access to an online board portal which, as well as holding copies of all recent Board and Committee reports and minutes, has a reading room where the Directors can access a Board Handbook containing essential information about the Group, including: copies of Mitie's current Articles of Association; the latest Annual Report and Accounts; Board and Committee terms of reference; guidance on directors' statutory duties; governance and regulatory guidelines; the Group's approved delegated authorities; and an overview of the Group's directors' and officers' liability insurance arrangements. The Handbook was last reviewed and updated in FY17 and will continue to be subject to annual review.

Board accountability and assurance explained

Risk management approach

We would note that, as a consequence of the matters identified by the balance sheet review carried out by management with the support of KPMG, the Board has taken a number of actions, intended to address certain underlying issues which may have contributed to such matters. These actions include ensuring clearer lines of reporting for the Finance function, the enhancement of financial and other business controls, including more detailed accounting procedures to ensure that accurate accounting judgements can be made at every level of the Finance function and that these are subject to regular and effective review. In addition we believe that better assurance will be facilitated by the strengthening of the Internal Audit function, including the appointment of a new Head of Internal Audit, as well as the establishment of a third party whistleblowing service. In future, changes in the organisation of the business to ensure a more effective back office, enabled by investment in IT systems will enable the production of better quality management information on a more timely basis. Other changes to move to simpler and more effective performance incentives, which support a culture within Mitie that puts customers at the heart of our business and enables the simplification of business process, will provide increased assurance that risks are understood and clearly communicated through all levels of the organisation.

Detailed below is the Group's existing approach to risk. In addition to the specific actions outlined above, during the next few months, we will be carrying out a detailed review of our current approach and making any changes in our approach to risk management as are required to ensure that the Group adopts best practice.

The Board understands that effective risk management and a sound system of internal control underpin the achievement of the Group's strategy and supporting objectives. The Audit Committee recognises the enhanced risk management requirements of the Code and has continued to focus on its review of the risk management framework to better understand and address the nature of the risks faced by the Group.

Risk culture

While it is understood that an effective risk management framework is essential for the achievement of the Group's strategic objectives, values and risk management culture underpin how the Group operates, and our new CEO and CFO have placed increased emphasis on its "tone from the top" message about the importance of embedding risk management into all key decisions such that opportunities to grow the Group are effectively balanced with effective risk management decision making. This means that opportunities may continue to be exploited, provided risks have been properly identified and the right controls established or, in some cases, potential opportunities are declined as they sit outside of the Group's risk appetite.

Aligned with the Group's values, the code of conduct (One Code) continues to provide the framework upon which Mitie's risk culture is built. One Code sets out the expected behaviours, linked to the Group's values, for all employees, and supply chain partners and establishes zero tolerance in specific areas – as part of an established ethical business framework. We will continue to review and re-affirm our code of conduct with employees and supply chain partners to ensure awareness of our values and expected behaviours is maintained, especially during business transformation activity.

Risk management processes

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

Risk identification and assessment

When considering the risks that pose a threat to the achievement of the Group's strategy, the Board takes both internal and external perspectives into account to ensure a thorough identification process occurs. The internal view takes into account factors such as the changing and developing business profile, operational processes, technology and people, while the external view will include the economic position, political factors, sector and geographical risks. A top down and bottom up approach ensures the systematic identification of significant risks to the business. Once identified, risks are assessed using standard impact and likelihood ratings to quantify the risk to the achievement of business objectives.

Recent introduction of risk management software will help us in delivering our enterprise risk management agenda as well as enhancing Group oversight.

Our registers are formally reviewed twice a year, and approved by our business unit managing directors.

Our risk assessments are based on a '5 X 5' scale ranging from minimal to catastrophic with any risks falling into our upper limits having mandatory mitigation plans with the expectation that these risks are managed down to levels acceptable to us.

Risk mitigation

Each identified risk has a defined control owner who is responsible for developing and implementing a risk mitigation plan. As part of our risk review, we require each control to be reviewed and formally assessed for their effectiveness in mitigating risk.

During the year we began implementation of audit and risk committee meetings at business unit level. These committees were not fully functional throughout the year. To strengthen the oversight of risk management and internal controls framework, these committees will be formalised across the Group in the current year. Terms of reference for the operation of these meetings will be aligned with the Audit Committee's objectives. A standing agenda will require business units to review their top level risks and progress of associated mitigation plans as well as assessment of any changes to the external environment and its consequent impact on business units' risk profile. In addition, results of Internal Audit and other internal or external assurance providers will be discussed with business unit audit and risk committees, with the objectives to share best practice and identify common or emerging risk themes that may impact their business unit.

Assessment of the effectiveness of the control environment is undertaken at both business and Group level, with the Audit Committee formally reviewing performance throughout the year and advising on the effectiveness of the risk management system in place.

Risk monitoring and review

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

The risk management framework is designed to manage, rather than eliminate, the risk of failing to achieve the objectives and strategies of the Group and can therefore only provide reasonable, and not absolute, assurance against material risk and loss. The Board, through the Audit Committee, considers the nature and extent of significant risks in setting the Group's strategy. Details of the principal risks of the Group are set out on pages 30 to 36. It should be noted that other risks are identified as part of the risk management process, but these do not have a material impact on the Group's overall ability to achieve business objectives. These risks are managed via the existing risk management process.

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

Whistleblowing

Mitie operates a whistleblowing 'Speak Up' service for employees to contact when they see behaviour or matters that sit outside the requirements of One Code and the policies and procedures it supports. Speak Up matters were previously reported through an internally managed whistleblowing hotline. However, to enable employees to report any concerns, or wrongdoing anonymously without any fear of retaliation, Mitie has now contracted to outsource its Speak Up service to a third party independent provider and it will be relaunched as soon as possible in 2017. The Group Legal Counsel will independently investigate, with external specialist support where required, any issues and report back to the Executive Leadership Team and, as appropriate, the Board.

Internal control and assurance

Mitie operates a 'three lines of defence' model incorporating internal controls, risk management and functional oversight, and Internal Audit. The implementation of the system of internal control is managed by the leadership of each business unit. Group functions (such as Finance, Legal, Human Resources and Risk) collaborate with business units' teams to promote continuous improvement and ensure that controls are operating effectively. Mitie's policies and procedures are available to management and employees through a user-friendly intranet portal. A formal review of the internal control environment led by the Group Enterprise Risk Management Director with engagement from business units' directors and boards, is undertaken annually in each business unit through the Internal Control Questionnaire, which evaluates controls in all key business processes. The Audit Committee reviews the effectiveness of internal controls through this process, updates from specific functions, and the independent testing undertaken by Internal Audit as part of its work. During the year there have been a number of instances where discrepancies have been notified to the Audit Committee between the results of the Internal Control Questionnaires and concerns raised from Internal Audit and other known events. These have resulted in additional work being undertaken to highlight the areas where the operation of internal controls has appeared to be unsatisfactory.

Internal Audit

The Internal Audit function's authority and responsibilities are defined in its charter, approved in May 2016. Internal Audit operates independently, reporting directly to the Audit Committee and administratively to the Chief Financial Officer. This reporting line offers independence from the audited activities and allows Internal Audit to achieve objectivity. The Chairman of the Audit Committee oversees the appointment and removal of the Head of Internal Audit and assesses the function's performance against the internal audit objectives. The annual internal audit plan and budget are approved by the Audit Committee. Any significant deviation from the approved annual internal audit plan is communicated to the Audit Committee through periodic activity reports. The results of each Internal Audit are documented in an audit report for internal distribution and action. The Chairman of the Audit Committee and the external auditor, Deloitte LLP, have access to all internal audit reports that are issued during the year and the Audit Committee receives a quarterly detailed update reporting on audits completed in the period.

The Audit Committee also receives regular reports from Deloitte LLP who contribute a further independent perspective on the internal financial control systems arising from its audit work.

Committees of the Board

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

Mark Reckitt

Chairman's introduction

The financial year 2016/17 was very challenging for Mitie with profits adversely impacted by the discovery of a number of instances of incorrect accounting, some of which were relating to the prior years and resulted in a prior year restatement of £60.5m, of which £46.9m related to FY16. A reassessment of previous judgements and estimates impacted pre-tax profit by £37.2m, net of the prior year restatement and before any further judgemental non-cash adjustments of £39.7m.

Accordingly, the Committee focused its attention on these and the other significant issues facing the Company, particularly with regards to why some of the key estimates had changed during the financial year, why some items had not been accounted for correctly in the prior year and why it was appropriate to reassess some of the accounting practices used in prior years. In addition the Committee also ensured that the material judgements and estimates used this financial year are the most appropriate to present a fair and balanced view of the position at 31 March 2017. In January, following the appointment of new executive management, the Committee engaged KPMG, as independent accountants, to review and report on the most material judgements made on the balance sheet amounts in relation to long-term complex contracts, accrued income, work in progress and mobilisation. Their work was undertaken between January and May 2017 and focused on balance sheet items as at the end of December 2016. In addition, KPMG provided support to management, who carried out a review of the remaining areas of the balance sheet. By the completion of these reviews, all material balance sheet items had been reviewed and the results presented to, and discussed at the Audit Committee. Over the course of five meetings, members of the Audit Committee have been briefed by KPMG on the findings of their work and the recommendations from management on the changes required to ensure that Mitie's financial reporting and control environment meets the standards required. These reviews have led to the need for significant write-offs totalling £37.2m in FY17 and disappointingly, and most concerning, the correction of a number of a number of material errors made in the prior year to 31 March 2016. The Audit Committee views these prior year adjustments with a very high degree of concern, as the existence of such material errors is based on information brought to the Committee's attention in the period from January to May 2017.

The Audit Committee also oversaw and assisted the Board in its responsibility to approve a fair, balanced and understandable Annual Report and Accounts for the year ended 31 March 2017.

These accounts should provide the information necessary for shareholders to assess the Company's strategy, business mode and financial performance throughout the year.

Given the serious nature of the issues affecting the Company, the Committee has met five times during the financial year, with four further meetings held during the current financial year. The membership of the Audit Committee has been strengthened by the recent appointment of Nivedita Krishnamurthy Bhagat.

During the financial year to 31 March 2017, the Company received two requests for information from the Corporate Reporting Review Committee of the Financial Reporting Council (the FRC) under the FRC's Conduct Committee's operating procedures for reviewing corporate reporting. The requests related to the treatment and disclosure of goodwill and accrued income in the Annual Report and Accounts for the year ended 31 March 2016. The Audit Committee reviewed the responses to these requests and I, together with other Directors have also met with members of the Corporate Reporting Review Committee and staff of the Corporate Reporting Review team. The Audit Committee also received and reviewed the findings of the FRC's Audit Quality Review (AQR) team following their review of the work conducted by Deloitte during their audit for the year ended 31 March 2016. At Group level, the AQR team reviewed Deloitte's supervision and oversight of component auditors, the quality of communications with the Audit Committee, goodwill impairment, quality control of the audit and the audit of revenue recognition in complex long-term contracts. At component level, the AQR team reviewed the provisioning of trade receivables and accrued income, primarily at two selected UK components. The AQR's review resulted in improvements being required in two main areas which were reported to the Audit Committee. First, in relation to the challenge of certain key assumptions in the goodwill impairment review, including the depth of analysis of related sensitivities. Secondly in relation to the audit of the recognition of certain cost saving initiatives relating to one complex long-term contract. The Audit Committee has worked with Deloitte to develop a comprehensive action plan to address these findings. The Audit Committee is satisfied that the AQR's findings have been addressed as part of the 2017 audit process.

The Audit Committee has discussed these findings with Deloitte and was satisfied with the improvements that Deloitte have made in the audit of goodwill impairment and revenue recognition in connection with complex long-term contracts.

The Committee also considered the effectiveness of the Group's financial reporting processes, the performance of both the Internal Audit function and the external auditor, and the management of the Group's systems of internal control, business risks management and related compliance activities.

As a consequence of the issues discovered during the year the Audit Committee has considered the control environment and in particular the risks of controls being compromised by their override by management.

This has clearly been a very challenging year for the management team at Mitie, as well as for the Board and Audit Committee. I believe we have reacted to the issues raised in a professional and diligent manner, applying our independent judgement, and look forward to answering any questions that shareholders wish to raise at the AGM.

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

Audit Committee members

Mark Reckitt has been Chairman of the Audit Committee since July 2015. Mark continues to be deemed by the Board, as at the date of this report, to have significant, recent and relevant financial experience through his qualifications and ongoing positions. Mark's biography is included on page 39 and in the Notice of AGM.

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

Chairman	Mark Reckitt
Committee members	Jack Boyer
	Larry Hirst
	Nivedita Krishnamurthy Bhagat[1]

1. Nivedita Krishnamurthy Bhagat was appointed to the Audit Committee on 1 June 2017.

Key purpose of the Audit Committee

The Audit Committee provides effective governance over the appropriateness of the Group's financial reporting, and the performance of both the Internal Audit function and the external auditor functions. The Audit Committee also oversees the Group's internal control systems, business risks management and related compliance activities.

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

Principal responsibilities of the Audit Committee	Key areas discussed and reviewed during year
Reporting and external audit • Monitoring the integrity of the financial statements of the Company, including its Half-Year Report and the Annual Report and Accounts, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and estimates and judgements having regard to matters communicated to it by the external auditor; • Reviewing the external auditor's audit plan, nature and scope of work and overall summary of key issues and judgements; • Assessing the effectiveness of the external auditor including the appropriateness and skills of its audit team and the quality of its services; • Agreeing the audit fee for the year; • Reviewing summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature; • Reviewing the reports produced in connection with the accounting reviews undertaken by KPMG and management in the period January to May 2017 and also assessment of management's response to the issues raised; and • Reviewing the Half-Year Report and Annual Report and Accounts, including the fair, balanced and understandable statement, statements concerning internal controls and risk management, all other material information presented with the financial statements including the strategic report, the annual Viability Statement, the corporate governance statements (insofar as they relate to the audit and risk management), and recommending the same for Board approval.	• Results, commentary and announcements; • Key accounting judgements, including contract margins and impairment reviews; • Changes to accounting policies and procedures; • Going concern and the Viability Statement; • Fair, balanced and understandable assessment in relation to the Annual Report; • External auditor effectiveness; • External auditor reports on planning the half-yearly review and the full-year audit, including the final opinion; and • The external auditor's remuneration.
Risk and internal control • Keeping under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems (being the systems established to identify, assess, manage and monitor financial and other risks); • Providing advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period, why the period is regarded as appropriate and whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary, reviewing and challenging, where necessary, accounting policies and key areas of accounting judgement; • Considering and making recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Group's external auditor; • Reviewing and monitoring compliance with the non-audit services policy and maintenance of auditor independence; • Reviewing the Group's consolidated risk register prior to its approval by the Board; • Reviewing the adequacy and security of the Group's arrangements for its employees and business partners to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters (ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action); • Reviewing the Group's procedures for detecting fraud; and • Reviewing the Group's systems and controls for the prevention of bribery.	• Risk register, including identification of the Group's principal risks and movement in exposures; • Status of key risk indicators including any breaches of thresholds; • Review of activities of the Enterprise Risk Management function; • Effectiveness of internal control systems; • Responses to audit findings and recommendations for control improvements, including reviewing the external auditors' management letter; • Fraud risk assessment; • Cyber security and readiness; and • Whistleblowing procedures.

Principal Responsibilities of the Audit Committee	Key areas discussed and reviewed during year
Internal Audit • Monitoring and reviewing the role and effectiveness of the Group's Internal Audit function, reviewing the internal audit plan and ensuring the Internal Audit function has adequate resources and appropriate access to information to enable it to perform its function effectively; • Reviewing key internal audit reports and findings; • Considering management's response to any major internal or external audit recommendations; and • Monitoring the effectiveness of the external audit and risk management systems and functions.	• Annual internal audit plan, including consideration of its alignment to the principal risks, consideration of emerging areas of risk, coverage across the Group and review of the Group's processes and controls; • Review of the execution of the internal audit plan and the resultant audit reports and findings; • Internal Audit effectiveness; • Internal Audit reports; • Annual internal controls overview; and • Internal Audit charter, defining its role and responsibilities.
Other • Ensuring the Group's compliance with the Competition and Markets Authorities Statutory Audit Services Order, in particular with regard to audit tender.	• The Committee's Terms of Reference; and • Effectiveness of the Committee.

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

Frequency of Audit Committee meetings

During the financial year, the Audit Committee met five times and held two additional ad hoc meetings at which it discussed the external audit plan for the financial year and the balance sheet review conducted by management and assisted by KPMG. Invitations to attend meetings are normally extended to the Group's external auditor, the Chairman, the Chief Executive Officer, the Chief Financial Officer and the Head of Internal Audit.

	Attendance
Number of scheduled meetings held in year:	5
Mark Reckitt	5
Jack Boyer	5
Larry Hirst	5

The role of the Audit Committee – financial reporting

The primary role of the Audit Committee in relation to financial reporting is to review with both management and the external auditor the appropriateness of the Half-Year Report and Annual Report and Accounts concentrating on, amongst other matters:

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

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

Significant issues considered by the Audit Committee during the year

The Audit Committee pays particular attention to matters it considers to be important by virtue of their size, complexity, level of judgement required, potential impact on the financial statements and wider business model, and matters pertaining to governance. Identification of the issues deemed to be significant takes place following open, frank and challenging discussion between the Audit Committee members, with input from the Chief Financial Officer, Deloitte and the Head of Internal Audit and other relevant Mitie employees.

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

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

Issue	How addressed
Accounting Review of balance sheet Instigating the review and agreeing the scope of the review of balance sheet items by KPMG and management.	The most significant issue considered by the Audit Committee during the year related to the balance sheet reviews carried out by executive management, with support from KPMG. In January 2017, in consultation with the new executive management, the Audit Committee asked management to conduct a detailed balance sheet review with independent expert support. The Audit Committee oversaw the appointment of KPMG in that and nominated its scope of work and levels of materiality. Management and KPMG reported to the Audit Committee during the period March to June 2017. The Audit Committee sought to ensure that the Accounting Review has been thorough and balanced and requested recommendations for future improvements. Full details of the outcome of these reviews are given in the Finance Review on pages 26 to 29. Given the scale and significance of the resulting write-downs to items on the balance sheet, including material errors from prior years, the valuation of intangible software assets, onerous contract and other provisions, the Audit Committee spent a considerable time discussing and challenging management on the significant estimates and judgements made by management during the course of the review and also on the content and outcomes of this review. The Audit Committee considered and agreed the scope of the review to ensure that it was sufficiently rigorous, setting materiality levels, and supported the engagement of KPMG and the terms for their engagement to provide financial reporting and accounting advice in connection with the reviews. The Audit Committee considered the principal contract reviews that were undertaken as part of the review process. The Audit Committee met regularly to review progress and ensure that management was able to apply sufficient resource to enable the review to be completed on a timely basis. In all, four additional meetings were held prior to the publication of the 2017 Annual Report and Accounts. These meetings reviewed in detail the results of the review and the key accounting papers to assess whether there was any evidence of bias in management's assessment of accounting treatment and determination of the levels of provisioning, particularly in relation to long-term complex contracts and those where there were high levels of accrued income and work in progress. As part of the Audit Committee's detailed review and challenge the Audit Committee also focused on whether there was evidence that impairments and provisions should have been identified in a prior year (based on information available, or which should have been available at the time) and might therefore be categorised as errors arising from the failure to use information available when prior year accounts were being prepared. In some cases this review was complicated by changes in personnel at Mitie. In such cases there is an inevitable element of judgement as to whether a prior year error has been made, and should be corrected, or whether changes in personnel have caused a change in judgement. In such cases there may be a management bias in favour of judging that issues should be prior year errors rather than current year judgements. The Audit Committee considered each of the prior year errors identified and challenged management, in particular where information made available in the prior year had changed or where management had changed. In some cases management decided that insufficient evidence existed to support a determination of prior year error. The Audit Committee discussed these issues with the Group's external auditor and, in particular, the differences between prior year error and changes in judgement. The Audit Committee reviewed the treatment of items considered as being exceptional and therefore requiring separate disclosure to assist the reader in understanding the results of the Group. Management prepared documentation to support the financial statements, which was reviewed and challenged by the Audit Committee and discussed with the external auditor. As part of this review the Audit Committee also considered the appropriateness of the accounting policies, instructing KPMG to carry out a detailed review of the policies in relation to long-term complex contracts, mobilisation costs, accrued income and work in progress. Management undertook a review of other policies, in particular those relating to capitalisation and amortisation of intangible software assets and amounts receivable. At the conclusion of the process the Audit Committee concluded that the overall provisions were appropriately positioned, taking account of the range of possible outcomes. The Audit Committee concluded that prior period errors were material and that a number of adjustments were required to ensure that the results for the financial year to 31 March 2017 were fairly stated. The Audit Committee has also concluded that the items regarded as exceptional have been reported as such and that the accounting policies applied were appropriate.

Issue	How addressed
Financial reporting & trading statements financial reporting control environment In light of the significant provisions and impairments made in the year to 31 March 2017 the Audit Committee spent significant time considering the strength of the Group's internal control environment	Since the appointment of Phil Bentley as Chief Executive Officer, the Company has made a number of key appointments in the Finance function to increase the capability and leadership of that function. Sandip Mahajan was appointed as Chief Financial Officer on 10 February 2017 and has provided effective leadership to the Finance function which has included ensuring clearer lines of reporting for finance managers. In April 2017, following discussions with the Chairman of the Audit Committee, the Head of Internal Audit stepped down from that position and has been replaced by an external appointee. The Audit Committee supports the appointments and other changes made to date, and has asked management to continue to improve the training, capability and direction provided to the Finance function. The Audit Committee has challenged management to improve the clarity and effectiveness of the process by which management across the business confirms the adequacy of the internal controls for which it is responsible. The Audit Committee has also ensured that a new independently managed whistleblowing process will be launched across the business. In the light of the increased risk of management override of controls the Audit Committee considered the additional actions undertaken by management to provide a sufficient level of assurance on the judgements made at all levels of the business in relation to the determination of the financial position of Mitie. As already noted the Audit Committee has appointed a new Head of Internal Audit and challenged that team to increase the proportion of its work that is focused on the review of balance sheet items, to ensure that higher risk areas of business receive a greater proportion of its activity and to ensure that its reports to the Audit Committee are submitted on a timely basis following completion of the relevant audit. The Audit Committee challenged the adequacy of commentary on Healthcare impairment and disposal to ensure a clear explanation of the evolution of the Group's position on this division from the prior year. The Audit Committee reviewed the Group's revenue recognition procedures and challenged management on the recoverability of aged debt and accrued income, as well as the adequacy of the level of provisioning made in relation to contracts where there was evidence of issues in dispute with clients. The Audit Committee received a report on the drivers for the increase in the defined benefit pension obligations during the year and challenged management in respect of concluding on a plan to deal with the pension deficit.
Use of Alternative Performance Measures (APMs)	The Company's performance measures continue to include some measures which are not defined or specified under IFRS. In particular management have introduced measures referred to as "adjusted revenue", "adjusted operating profit" and "profit before other items" as key measures to review current performance against the prior year by removing the impact of prior year adjustments as well as asset write-downs of a non-recurring nature, which include those identified during the Accounting Review. The Committee noted the guidance issued by the Financial Reporting Council in relation to the use of APMs and, supported by the challenge of the external auditor, considered whether the performance measures used by management provided a meaningful insight into the results of the Company for its shareholders. The Audit Committee then also reviewed the treatment of items considered as requiring separate disclosure. With the support of the external auditor, the Audit Committee reviewed the proposed disclosure of APMs in both the 2017 Half-Year Report and the Annual Report ahead of their approval by the Board. The Audit Committee agreed with management and the external auditor that adjusted profit is a reasonable basis for the comparison of the performance of the business. The Audit Committee also continued to support the judgements made by management regarding the items considered as being exceptional and requiring separate disclosure. The Audit Committee concluded that, in relation to the Half-Year Report and the FY17 results and the Annual Report and Accounts, clear and meaningful descriptions had been provided for the APMs used. It was also concluded that the relationship between these measures and the statutory IFRS measures was clearly explained, supported the considered understanding of the financial statements and that the Committee had considered that they had been accorded equal prominence with measures that are defined by, or specified under, IFRS.

Issue	How addressed
The valuation of goodwill Reviewing the carrying value of goodwill, with particular emphasis on Healthcare and Property Management, including the impairment of Healthcare goodwill and acquisition related intangibles	The Group has undertaken a number of acquisitions in the past and carries goodwill as an intangible asset on its balance sheet in respect of the businesses acquired (see Note 14). The Group considers the carrying value of all goodwill on at least an annual basis, or when an indicator of impairment has occurred. The valuation and impairment review of goodwill is assessed for each individual cash-generating unit, or groups of cash-generating units (CGUs), and considers the balance sheet value of the goodwill compared to the net present value of the post-tax cash flows that are expected to be generated by that CGU. This involves an estimation of the future cash flows deriving from each CGU and also the selection of appropriate discount rates, which are then applied to the cash flows to calculate a net present value. The assumptions underpinning the reviews were considered by the Audit Committee. The cash flow forecasts used in the review were derived from the most recent CGU budgets which have been reviewed and approved by the Board and the long-term business plans of the Group. The assumptions underpinning the review, and also the sensitivity of the decision on goodwill impairment to changes in key assumptions including the discount factor were considered by management and presented to the Audit Committee. At the half year the Audit Committee formally considered a paper on the status of Healthcare goodwill. The Audit Committee concurred with the paper's conclusion that the Healthcare goodwill should be fully impaired as changes in the domiciliary healthcare market and the experience of our Healthcare business over the first six months of the financial year caused the Directors to decide in September 2016 that the Group would exit the social healthcare market. Additionally the Audit Committee considered the disclosures to be made at the half year and also received the advice of Deloitte on such disclosures. In February 2017 the Corporate Reporting Review Committee of the Financial Reporting Council (FRC) sent Mitie a number of questions relating to the impairment testing of the Healthcare goodwill as at 31 March 2016 and the full impairment of that goodwill in the 30 September 2016 Half-Year Report. The Audit Committee, supported by KPMG and management, undertook a full review of the circumstances surrounding the impairment testing of goodwill. Following completion of the review the Audit Committee concluded that future impairment tests of goodwill should include more detailed assessment of the sensitivities to a CGU's recoverable amount, especially in areas where forecast growth appears high compared to recent trading performance and wider market conditions. The Audit Committee has concluded that certain aspects of the impairment testing of the Healthcare goodwill as at 31 March 2016 resulted in an incorrect statement of the relevant amount of goodwill at that date and that as a result it is appropriate to record a prior year adjustment in respect of £65m of the value in use at that date of £157m. Further detail on the impairment testing of Healthcare goodwill is provided on pages 137 to 139. Mitie remains in dialogue with the FRC's Corporate Reporting Review Committee in relation to the impairment testing of Healthcare goodwill and accrued income at 31 March 2016. The Audit Committee recognises that there was a material disclosure deficiency in the 2016 Annual Report and Accounts, in that there was a failure to disclose the significant judgements made around the inclusion of new service line expansion plans in the Healthcare business adjacent to existing skills and assets already in the business. This included the provision of Telecare services, community healthcare and supply of temporary staff on an agency basis. At the full year, the Audit Committee formally considered the carrying value of goodwill in respect of the Property Management CGU, given the limited impairment headroom of the CGU. The Audit Committee considered a detailed paper from management and a paper from the external auditor on the key assumptions underpinning the carrying value of goodwill. This included consideration of the business plan for the Property Management CGU, the conditions in the social housing market, the calculation of the discount rate applied, the sensitivity of the impairment testing to potential changes to both the key assumptions and the discount rate applied therein, and the disclosures to be made in the accounts. The Audit Committee ensured that the underlying cash flow forecasts used for the assessment of goodwill impairment are also consistent with those used for the Group's going concern and viability assessment. In particular, the Audit Committee considered the degree to which the valuation was sensitive to the recovery in performance forecast for the current financial year and also whether, given the increased apparent risk in the market, the range of sensitivity in the discount rate was capable of fully valuing that risk. On the basis of this review, the Audit Committee agreed with management that an impairment to goodwill of £15m was necessary, but asked management to ensure that forecast performance was under close review and to alert the Audit Committee if management believed that there was a risk of further impairment of goodwill during the current financial year. The Audit Committee concluded that the disclosures provided in the financial statements are transparent, appropriate and in compliance with financial reporting requirements.

Issue	How addressed
Review of the Group's going concern and viability statements	The Audit Committee considered the evidence that supports the ability of the Directors to conclude that the Group has adequate financial resources to continue in operation for the foreseeable future and can prepare its accounts on a going concern basis. The Audit Committee considered the future prospects and performance of the Group including: the future business plans of the Group; the potential impact of acquisition activity and possible changes to the composition of the Group; the projected future cash flows of the Group; the availability of core and ancillary financing facilities and compliance with related covenants, together with waivers of covenants that have been agreed with lenders following the year end; the projected drawn positions and headroom available on the core committed financing facilities; and those matters reviewed in connection with the Viability Statement. It also reviewed and considered the disclosures on the matter of going concern and viability in the Annual Report and Accounts and considered them to be appropriate. Details of the conclusions arrived at by the Directors in preparing the financial statements on a going concern basis can be found in the Directors' report: other disclosures on pages 90 and 91, as can the details of the conclusions arrived at by the Directors in assessing the viability of the Group. The more detailed assessment of the Group's long-term viability is set out in the Viability Statement on page 37.
Accounting for material contracts The Group operates a broad portfolio of contracts and discloses revenue recognition as a critical judgement in the Annual Report and Accounts. The methodology used for the recognition of contract revenue influences the amount of profit recognised on a contract as well as the inclusion and valuation of contract related assets and liabilities on the balance sheet	The Audit Committee considered papers prepared by management, supported by KPMG in some instances, on: revenue and profit recognition on contracts; the accounting treatment applied to all the Group's larger integrated facilities management contracts, where judgement is required in respect of the percentage of completion of contracted work when recognising revenue and profit; contract performance; forecast levels of contract profit and the recognition and valuation of contract related assets and liabilities; and on the recoverability of certain specific contract receivables and the risk associated with their collection. In November 2016 and April, May and June 2017 the Audit Committee considered, in particular, the position of the largest and highest risk Integrated Facilities Management contracts in conjunction with the Half-Year review and full year audit work conducted by Deloitte. At the first of these meetings the Audit Committee challenged management in relation to the reasonableness of forecasts made for project work and labour savings, as well as the net position of disputes both for and against the client, in relation to work already completed and accounted for on three public sector contracts. As a result of these challenges, management undertook to increase the amount provided against these contracts and to maintain the close monitoring of their performance over the remainder of the year. At the meeting in November 2016 the Audit Committee also considered the views of Deloitte in relation to a number of overdue items of accounts receivable and accrued income. Following these discussions, management increased the amount provided against claims made by a client of Mitie Property Management. In April and May 2017 the Audit Committee considered the results of the Accounting Review undertaken by KPMG and the resulting recommendations by management. The Committee has, over the course of several meetings involving KPMG, considered the circumstances that contributed to the causes of the instances of incorrect accounting and changes in estimates. It concurs that many of the issues may have been avoided had the accounting activities of the Finance function been directed in a more detailed fashion. Whilst accounting was consistent with the requirements of the relevant accounting standards, the degree of inconsistency of application across the various Group activities resulted in a range of judgements being applied at the lowest level of accounting activity. The Audit Committee fully supports the activities of the current Finance leadership to ensure that more detailed accounting procedures are embedded across the organisation and that judgements made are clearly documented and appropriately challenged by financial leadership, Internal Audit, external audit and ultimately the Audit Committee and Board. The Audit Committee also considered papers by management on the basis for recognition of PFI lifecycle surpluses.

Issue	How addressed
Internal audit scope Reviewed and redirected the scope of internal audit work	The Audit Committee considered the effectiveness of Internal Audit scope during the year. In May 2017 we appointed a new Head of Internal Audit, effective June 2017. The Audit Committee has challenged the Head of Internal Audit to increase the proportion of its work that is focused on the review of balance sheet items, to ensure that higher risk areas of business receive a greater proportion of its activity and to report to the Audit Committee within a set period after the completion of the relevant internal audit work.
Review of fraud management controls Reviewing the cause of a number of instances of incorrect accounting and the robustness of the proposed revision to internal controls	The Audit Committee considered internal audit reports and management presentations on occurrences of incorrect accounting in a number of individual businesses. The Audit Committee has noted and supports the significant number of changes made, including in the leadership and reporting lines for the Finance function as well as the additional resources engaged to ensure that accurate accounting judgements can be made at every level of the Finance function In addition to the other changes noted earlier in this report, the Audit Committee supports management's response to these issues and has challenged management to ensure that sufficient resource is made available to embed the changes into Mitie's operations.
FRC's Corporate Reporting Review Committee comment letter Reviewing letters from the FRC and management responses to the enquiries made	The Group received further requests for additional information and explanation from the FRC's Corporate Reporting Review Committee in relation to the Group's 2016 Annual Reports and Accounts, making this the FRC's third year of enquiry. After due consideration and approval by the Audit Committee, the Group has provided initial responses to the Corporate Reporting Review Committee and remains in discussion with them. As part of this process I, together with other Board members have met members of the Corporate Reporting Review Committee and staff of the Corporate Reporting Review team to seek to facilitate an effective and efficient plan for the resolution of the issues raised by them.
Other areas	In my role as Chair of the Audit Committee I have attended separate meetings with members of the Finance function to receive updates on projects related to the efficiency and effectiveness of that function.
Impact of IFRS 15	IFRS 15, which introduces a new basis for revenue recognition, is due to be effective for periods beginning on or after 1 January 2018. Mitie will be required to adopt this no later than for FY19. The Audit Committee has discussed the likely impact on the accounting for long-term complex contracts and mobilisation costs. As part of this process the Audit Committee has agreed with management that it may be appropriate to adopt IFRS at some point during FY18 but such determination will be dependant on ensuring that effective management controls and processes are in place provide the required level of assurance.

External audit

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

Appointment and tendering of external audit services

As a result of the issues encountered during the financial year, the Audit Committee has given detailed consideration to the timing of the next formal tender for the external audit and has concluded that such a tender should commence shortly such that a new external auditor can be in place during the financial year to 31 March 2018. There are no contractual obligations restricting the Company's choice of external auditor.

The Audit Committee confirms that the Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

Deloitte LLP has been the Company's external auditor since its market listing in 1987. Mitie tendered its full external audit services in 2012 and concluded that Deloitte LLP should be re-appointed as external auditor given its relevant experience in both the listed company environment and the support services sector.

External auditor effectiveness

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

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

Given the issues reported to the Audit Committee, which are outlined in this report, the Audit Committee has considered the effectiveness of the external auditor.

The Committee has satisfied itself with the improvements made by Deloitte following the findings made by the Audit Quality Review team at the FRC and also concluded that Deloitte were effective in their role as external auditor for the financial year.

The Audit Committee has concluded that it is in the best interests of the Company that an audit tender is undertaken shortly so that a new external auditor can be appointed during the financial year ending on 31 March 2018.

Non-audit services provided by the external auditor

The Audit Committee has approved a non-audit services policy that ensures the external auditor remains independent and objective throughout the provision of their independent audit services and when formulating their audit opinion. In order to retain the flexibility of utilising the external auditor to provide non-audit services, the following criteria must also be met. These are such that the external auditor does not:

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

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

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

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

Non-audit services provided to the Group during the year included tax and corporate finance services. Further details can be found in Note 7 to the financial statements. The Audit Committee considered reports from both management and the external auditor, none of which raised concerns about auditor independence. This included consideration of the impact of the integrated facilities management contract with Deloitte LLP that was awarded to the Group during FY16, which was made following a competitive tender process and in compliance with Deloitte's internal independence and ethical standards.

A summary of the fees paid to the external auditor is given in Note 7 to the financial statements. The Audit Committee confirms that the requirements of the non-audit services policy have been met throughout the year.

Assurance

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

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

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

Review of whistleblowing processes

Part of the Audit Committee's role is to ensure that appropriate procedures are in place in relation to whistleblowing and to review on an annual basis the Group's whistleblowing policy. Matters reported through the Mitie whistleblowing hotline were previously reviewed and investigated by the managing director of the relevant business, with data presented to the Audit Committee via an enterprise and risk management report, together with details of the necessary action taken. In March 2017 the Audit Committee challenged management to ensure that whistleblowing arrangements were seen as effective and independent of management across the organisation. Management has now contracted with a third party provider of such services and will relaunch the Mitie whistleblowing hotline as soon as possible in 2017.

Mark Reckitt
Chairman of the Audit Committee

Roger Matthews

Chairman's introduction

The role of the Nomination Committee is to ensure the Board is appropriately balanced in terms of its composition, considering matters of skills, experience and diversity. The Nomination Committee is comprised of the Chairman of the Board and independent Non-Executive Directors who are all considered to be appropriately experienced to fulfil their duties.

Nomination Committee members

At the date of this report the Nomination Committee comprises:

Chairman	Roger Matthews
Committee members	Jack Boyer Larry Hirst Mark Reckitt

Key purpose of the Nomination Committee

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

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

Key responsibilities of the Nomination Committee

The key responsibilities of the Nomination Committee include:

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

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

Key activities during the year

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

The Nomination Committee recognises the importance of planning for the future and the succession planning process. During the year, the Nomination Committee continued to consider the succession plan which had commenced in 2015 for key members of the executive management team and, in particular, who should succeed Ruby McGregor-Smith as Chief Executive and Suzanne Baxter as Group Finance Director. A detailed, independent review of internal candidates was undertaken in 2015 and internal candidates were considered for both roles. External advisors, Ridgeway Partners Limited, were appointed to support the process of finding new candidates for both roles. There is no other connection between Ridgeway Partners Limited and the Company.

After considering appropriate individuals, the Nomination Committee recommended to the Board the appointment of Phil Bentley as Chief Executive Officer. The Board accepted this recommendation and Phil was appointed a Director of the Company on 1 November 2016. Ruby stepped down as Chief Executive and Director of Mitie on 12 December 2016, on which date Phil assumed the position of Chief Executive Officer.

After conducting further searches, the Nomination Committee recommended to the Board the appointment of Sandip Mahajan as Chief Financial Officer. The Board accepted this recommendation and Sandip was appointed as Chief Financial Officer and Director of the Company on 10 February 2017, on which date Suzanne Baxter stepped down as Director and Group Finance Director.

As a further part of its ongoing succession planning and refreshing of the Board, the Nomination Committee worked with executive search firms JCA Group, for a suitable successor to myself as Chairman of the Board, and The Zygos Partnership, to find an additional Non-Executive Director, with skill sets to complement those of existing Board members. Neither search firm has other connections with the Company. In accordance with the Code, I took no part in discussions in relation to the search and selection process for the role of Chairman, this being led instead by our Senior Independent Director, Larry Hirst.

Work with the JCA Group identified Derek Mapp as a suitable successor as Chairman, and after careful consideration, the Nomination Committee recommended to the Board his appointment. As announced on 9 May 2017, Derek was appointed as Chairman-elect and Non-Executive Director of the Board on 9 May 2017. He will stand for election at the forthcoming Annual General Meeting to be held on 26 July 2017, in accordance with the Code, and will undertake the role of Chairman from the close of that meeting.

The search with The Zygos Partnership resulted in the selection of Nivedita Krishnamurthy Bhagat, as announced on 16 March 2017, and who was appointed to the Board on 1 June 2017 as a Non-Executive Director. Nivedita will also stand for election at the forthcoming Annual General Meeting, in accordance with the Code.

Frequency of Nomination Committee meetings

During the financial year, the Nomination Committee met five times.

	Attendance
Roger Matthews	5
Jack Boyer	5
Larry Hirst	5
Mark Reckitt	5

Employee diversity and inclusion

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

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

Further details of the Group's commitment to diversity and the diversity of Mitie's people, together with a breakdown of employee diversity as required by the Companies Act 2006 can be found in the sustainability section of our website at www.mitie.com.

Roger Matthews
Chairman of the Nomination Committee

Investment Committee

Overview and purpose

The Investment Committee facilitates the internal approvals process by approving matters as delegated by the Board and referring recommendations for Board approval. The Investment Committee, which comprises the Chief Executive Officer, as Chair, and Chief Financial Officer, met once during the year and considered major bids and contracts, disposals, large capital expenditure and Mitie Model investments.

Results Committee

Overview and purpose

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

The Results Committee, which comprises the Chief Executive Officer, as Chair, and Chief Financial Officer, met three times during the year.

Jack Boyer
Chairman's introduction
On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 March 2017.

The Remuneration Committee has been required to address a number of issues during the course of the year. I have described below the approach the Committee has taken, together with the context in which key decisions were made.

Chief Executive succession

In the second half of 2015 the Board initiated a detailed review of its senior executive succession plans, initially for the role of Chief Executive. External advisors were appointed to support this process, with a range of both internal and external candidates assessed. As announced in October 2016, this process culminated in the appointment of Phil Bentley as the successor to Ruby McGregor-Smith as Chief Executive, with Phil assuming this position in December.

We were pleased to secure Phil as Mitie's Chief Executive. He has a strong track record of value creation, having led the successful turnaround and eventual sale of Cable & Wireless Communications plc (CWC) where he created substantial returns for shareholders (moving CWC up the FTSE by 121 places to a ranking of 114 within a two-year period, with the sale delivering £3.3 billion to shareholders).

Prior to that, Phil was managing director of British Gas (BG). Phil built a new management team which grew BG into a £14 billion business with 33,000 employees and £1.2 billion annual profit (increased from £300m).

In both roles, Phil demonstrated his skills in value creation through a combination of people leadership, establishing new management teams, changing the culture and ways of working, a focus on client/customer service, an expanded (and often technology-led) offering, cost efficiencies and brand transformation. These change programmes were also delivered at pace, with Phil's skills and drive highly relevant to Mitie and its strategy at this critical stage in the Company's development.

Indeed, Phil has already made a significant impact at Mitie by resetting the Group's strategy and carrying out a balance sheet review to underpin Mitie's financial reporting. To ensure focus on its core activities, Mitie sold its domiciliary healthcare business in February 2017.

The Committee was mindful of the fact that the challenges faced by Mitie required the leadership, vision and drive of an exceptional Chief Executive such as Phil and that, therefore, it was necessary to offer a level of remuneration commensurate with the talents of such a candidate. Also, when determining Phil's remuneration, the Committee's underlying aims were to:

- operate within Mitie's existing policy, for which shareholder approval had been obtained at the 2015 AGM;
- avoid the payment of any "signing-on" awards;
- ensure that Phil's interests are immediately aligned with the long-term interests of shareholders via (i) Phil acquiring out of his own funds a significant stake in Mitie, (ii) a policy-compliant award under the existing Mitie LTIP (albeit with performance measured over a longer four-year period than the standard three years) and (iii) the imposition of enhanced share ownership guidelines of 400% of salary; and
- ensure that a significant portion of Phil's package is performance-linked.

With this in mind, the main elements of Phil's package were agreed as follows:

- Base salary: £900,000. The Committee is aware that this salary is above median. However, this salary reflects Phil's expertise and experience which are particularly relevant to Mitie. This salary was not increased following the FY17 year end and will not be increased until 2020 (at the earliest);
- Shareholder alignment: to provide an immediate and significant alignment with other shareholders, in November 2016 Phil acquired out of his own funds 1,852,656 Mitie shares worth £3.6m. This ensured adherence to the enhanced share ownership guideline of 400% of salary that will apply to Phil (the current policy being 200% of salary);
- Annual bonus:
  - FY17 – as explained on page 77, Phil was eligible for an on-target bonus of 115% of his pro-rated salary for FY17. Although the Committee determined that the financial elements of the target were not met, Phil had achieved the strategic targets relating to the period of management transition and in particular with reference to customer, employee and shareholder goals. Mindful of shareholders' experience over the year, Phil has waived this bonus. He has also currently waived his entitlement to a car and driver; and
  - FY18 – as explained on page 77, Phil's bonus opportunity for FY18 will reflect Mitie's existing approach in terms of quantum (i.e. a 160% of salary maximum bonus). This bonus will be payable by reference to performance against a blend of financial (up to 70% of the bonus opportunity) and personal/strategic targets (up to 30% of the bonus opportunity). Any bonus earned in excess of 100% of salary is deferred into shares.

- Long-term incentives: provided under the existing shareholder-approved LTIP (which contains a two-year post vesting holding period). Further details are provided on page 80:
  - FY17 – following his appointment in November 2016, Phil received a policy-compliant award under the LTIP over shares worth 200% of salary. However, in recognition of the specific circumstances relating to his recruitment mid-year, Phil's initial award will vest subject to the extent to which the annual bonus targets that apply for FY18, FY19 and FY20 are met and a bonus paid, noting that typically a bonus will not be paid in circumstances where a minimum financial target set by the Committee has not been achieved and/or where a significant negative event has occurred in a year (such as a failure to pay a dividend). In the event Phil earns a bonus in one of these years, 25% of the award vests, with 67% vesting if a bonus is earned in two of the years and full vesting if a bonus is earned in all three years. However, no vesting will actually occur until 2020. The Committee believes the approach adopted for Phil's initial award supports the strong alignment of his interests with the long-term interests of shareholders given (i) Phil's substantial initial upfront investment, (ii) future LTIP awards will be granted with standard three-year performance targets and (iii) this initial award effectively operates with a four-year performance period, whereas other LTIP awards granted to other participants in FY17 measure performance over only three years (as they are tested in 2019 rather than 2020); and
  - FY18 – Phil will receive a standard LTIP award over shares worth 200% of salary which will vest subject to the same performance targets as other recipients (i.e. a blend of EPS, TSR, cash conversion and strategic objectives).
- Pension: reflecting standard policy, Phil will receive a cash contribution in lieu of pension of 20% of salary.

The above remains compliant with the Company's existing remuneration policy and does not include any "signing on" awards. The Committee believes that the approach adopted to Phil Bentley's remuneration is appropriate and, in particular, delivers against our objective of securing a CEO with the exceptional talents required to address the specific challenges faced by Mitie and to deliver strong shareholder returns. Phil has shown his commitment to Mitie via his significant upfront investment in Mitie shares, thereby securing another of the Committee's key objectives – genuine alignment with the long-term interests of shareholders.

Group Finance Director succession

As announced in January 2017, and also as part of Mitie's orderly succession planning process, Suzanne Baxter stepped down from the Board as Group Finance Director and was succeeded by Sandip Mahajan as Chief Financial Officer. Full details of Sandip's remuneration arrangements – which comply with the Company's existing remuneration policy – are provided in this report (and are lower than those provided to Suzanne Baxter) but, in summary, include (i) a base salary of £320,000 which will not be increased in FY18, (ii) an annual bonus opportunity of 100% of salary and (iii) regular annual LTIP awards of 125% of salary.

Departure terms of previous CEO and GFD

The remuneration issues relating to the stepping down of Ruby McGregor-Smith and Suzanne Baxter were approached in a consistent manner. This approach also reflected the Company's existing remuneration policy, the terms of their service agreements, the rules of the relevant incentive plans and did not include any ex gratia additional payments. Full details of our approach are set out in this report, which includes an explanation of the fact that (i) neither Ruby McGregor-Smith nor Suzanne Baxter received a bonus for FY17 and (ii) the Committee determined that all their outstanding LTIP awards should lapse.

In addition, as a consequence of the prior year adjustments to the accounts for the financial year ended 31 March 2016, the Remuneration Committee will determine what rights may be available to the Company to recover the bonus and other awards made to each of Ruby McGregor-Smith and Suzanne Baxter in respect of FY16 (whether in whole or in part).

Remuneration policy

We have made no changes to the remuneration policy for which shareholder approval was obtained at the 2015 AGM and we are not proposing any changes for the forthcoming year. For ease of reference we have provided shareholders with a copy of the policy in the next section of this report. This policy will remain in place until the AGM in July 2018.

Key activities during the year

During the year and immediately following the year end, we addressed a number of key issues (in addition to those described in the first sections of this letter), such as:

- setting base salaries for the Executive Directors;
- assessing the performance of the Executive Directors and determining annual bonuses;
- setting bonus targets for the Executive Directors;
- approving share awards and considering the extent of vesting of legacy share awards;
- reviewing the application of the remuneration policy; and
- preparing the Directors' remuneration report.

Alignment between strategy and pay at Mitie

The remuneration policy supports and rewards the achievement of the Group's strategy to deliver sustainable and profitable growth. This is driven and measured by how the Group performs against a number of KPIs, both financial and non-financial, further details of which can be found on pages 12 and 13.

We align the remuneration policy to the Group's strategy and performance in a number of ways, including:

- Annual Bonus Plan (ABP) – awarded based on a combination of profit and strategic measures set by the Board at the beginning of the financial year; and
- Long Term Incentive Plan (LTIP) – based on a basket of measures tailored to the Group's business.

Pages 77 and 79 give you more information on ABP and LTIP targets.

Remuneration Committee members

The members of the Remuneration Committee are all Non-Executive Directors.

Chairman	Jack Boyer
Committee members	Larry Hirst
	Roger Matthews
	Mark Reckitt

Key purpose of the Remuneration Committee

We have responsibility for determining the remuneration of Mitie's Executive Directors and the Chairman, taking into account the need to ensure Executive Directors are properly incentivised to perform in the interests of the Company and its shareholders.

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

Frequency of Remuneration Committee meetings

During the year ended 31 March 2017, the Committee met five times.

	Attendance
Jack Boyer	5
Larry Hirst	5
Roger Matthews	5
Mark Reckitt	5

The Committee regularly consults with the Chief Executive and the Group HR Director on various matters relating to the appropriateness of rewards for the Executive Directors. However, the Chief Executive and other Executive Directors are not present when matters relating directly to their own remuneration are discussed. This is also the case for other executives attending Committee meetings.

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

Remuneration decisions

Delivering strategic goals for the future development of the Group, while also being cognisant of the challenging market conditions Mitie faces, has been the key focus for the Board this year and the Committee has approached the key decisions regarding the remuneration of the Executive Directors with this future direction in mind.

With regard to fixed pay, it has been agreed that the new Executive Directors' base salaries will not be increased and so will remain £900,000 for Phil Bentley and £320,000 for Sandip Mahajan.

In relation to annual bonus (and as explained later in this report):

- Phil Bentley was eligible for an on-target bonus of 115% of his pro-rated salary for FY17. Although the Committee determined that the financial elements of the target were not met, Phil had achieved the strategic elements of his target. Mindful of shareholders' experience over the year, Phil has waived this bonus. He has also currently waived his entitlement to a car and driver;
- Sandip Mahajan was not eligible for a bonus for FY17;
- the Committee determined that no bonus should be payable to Ruby McGregor-Smith and Suzanne Baxter; and
- for FY18, Phil Bentley's bonus opportunity will be 160% of salary, Sandip Mahajan's 100%. Reflecting the approach adopted last year, bonuses will be payable based on performance against a blend of challenging financial and strategic targets.

With regard to long-term incentives (and as also explained later in this report):

- following a shareholder consultation exercise, it was agreed that the "normal" 2016 LTIP grants be made subject to a blend of EPS, TSR, cash conversion and strategic objectives. It is also proposed that a similar approach will be taken to the LTIP awards that are to be made in 2017 (over shares worth 200% of salary for Phil Bentley and 125% of salary for Sandip Mahajan);
- in accordance with their terms, the 2014 LTIP awards held by Ruby McGregor-Smith and Suzanne Baxter were tested at the end of the original performance period. The Committee determined that these awards should lapse in full after exercising negative discretion; and
- in accordance with the rules of the relevant LTIP, accelerated vesting applied to the 2015 and 2016 LTIP awards held by Ruby McGregor-Smith and Suzanne Baxter. The Committee determined that these awards should also lapse in full after exercising negative discretion.

Remuneration policy for FY18 and onwards
FY18 is the last year that the current remuneration policy will be in effect, following its approval at the 2015 AGM. We will undertake a review of the policy during the year and any proposals to amend the policy will be discussed with our key shareholders prior to the final policy being presented to the 2018 AGM for a binding vote.

Conclusion
We will be seeking approval for the Directors' remuneration report from shareholders at the AGM. I would welcome your views and feedback regarding this year's report, which can be emailed to me at jack.boyer@mitie.com.

Jack Boyer
Chairman of the Remuneration Committee

This report

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

At our 2017 AGM we will be holding an advisory vote on the implementation section of this report only, as no changes to the policy are proposed. However, our policy is provided below for convenience.

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

The key principles of the policy

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

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

The policy

The key elements of the policy, approved at the 2015 AGM, are summarised below.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary Set at levels to attract and retain individuals of the calibre required to drive the vision and direction of Mitie.	Salaries are generally reviewed annually and effective from 1 April. The review is influenced by: • the individual's role, experience and performance; • business performance and the wider market and economic conditions; • the range of increases across the Group; and • an external comparator group comprised of sector comparators and size adjusted FTSE 250 comparator organisations.	Base salary increases will be broadly in line with the average increase for the salaried non-contract UK employees whose salaries Mitie determines, although on occasion other specific circumstances such as changes of responsibilities, progression in role, experience, or a significant increase in the scale of the role and/or size, value and/or complexity of the Group may also be taken into consideration.	N/A
Benefits To aid retention and be competitive within the marketplace.	The Group provides a range of benefits which may include a company car/car allowance, private fuel, private health insurance, life assurance and annual leave. Benefits are reviewed periodically against market and new benefits may be added and/or amended as required to support the attraction and retention of key talent. Additional benefits may be awarded in certain recruitment circumstances which may include relocation expenses, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Committee.	Benefits are set at a level which the Committee considers: • is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; and • provides a sufficient level of benefit based on the role and individual circumstances (for example, relocation). The Committee retains discretion to approve a higher cost than currently incurred where factors outside the Company's control have changed materially (e.g. medical inflation) or in exceptional circumstances (e.g. relocation).	N/A

The Company's remuneration policy continued

Purpose and link to strategy	Operation	Opportunity	Performance metrics
All Employee Share Schemes To provide opportunities for the Directors to voluntarily invest in the Company on the same terms as other employees.	Executive Directors are eligible to participate in any all-employee share plan operated by the Company, in line with HMRC guidelines currently prevailing (where relevant), on the same basis as other eligible employees.	N/A	N/A
Pension To aid retention and provide competitive retirement benefits.	Executive Directors employed at 31 March 2016 participated in the Group's defined benefit scheme which is closed to new entrants. The plan has a cap on pensionable salary. A cash supplement is payable in respect of full salary. Those Directors are subject to the same scheme rules as other members of the final salary scheme. The rules detail the pension benefits which members receive on retirement, death or leaving service. New Executive Directors will be eligible to participate in the defined contribution pension scheme or to receive a cash allowance in lieu of a pension contribution.	Executive Directors employed at 31 March 2016 accrued pension at a rate of 1/70th of pensionable salary. Pension salary supplement for each of those Directors is 20% of salary. As reported last year, from 1 April 2016, following changes in legislation impacting the tax efficiency of pension savings for higher earners, the Executive Directors who previously participated in the Group's defined benefit pension scheme ceased to accrue benefits in the Group's defined benefit scheme and instead received an additional cash supplement of equivalent value. The pension salary supplement for new Executive Directors will be determined based on the Committee's assessment of competitive levels needed to attract and retain such individuals, but will be capped at 20% of salary.	N/A

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual Bonus Plan To incentivise and recognise execution of the Company's strategy on an annual basis. Rewards the achievement of annual financial and strategic goals. Deferral provides alignment with shareholders.	Measures and targets are set annually and pay-out levels are determined by the Committee after the year end based on performance against those targets. The Committee may, in exceptional circumstances, amend the bonus pay-out should this not, in the view of the Committee, reflect overall business performance or individual contribution. Up to 100% of base salary is paid in cash with anything over 100% being deferred in shares which vest in two years (normally subject to continued employment). Dividends are accrued on deferred shares and paid in cash. Malus provisions apply to deferred share awards made after the 2015 AGM.	Maximum bonus opportunity is 160% of salary for the Chief Executive and up to 135% of salary for any other Executive Director.	Bonuses are based on stretching financial and strategic objectives as set at the beginning of the year and assessed by the Committee at the end of the year, with the underlying aim of encouraging and rewarding the generation of sustainable returns to shareholders. The Committee has discretion to determine the appropriate weightings each year depending on business priorities. The financial measures will represent the majority of the bonus, with the strategic objectives representing the balance. These elements are additive. For the strategic element of the award, payment at threshold performance is zero. At the start-to-earn performance level under the financial element, a bonus of no more than 60% of salary is payable.
Long Term Incentive Plan To motivate and incentivise delivery of sustained performance and alignment with shareholder interests.	Annual awards (in the form of nil-cost options, conditional share awards or cash settlements) are made with vesting dependent upon the achievement of performance conditions over three years. Award levels and the framework for determining vesting are reviewed annually to ensure they continue to support the Group's strategy. The Committee has the discretion to decide whether, and to what extent, targets have been met, and, if an exceptional event occurs that causes the Committee to consider that the targets are no longer appropriate, the Committee may adjust them. Dividend equivalents are paid in cash on or after the date shares are received. Vested shares will be subject to an additional holding period and malus provisions will apply for awards made after the 2015 AGM.	Awards may be made up to a maximum level of 200% of salary for any Executive Director.	Performance over three financial years is measured against stretching objectives set at the beginning of the performance period which have the underlying aim of encouraging and rewarding the generation of sustainable returns to shareholders. Vesting under the LTIP depends on the achievement of performance conditions, for which a minimum performance threshold has been set. Awards attributable to each performance condition vest at 25% on the achievement of the minimum performance threshold, rising to 100% for the achievement of a defined upper performance threshold.

The Company's remuneration policy continued

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Share ownership To ensure alignment between Executive Directors and shareholders.	Executive Directors are required, over time, to build and maintain a minimum shareholding in the Company worth 200% of salary. They are required to retain half of the post-tax shares vesting under the LTIP and other share schemes until the guideline is met.	N/A	N/A
Chairman and Non-Executive Director fees To attract and retain high-calibre individuals. Non-Executive Directors do not participate in any incentive schemes.	Fees are normally reviewed every three years. The fee structure is as follows: • the Chairman is paid an all-inclusive single fee for all Board responsibilities; • the Non-Executive Directors are paid a basic fee, plus additional fees for chairmanship of committees; • fees are currently paid in cash but the Company may choose to provide some of the fees in shares; and • benefits, including expenses, can be provided if considered necessary on a case-by-case basis.	Fees are set at a level which: • reflects the commitment and contribution that is expected from a Chairman and the Non-Executive Directors; and • is appropriately positioned against comparator roles in companies of a similar size and complexity in the relevant market. Actual fees are disclosed in the Directors' remuneration report for the relevant financial year. Aggregate fees/value of benefits are capped at the amount set out in the Company's Articles of Association.	N/A

Note:

The malus provision under the Annual Bonus Plan and LTIP may be operated if it comes to light within three years that information used to determine performance was materially inaccurate and resulted in a material overstatement of the award or in the event of any act/omission by an individual that would give grounds for summary dismissal (with no time limit).

Discretions retained in operating the incentive plans

The Committee will operate the Annual Bonus Plan and LTIP according to their respective rules and the above policy table. The Committee retains discretion, consistent with market practice, in a number of respects, in relation to the operation and administration of these plans.

These discretions include, but are not limited to, the following:

- the selection of participants;
- the timing of grant of an award/bonus opportunity;
- the size of an award/bonus opportunity subject to the maximum limits set out in the policy table;
- the determination of performance against targets and resultant vesting/bonus pay-outs;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- the annual review of performance measures, weightings and targets from year to year.

In relation to both the LTIP and Annual Bonus Plan, the Committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. Any use of these discretions would, where relevant, be explained in the Directors' remuneration report and may, where appropriate and practicable, be the subject of consultation with the Company's major shareholders.

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

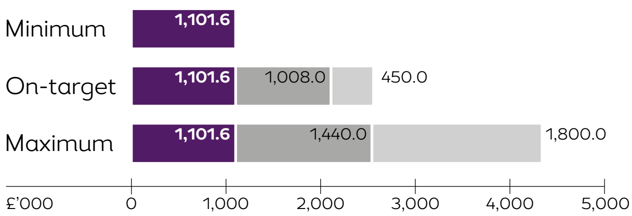
Remuneration scenarios for Executive Directors

Under the Company's policy, a significant proportion of remuneration is linked to performance. The charts below show how much the Executive Directors could earn under Mitie's remuneration policy (as detailed above) under different performance scenarios. The following assumptions have been made:

- minimum performance (below threshold) – fixed pay only, comprising salaries effective as of 1 April 2017 and the full-year effect of ongoing benefits and cash allowance in lieu of a pension contribution;
- on-target performance – fixed pay plus an on-target bonus and 25% of the maximum possible LTIP award vesting. On-target bonus for FY18 represents 70% of the maximum bonus; and
- maximum performance – fixed pay plus maximum bonus for FY18 of 160% of salary for the Chief Executive and 100% for the Chief Financial Officer (structured 70% financial targets and 30% strategic/other) and maximum LTIP awards (of 200% of salary for the Chief Executive and 125% for the Chief Financial Officer).

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

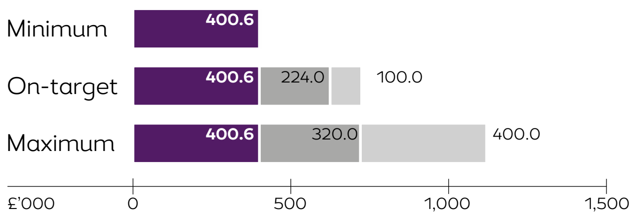
Phil Bentley



Composition of package (%)	Fixed	Bonus	LTIP
Minimum	100%		
On-target	43%	39%	18%
Maximum	25%	33%	42%

Value of package (£'000)	Fixed	Bonus	LTIP	**Total**
Minimum	1,101.6	–	–	**1,101.6**
On-target	1,101.6	1,008.0	450.0	**2,559.6**
Maximum	1,101.6	1,440.0	1,800.0	**4,341.6**

Sandip Mahajan



Composition of package (%)	Fixed	Bonus	LTIP
Minimum	100%		
On-target	55%	31%	14%
Maximum	36%	28%	36%

Value of package (£'000)	Fixed	Bonus	LTIP	**Total**
Minimum	400.6	–	–	**400.6**
On-target	400.6	224.0	100.0	**724.6**
Maximum	400.6	320.0	400.0	**1,120.6**

Executive Directors' service contracts

All Executive Directors are appointed on rolling service contracts but are subject to annual re-election at the AGM in accordance with the Code.

Under the service contracts, the Company is required to give 12 months' notice of termination of employment; Phil Bentley is required to give 12 months' notice and Sandip Mahajan is required to give six months' notice.

For Executive Directors, if notice is served by either party, the Executive Director can continue to receive basic salary, benefits and pension allowance for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave.

With respect to the current Chief Executive and Chief Financial Officer's contracts, the Company has the right to make a payment in lieu of notice equivalent in value up to 12 months' salary payable either in monthly instalments or as a lump sum. The Company will also pay for any benefit for which the individual would have been eligible until the date of cessation had full notice been given.

The Executive Directors' service contracts are available for inspection at Mitie's registered office, Mitie's head office and at the AGM. There are no other provisions for compensation on termination of employment set out within the contracts of the Executive Directors.

For future Executive Directors, notice periods will not exceed 12 months, save in exceptional circumstances; should a notice period longer than 12 months be necessary the Committee would expect this to reduce to a 12 months' notice period over time.

The effective dates of the service contracts of the Executive Directors are set out below:

	Date of agreement
Phil Bentley	9 October 2016
Sandip Mahajan	17 January 2017
Ruby McGregor-Smith	1 April 2003
Suzanne Baxter	10 April 2006

External appointments

The Board recognises that the appointment of Executive Directors to non-executive positions at other companies can be beneficial for both the individual director and the Group through the broadening of their experience and knowledge. Ruby McGregor-Smith received fees of £53,500 in respect of her role as a non-executive director of Michael Page International plc and £15,000 for her role as non-executive director of the Department of Education. Suzanne Baxter received fees of £60,000 for her role as a non-executive director of WH Smith plc. Both individuals are entitled to retain any fees earned.

Non-Executive Directors' remuneration and appointment terms

The Chairman and Non-Executive Directors receive an annual fee which is paid in monthly instalments. The Chairman's fee is set by the Remuneration Committee and the fees for the Non-Executive Directors are approved by the Board, on the recommendation of the Chairman and the Chief Executive. The Non-Executive Directors are paid a basic fee with an additional fee for chairing a Committee, together with expenses incurred in carrying out their duties on behalf of the Company. Non-Executive Directors are not eligible to participate in any of the Company's share schemes, Annual Bonus Plan or the pension scheme. They do not receive any ancillary benefits.

The terms of appointment of the Non-Executive Directors are available for inspection at Mitie's registered office, Mitie's head office and at the AGM. The Non-Executive Directors are engaged for an initial term of three years which is terminable on either three or six months' notice and thereafter on a rolling term. They are also subject to annual re-election.

Non-Executive Directors' engagement terms

	Additional duties	Date of engagement	Initial contract term	Notice period
Roger Matthews	Chairman; Chairman of Nomination Committee	4 December 2006	3 years	6 months
Larry Hirst	Senior Independent Director	1 February 2010	3 years	3 months
Jack Boyer	Chairman of Remuneration Committee	1 June 2013	3 years	3 months
Mark Reckitt	Chairman of Audit Committee	1 July 2015	3 years	3 months
Nivedita Krishnamurthy Bhagat[1]		14 March 2017	3 years	3 months
Derek Mapp[2]	Chairman-elect	8 May 2017	3 years	3 months

Notes:

1. Nivedita Krishnamurthy Bhagat joined the Board on 1 June 2017; her three-year contract term commenced on that date.
2. Derek Mapp joined the Board on 9 May 2017 as Chairman-elect and will take over as Chairman at the AGM on 26 July 2017.

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

The remuneration policy for the Executive Directors is more heavily weighted towards variable pay than for other employees, ensuring that the greater part of their pay is conditional on the successful delivery of business strategy. This helps create a clear link between the value created for shareholders and the remuneration received by the Directors. The LTIP is limited to the most senior employees. For employees below this level, variable pay may consist of share-based awards and annual bonus (both of which will be based on role), and they will have the opportunity to participate in the SAYE and SIP share schemes.

How employment conditions elsewhere in the Group are taken into account

The Remuneration Committee is responsible for overseeing the remuneration policy for the Group as a whole and is mindful of pay and employment conditions in the wider workforce within the Group and externally when determining executive remuneration. When considering base salary increases, benefits and pension provision, the Committee reviews overall levels and increases offered to employees across the Group. The Committee also reviews information with regard to share awards made to other senior management of the Group, noting that (i) all employees can participate in the SAYE and SIP share schemes, and (ii) participation in the LTIP is limited to a selection of senior executives. However, consistent with general practice, the Committee does not consult with employees in preparing the policy or its implementation.

How shareholder views are taken into account

The Committee is committed to a continuing discussion with major shareholders and obtains their views when any significant changes to remuneration arrangements are being proposed.

Executive Director remuneration (subject to audit)

The table below reports a single figure of total remuneration for each Executive Director for the financial years ended 31 March 2016 and 31 March 2017.

	Year	Salary	Benefits	Annual bonus	LTIP	Pension	Other	Total
Phil Bentley	**2017**	**£375,000**	**£29,073**	**–**	**–**	**£75,000**	**–**	**£479,073**
	2016	–	–	–	–	–	–	–
Sandip Mahajan	**2017**	**£44,000**	**£2,063**	**–**	**–**	**£8,800**	**–**	**£54,863**
	2016	–	–	–	–	–	–	–
Former Directors								
Ruby McGregor-Smith	**2017**	**£404,311**	**£17,183**	**–**	**–**	**£108,216**	**£918**	**£530,628**
	2016	£565,950	£25,855	£659,332	£1,042,755	£152,577	£1,692	£2,448,161
Suzanne Baxter	**2017**	**£319,933**	**£20,466**	**–**	**–**	**£98,001**	**£918**	**£439,318**
	2016	£360,150	£23,537	£338,541	£531,289	£104,636	£1,692	£1,359,845
Total remuneration	**2017**							**£1,503,882**
	2016							£3,808,006

Notes:

Phil Bentley joined the Company and was appointed as an Executive Director on 1 November 2016. The information in the table above confirms his earnings for his position as an Executive Director from 1 November 2016.

Sandip Mahajan joined the Company on 18 January 2017 and was appointed as an Executive Director on 10 February 2017. The information in the table above confirms his earnings for his position as an Executive Director from 10 February 2017.

Ruby McGregor-Smith stepped down from the Board on 12 December 2016 and remained an employee until 31 March 2017. The information in the table above confirms her earnings for her position as an Executive Director up to 12 December 2016.

Suzanne Baxter stepped down from the Board on 10 February 2017 and remained an employee until 31 May 2017. The information in the table above confirms her earnings for her position as an Executive Director up to 10 February 2017.

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

Bonus payable in respect of the financial year includes any deferred element at face value at the date of award. Further information about how the nil level of the award for the year ended 31 March 2017 was determined is provided on page 77.

The Committee determined that the 2014 LTIP awards (which were due to vest in June 2017) should lapse in their entirety following exercise of negative discretion by the Committee. The Committee also determined that the accelerated 2015 and 2016 LTIP awards granted to Ruby McGregor-Smith and Suzanne Baxter should lapse in their entirety following exercise of negative discretion by the Committee. The value of the LTIP in 2016 has been restated from the figures disclosed in the 2016 report, to reflect the actual share price on vesting of 244.0p and a dividend equivalent of 40.5p.

The Other column denotes the value of the 1 in 10 matching shares awarded under the Company Share Incentive Plan, of £180, following the investment by each individual of a lump sum of £1,800 at the beginning of the tax year. It also includes £738 in respect of the intrinsic gain on 1,337 SAYE options granted in the year being equal to the 20% discount from a share price of 275.9p to arrive at the exercise price of 220.7p.

The pension benefit disclosed above in respect of Phil Bentley and Sandip Mahajan comprises the 20% cash allowance in lieu of a pension contribution.

The disclosures above in respect of Ruby McGregor-Smith and Suzanne Baxter's pension benefits in 2017 comprise the 20% pension supplement along with the additional cash supplement. From 1 April 2016, following changes in legislation impacting the tax efficiency of pension savings for higher earners, the Executive Directors who participate in the Group's defined benefit scheme ceased to accrue benefits in the scheme and instead received an additional cash supplement of equivalent value of £39,247 per annum. In the previous financial year, they comprised the 20% pension supplement along with an actuarially derived value of the annually accrued pension benefits under the defined benefit pension scheme, net of personal contributions made by each Director. This calculation was known as the net pension input amount and was affected by the number of years of scheme membership, the value of annually accrued benefits at each year end, inflation and a prescribed multiplication factor of 20.

The net pension input amount for the Directors below included in the pension benefits disclosed above was:

	Year	Years of scheme membership at 31 March	£
Ruby McGregor-Smith	**2017**	**14**	**n/a[1]**
	2016	13	39,387
Suzanne Baxter	**2017**	**5**	**n/a[1]**
	2016	4	32,606

Note:

1. The Directors who participate in the scheme have ceased to accrue pension benefits in the scheme with effect from 1 April 2016. They instead received an additional cash supplement of equivalent value of £39,247 each per annum.

Non-Executive Director remuneration (subject to audit)

The fees for the Non-Executive Directors for the financial years ended 31 March 2017 and 31 March 2016 are set out below:

	2017[1] £'000	2016 £'000
Roger Matthews	**185**	185
David Jenkins[2]	**–**	43
Larry Hirst[3]	**59**	57
Crawford Gillies[4]	**–**	15
Jack Boyer	**60**	60
Mark Reckitt[5]	**60**	45
Total	**364**	405

Notes:

1. All amounts were paid in cash and no other benefits were received in the year.
2. David Jenkins stepped down as Senior Independent Director and Chairman of the Audit Committee at the AGM on 13 July 2015 and retired as a Non-Executive Director on 31 December 2015.
3. Larry Hirst was appointed as Senior Independent Director from 14 July 2015.
4. Crawford Gillies stepped down as a Non-Executive Director at the AGM on 13 July 2015.
5. Mark Reckitt joined as a Non-Executive Director on 1 July 2015 and was appointed as Chairman of the Audit Committee on 14 July 2015.

Base salary and benefits

Effective 1 April 2016, the Remuneration Committee awarded average salary increases of 2.5% for the two Executive Directors (which was in line with the average salary increases awarded to Mitie's salaried non-contract UK employees), resulting in the following base salaries being payable:

- Ruby McGregor-Smith – £580,099
- Suzanne Baxter – £369,154

Commencing 1 November 2016 (and to be first reviewed in April 2020), the annual base salary for Phil Bentley is as follows:

- Phil Bentley – £900,000

Commencing 18 January 2017 (and to be first reviewed in April 2018), the annual base salary for Sandip Mahajan is as follows:

- Sandip Mahajan – £320,000

A review of Non-Executive Director fees was undertaken by the Board in March 2017 with the previous review having been undertaken in March 2014. As a result of that review the fees for the year ending March 2018 were unchanged with the exception of the fee agreed by the Committee of £225,000 per annum for Derek Mapp who joined as Chairman-elect on 9 May 2017 and will take over as Chairman at the AGM on 26 July 2017. A further review of Non-Executive fees will be undertaken in March 2018.

	2018[1] £'000	2017 £'000
Chairman fees[2]	**225**	185
Non-Executive Director core fees[3]	**52**	52
Additional fees:		
Senior Independent Director	**7**	7
Chairman of a Committee	**8**	8

Notes:

1. The core fees of £52,000 per annum paid to each Non-Executive Director (including the Chairman) will total £263,000 for the year ending 31 March 2018. This includes the fee for Nivedita Krishnamurthy Bhagat who has been appointed as a Non-Executive Director with effect from 1 June 2017 and the fee for Derek Mapp who was appointed Chairman-elect on 9 May 2017. Total fees including additional duties are expected to amount to £483,000 for the year ending 31 March 2018 (£364,000 actual for the year ended 31 March 2017).
2. The Chairman's fee is inclusive of the Non-Executive Director core fee and no additional fees are paid to the Chairman where he is a chairman or is a member of other Committees. The fee shown for 2018 is the annual fee for Derek Mapp.
3. For Non-Executive Directors, individual fees comprise the core fee and additional supplemental fees for chairing Committees where a greater responsibility and time commitment are required.

Benefits are as described in the remuneration policy table. No changes are planned for the year ending 31 March 2018.

Pension (subject to audit)

Pension provision for 2016/17 is as described in the remuneration policy table. From 1 April 2016, following changes in legislation impacting the tax efficiency of pension savings for higher earners, the Executive Directors who participate in the Group's defined benefit scheme ceased to accrue benefits in the scheme and instead received an additional cash supplement. In addition, the Directors received a salary supplement as described in the policy table. The normal retirement age for the Directors is 65 and no additional benefits are available to the Directors upon early retirement.

Defined benefit pension scheme transfer values:

	Normal retirement date	Transfer value 31 March 2017 £'000	Transfer value 31 March 2016 £'000	Contributions made by the Director in the year £'000	Increase in accrued pension over the year £'000	Transfer value of pension increase (after inflation, net of contributions) £'000
Ruby McGregor-Smith	22 February 2028	441	361	0	0	0
Suzanne Baxter	16 April 2033	117	92	0	0	0

In the prior year, the pension benefits of the Executive Directors were based on a pensionable salary capped at £150,000. The Company made contributions to the Group's defined benefit scheme on behalf of the two Directors at a rate of 10.3% of the value of the capped salary. The Company also contributed to the administrative costs of the pension scheme based on a percentage of salary at a rate of 4.5% of the capped salary.

The transfer value is an actuarially determined capital value of the pension benefits, based on prevailing market conditions at the time. It is possible for transfer values to go down as well as up.

Annual Bonus Plan

Awards in respect of the year ended 31 March 2017 were considered under the Annual Bonus Plan. The outcomes were determined as set out below.

At the beginning of the year the Committee set financial measures based on operating profit before other items for threshold, target and maximum levels of performance as follows: a threshold of £120.6m, a target of £127.0m and a maximum of £133.4m. The out-turn was £(6.3)m. This generated no pay-out for Ruby McGregor-Smith and Suzanne Baxter under this element of the Plan.

The Committee also set strategic objectives relating to: facilities management; people services; people; back office and operational synergies; and capital allocation. Having evaluated a range of outcomes and indicators of performance, the Committee determined that no bonus should be payable under this element to either Ruby McGregor-Smith or Suzanne Baxter.

On joining the Company on 1 November 2016, Phil Bentley became eligible to receive a bonus at on-target levels equivalent to 115% of base salary, pro-rated to reflect his period of service during the year. The performance criteria were weighted 60% financial performance and 40% strategic performance based on a successful transition. While Phil was eligible to receive a bonus, mindful of shareholders' experience over the year, Phil has decided to waive this bonus.

Sandip Mahajan, who joined the Company on 18 January 2017, was not eligible to receive a bonus in respect of the year ended 31 March 2017. He will be eligible to receive a bonus of up to 100% of base salary in respect of the year ending 31 March 2018.

Therefore, based on the Committee's assessment of achievement of both the financial and the strategic objectives, the bonus was calculated as follows:

	Financial performance				Strategic performance				Total bonus payable		
	% of salary payable at threshold	% of salary payable at on-target	% of salary payable at maximum	% of salary payable	% of salary payable at threshold	% of salary at on-target	% of salary payable at maximum	% of salary payable	Total bonus £'000	Cash £'000	Deferred shares £'000
Phil Bentley	60	69	96	0	0	46	64	0	0.0	0.0	0.0
Ruby McGregor-Smith	60	90	110	0	0	25	50	0	0.0	0.0	0.0
Suzanne Baxter	60	90	110	0	0	12.5	25	0	0.0	0.0	0.0

The Annual Bonus Plan will be operated on similar terms for the year ending 31 March 2018. Phil Bentley's maximum bonus opportunity for FY18 will continue to be 160% of salary. His and Sandip Mahajan's bonus (of up to a maximum of 100% of salary) will be payable by reference to performance against a blend of financial (70% of the bonus opportunity) and personal/strategic targets (the remaining 30%). The targets are at present commercially sensitive and so are not disclosed in this report. However, as above, details of the targets will be disclosed in next year's report.

Details of LTIP vesting in June 2017 (2014 award)

The Committee assessed the outcome of the 2014 LTIP awards granted under the plan in operation at the time against a basket of performance measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2017)
Earnings Per Share (EPS) growth	20% of the award	3% – 8% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 3% pa. If performance is equal to 3%, 25% of the award will vest. If Mitie achieves 8% EPS growth pa, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis.
Relative Total Shareholder Return (TSR)	20% of the award	Outperformance against FTSE 350 Support Services index	Zero vesting if Mitie's TSR performance is less than the median of the index. If Mitie's TSR performance is equal to the median of the index, 25% of the award will vest and if it exceeds the index median TSR by 10% pa or more, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis. An underpin condition for underlying financial performance also applies.
Organic revenue growth	30% of the award	3% – 6% pa with a financial underpin based on the achievement of target margin of 5.5% pa	Zero vesting if organic revenue growth is less than 3% pa. If performance is equal to 3% pa, 25% of the award will vest. If Mitie achieves 6% organic revenue growth pa, all the awards will vest. Between these two points, the proportion of awards vesting will be determined on a linear sliding scale basis. Entire portion of award is subject to Mitie achieving an average 5.5% margin in the performance period.
Cash conversion	30% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At 75%, 25% of the award will vest. 70% of the award will vest if Mitie achieves 80%. Full vesting for this portion will occur if 85% pa is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.

The Committee determined that the 2014 awards should lapse in their entirety following exercise of negative discretion by the Committee.

The 2015 LTIP awards were granted subject to the same performance conditions in relation to the performance period for the three years ending 31 March 2018.

LTIP awards granted in July 2016

In 2016, the Committee reviewed the continued appropriateness of the blend of targets applied to LTIP awards since 2013 and concluded that some changes should be made to the targets that are applied to the LTIP awards made in 2016 to further align the link between pay and strategy. Reflecting best practice, the Committee consulted major shareholders in connection with these changes. Following this consultation, awards were granted in July 2016. Details of the awards made to the Executive Directors under the LTIP (granted as nil-cost options) are summarised below.

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2019)
Earnings Per Share (EPS) growth	25% of the award	3% – 8% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 3% pa. If performance is equal to 3%, 25% of the award will vest. If Mitie achieves 8% EPS growth pa, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis.
Relative Total Shareholder Return (TSR)	20% of the award	Outperformance against the Business Support Services subsector of the FTSE 350 Support Services index (the Benchmark)	Zero vesting if Mitie's TSR performance is less than the median of the Benchmark. If Mitie's TSR performance is equal to the median of the Benchmark, 25% of the award will vest and if it exceeds the Benchmark median TSR by 10% pa or more, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis. An underpin condition for underlying financial performance also applies.
Strategic objectives	25% of the award		Zero vesting if the strategic objectives are not met. Straight line vesting between zero and maximum based on Remuneration Committee assessment of performance against objectives.
Cash conversion	30% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At 75%, 25% of the award will vest. 70% of the award will vest if Mitie achieves 80%. Full vesting for this portion will occur if 85% pa is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.

The strategic objectives were linked to the Company's strategy that existed at the time and included succession planning for the Board and senior executives with associated development plans, improving the diversity and inclusion mix of the business, long-term sustainability of the FM business through technology and client development, and continued focus on the health and safety of our people.

What was granted in July 2016 (subject to audit)

	Award	Type	Number of shares[1]	**Face value (£'000)**	% of salary	Performance conditions	Performance period	% vesting at threshold
Ruby McGregor-Smith	Performance	Nil-cost options	478,431	**1,160**	200%	Performance conditions are set out in the table above	Three financial years ending 31 March 2019	25%
Suzanne Baxter	Performance	Nil-cost options	304,456	**738**	200%			25%

Note:

1. Number of shares was calculated based on the average of up to five business days preceding the date of grant giving a share price of 242.5p.

The Directors above were also granted 1,337 options under the Mitie Group plc 2011 SAYE scheme, details of which can be found on page 83.

In accordance with the rules of the relevant LTIP, accelerated vesting applied to the 2016 (and 2015) LTIP grants for Ruby McGregor-Smith and Suzanne Baxter. The Committee determined that these awards should lapse in their entirety following exercise of negative discretion by the Committee.

LTIP award granted in November 2016

On 29 November 2016, Phil Bentley was granted LTIP awards to the value of 200% of salary (with Phil Bentley also purchasing shares in the Company equivalent to 400% of annual base salary, as set out on page 83). The performance conditions attaching to these run to 31 March 2020 and are linked to the achievement of a bonus payment in the three financial years ending 31 March 2020. More particularly, if Phil earns a bonus in one of these years, 25% of the award vests, with 67% vesting if a bonus is earned in two of the years and full vesting if a bonus is earned in all three years, noting that a typical bonus will not be paid in circumstances where a minimum financial target set by the Committee has not been achieved and/or where a significant negative event has occurred in a year (such as failure to pay a dividend). However, no vesting will actually occur until 2020. The award is subject to a holding period, post vesting, with 50% of the shares being released in May 2020 after the end of the performance period, 25% being released in November 2020 and 25% in November 2021. Further disclosure will be made during the performance period.

What was granted in November 2016 (subject to audit)

	Award	Type	Number of shares[1]	**Face value (£'000)**	% of salary	Performance conditions	Performance period	% vesting at threshold
Phil Bentley	Performance	Nil-cost options	879,077	**1,800**	200%	Linked to bonus pay-out	Three financial years ending 31 March 2020	25%

Note:

1. Number of shares was calculated based on the average of the five business days preceding the date of grant giving a share price of 204.8p.

The performance conditions that are to apply to awards made in 2017 will follow the same structure as for those granted in July 2016, as shown in the table on page 79.

Loss of office payments (subject to audit)

Ruby McGregor-Smith

Ruby McGregor-Smith stepped down from the Board on 12 December 2016. A summary of Ruby McGregor-Smith's departure terms was contained in the relevant RNS announcement. Up to 31 March 2017, Ruby McGregor-Smith was available to support Phil Bentley to ensure a smooth transition. Ruby McGregor-Smith continued to receive her salary, pension, car allowance and other contractual benefits until that date, at which point she ceased employment. Ruby McGregor-Smith is entitled to receive a capped contribution of up to £76,000 (ex VAT) towards legal and outplacement fees incurred in connection with her departure, the precise amount of which will be based on the fees actually incurred. Precise details of any payment to be made to Ruby McGregor-Smith (and ongoing provision of any benefits) in respect of the unexpired portion of her 12 month notice period have yet to be agreed and will be disclosed in next year's Report.

As noted above, the Committee determined that:

- Ruby McGregor-Smith receive no bonus for FY17
- Ruby McGregor-Smith's 2014, 2015 and 2016 LTIP awards lapse in full

In accordance with the rules of the Deferred Share Bonus Plan, the award made to Ruby McGregor-Smith on 31 May 2016 is due to vest early. Precise details of vesting will be disclosed in next year's Report. Ruby McGregor-Smith's awards under the all-employee SAYE Plan and Share Incentive Plan are treated in accordance with the terms of the respective plan rules.

This approach accords with the current remuneration policy.

Suzanne Baxter
Suzanne Baxter stepped down from the Board on 10 February 2017. A summary of Suzanne Baxter's departure terms was contained in the relevant RNS announcement. Up to 31 May 2017, Suzanne Baxter was available to support Sandip Mahajan to ensure a smooth transition. Suzanne Baxter continued to receive her salary, pension, car allowance and other contractual benefits until that date, at which point she ceased employment. Suzanne Baxter is entitled to receive a capped contribution of up to £70,000 (ex VAT) towards legal and outplacement fees incurred in connection with her departure, the precise amount of which will be based on the fees actually incurred. Precise details of any payment to be made to Suzanne Baxter (and ongoing provision of any benefits) in respect of the unexpired portion of her 12 month notice period have yet to be agreed and will be disclosed in next year's Report.

As noted above, the Committee determined that:

- Suzanne Baxter receive no bonus for FY17 and will not participate in the FY18 bonus plan
- Suzanne Baxter's 2014, 2015 and 2016 LTIP awards lapse in full

Suzanne Baxter's awards under the all-employee SAYE Plan and Share Incentive Plan are treated in accordance with the terms of the respective plan rules.

This approach accords with the current remuneration policy.

Payments to past Directors (subject to audit)
No payments have been made to past Directors.

Change in CEO pay for the year compared to UK salaried employees
The table below sets out the change in remuneration of the Chief Executive and Mitie's UK salaried non-contract population, which is considered the most appropriate group for comparison purposes.

%	Salary	Benefits[1]	Bonus
Chief Executive[2]	2.5%	-3.7%	-100%
Average pay based on Mitie's UK salaried non-contract employees[3]	4.1%	13.7%	-100%

Notes:

1. Includes car/car allowance, private medical benefit and private fuel.
2. Ruby McGregor-Smith stepped down as Chief Executive on 12 December 2016 and Phil Bentley became Chief Executive from 12 December 2016. To facilitate a year-on-year comparison, the change in CEO percentage shown is the change in Ruby McGregor-Smith's salary, benefits and bonus between FY16 and FY17 on an annualised basis.
3. Reflects the change in average annual pay for salaried non-contract UK employees employed throughout the two financial years ended 31 March 2017. Salaried non-contract employees are those who are employed directly by Mitie Group and whose roles are not dedicated to the provision of client services.

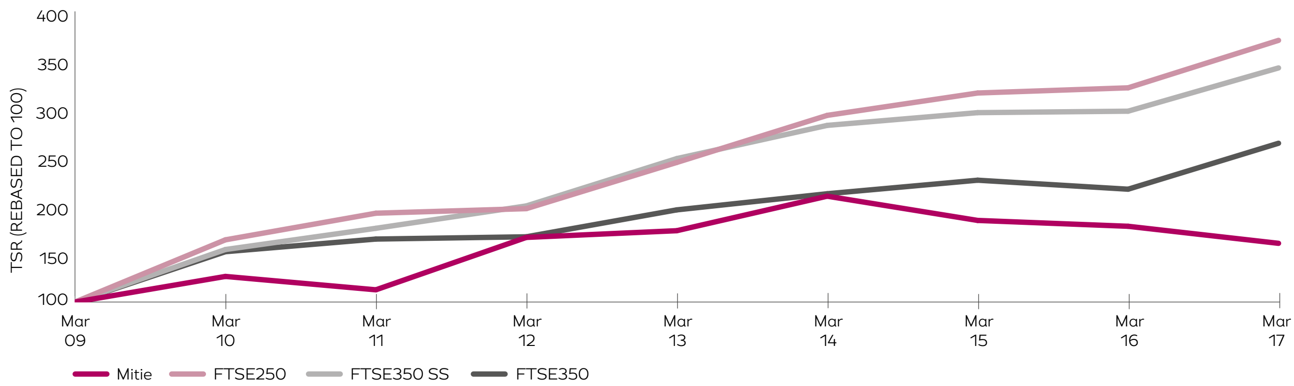
Relative spend on pay

The table below shows the total cost of remuneration in the Group, compared with the dividends distributed and share buybacks.

	Year ended 31 March 2017 £m	Year ended 31 March 2016 £m	Change
Aggregate employee remuneration	1,174	1,132	3.7%
Equity dividends and share buybacks	62	57	8.8%

Assessing pay and performance

In the table below we provide a summary of the Chief Executive's single figure remuneration over the past eight years, as well as the pay-out and vesting levels of our variable pay plans in relation to the maximum opportunity. This is compared with historical TSR performance over the same period. We have chosen these indices (FTSE 250, FTSE 350 Support Services and FTSE 350) as they are widely recognised and Mitie has been a member of these indices during the period:

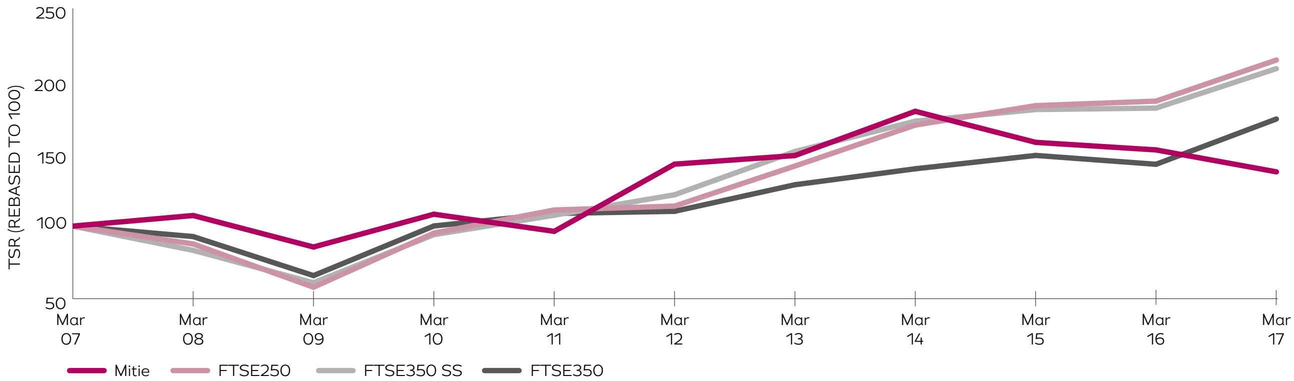


	2010	2011	2012	2013	2014	2015	2016	**2017 Ruby McGregor-Smith[2]**	**2017 Phil Bentley[2]**
Single figure remuneration	£1,703,031	£2,324,443	£2,431,773	£2,105,131	£1,447,266	£1,525,824	£2,448,161[1]	**£530,628**	**£479,073**
Annual bonus element (actual as a % of max)	100%	100%	100%	85%	90%	50%	73%	**0%**	**waived**
LTIP element (actual vesting as a % of max)	100%	100%	87.2%	57.2%	0%	25%	69.5%	**0%**	**n/a**

Notes:

1. The single figure has been restated from the figure disclosed in the report last year, to reflect the actual share price on vesting of the LTIP in June 2016 of 244.0p.
2. Ruby McGregor-Smith stepped down as Chief Executive on 12 December 2016. Phil Bentley joined the Board on 1 November 2016 and assumed the position of Chief Executive on 12 December 2016. The figures above include Phil Bentley's remuneration from 1 November 2016.

The reporting requirements state that the time period for the above TSR chart should be lengthened to ten years over time and we have therefore included a ten year chart below:



Share ownership (subject to audit)

	Number of shares owned as at 31 March 2017[1]	Value of target holding[2]	Target shareholding[3]	Percentage of salary held as at 31 March 2017	Percentage of target achieved as at 31 March 2017	Compliance with share ownership guidelines
Phil Bentley	1,852,656	£1,800,000	926,328	400%	200%	Achieved
Sandip Mahajan	0	£320,000	125,353	0%	0%	Not achieved but compliant
Ruby McGregor-Smith[4]	639,612	£1,160,198	454,480	281%	141%	Achieved
Suzanne Baxter[4]	280,714	£738,308	289,215	194%	97%	Not achieved but compliant

Notes:

1. Includes shares owned by connected persons.
2. Calculated as 200% of base salary for Phil Bentley, Ruby McGregor-Smith and Suzanne Baxter for the year ended 31 March 2017. In accordance with Phil Bentley's service contract, he acquired shares worth 400% of salary on joining. In accordance with the Company's Share Ownership policy, Sandip Mahajan is required to build and maintain, through the retention of vested share options, a shareholding of 200% of base salary.
3. Calculated as value of target holding divided by the share price of 194.3p on 21 November 2016 for Phil Bentley and the average share price of 255.3p for the five business days prior to the start of the financial year ended 31 March 2017 for Ruby McGregor-Smith, Suzanne Baxter and Sandip Mahajan.
4. Ruby McGregor-Smith and Suzanne Baxter stepped down from the Board on 12 December 2016 and 10 February 2017 respectively; their shareholdings above are at those dates. Suzanne Baxter had 186,745 vested but unexercised 2013 LTIP awards.

Directors' outstanding share interests (subject to audit)

The following tables provide the outstanding share interests for the Executive Directors:

Directors' interests in options granted under the Mitie Group plc 2011 Save As You Earn Scheme

	Year of grant	Options outstanding as at 31 March 2016	Exercised in year	Granted in year	Lapsed/ cancelled in year[4]	**Options outstanding as at 31 March 2017[4]**	Exercise price p	Earliest normal exercise date
Ruby McGregor-Smith								
	2014[1]	3,459	–	–	–	**3,459**	260.2	Sep-17
	2015[2]	2,381	–	–	–	**2,381**	254.0	Dec-18
	2016[3]	–	–	1,337	–	**1,337**	220.7	Dec-19
Suzanne Baxter								
	2014[1]	3,459	–	–	3,459	**–**	260.2	Sep-17
	2015[2]	2,381	–	–	2,381	**–**	254.0	Dec-18
	2016[3]	–	–	1,337	1,337	**–**	220.7	Dec-19

Notes:

1. Executive Directors contributed £250 per month into the 2014 scheme.
2. Throughout the year the Executive Directors contributed £168 per month into the 2015 scheme.
3. Executive Directors contributed £82 per month into the 2016 scheme which started in December 2016.
4. Ruby McGregor-Smith and Suzanne Baxter stepped down from the Board on 12 December 2016 and 10 February 2017 respectively; their outstanding share interests above are at those dates. Suzanne Baxter cancelled her savings contracts on 26 January 2017.

Directors' interests in shares purchased under the Mitie Group plc Share Incentive Plan 2011

	Shares outstanding as at 31 March 2016[1]	Number of partnership shares acquired in year[2]	Number of matching shares awarded in year[3]	**Shares outstanding as at 31 March 2017[4,5]**
Ruby McGregor-Smith	3,401	784	68	**4,253**
Suzanne Baxter	3,401	869	68	**4,338**

Notes:

1. Figure comprises 3,123 purchased shares plus 278 matching shares.
2. Shares were acquired at a market price of 267.9p on 16 May 2016. Executive Directors contributed the full annual amount of £1,800 permitted under the Plan. Shares acquired through dividend reinvestment (4 August 2016 and 1 February 2017) have also been included up to date of stepping down from the Board.
3. Matching shares were purchased in the market at a price of 267.9p on 16 May 2016. Awards of matching shares must in normal circumstances be held for at least three years from the date of award and are subject to forfeiture if corresponding partnership shares are withdrawn during that period.
4. The market price of the Company's shares as at 31 March 2017 was 221.9p. The highest and lowest prices during the year were 290.0p and 180.4p respectively.
5. Ruby McGregor-Smith and Suzanne Baxter stepped down from the Board on 12 December 2016 and 10 February 2017 respectively; their outstanding share interests above are at those dates.

Directors' interests in shares granted under the Mitie Group plc 2010 Deferred Bonus Plan

	Year of grant[1]	Shares outstanding as at 31 March 2016	Granted in year	Lapsed in year	Vested in year[2,3]	**Shares outstanding as at 31 March 2017[4,5]**	Earliest normal vesting date
Ruby McGregor-Smith							
	2014	71,670	–	–	71,670	**–**	–
	2015	–	–	–	–	**–**	–
	2016	–	33,149	–	–	**33,149**	May-18
Suzanne Baxter							
	2014	23,651	–	–	23,651	**–**	–
	2015	–	–	–	–	**–**	–
	2016	–	–	–	–	**–**	–

Notes:

1. The 2014 award was granted on 28 May 2014 at a grant price of 323.7p.
   No award of shares was made under the Deferred Bonus Plan in 2015.
   The 2016 award was granted on 31 May 2016 at a grant price of 281.7p.
2. The 2014 awards vested on 31 May 2016 and were transferred to the participants. At the date these awards vested the market price of the Company's shares was 281.7p.
3. The awards attract dividend equivalents which are accrued from grant date and paid out on vesting.
4. The market price of the Company's shares as at 31 March 2017 was 221.9p. The highest and lowest prices during the year were 290.0p and 180.4p respectively.
5. Ruby McGregor-Smith and Suzanne Baxter stepped down from the Board on 12 December 2016 and 10 February 2017 respectively; their outstanding share interests above are at those dates.

Directors' interests in nil-cost options granted under the Mitie Group plc 2007 and the 2015 Long Term Incentive Plans

	Year of grant[1]	Options outstanding as at 31 March 2016	Granted in year	Lapsed in year[2]	Exercised in year	**Options outstanding as at 31 March 2017[3,4]**	Exercise price	Earliest normal exercise date[5]
Phil Bentley								
	Nov 2016	–	879,077	–	–	**879,077**	Nil-cost	May-20
Ruby McGregor-Smith								
	2013	527,371	–	160,849	–	**366,522**	Nil-cost	Jun-16
	2014	345,261	–	–	–	**345,261**	Nil-cost	Jun-17
	2015	356,526	–	–	–	**356,526**	Nil-cost	Jul-18
	Jul 2016	–	478,431	–	–	**478,431**	Nil-cost	Jul-19
Suzanne Baxter								
	2013	268,698	–	81,953	–	**186,745**	Nil-cost	Jun-16
	2014	219,711	–	–	–	**219,711**	Nil-cost	Jun-17
	2015	226,880	–	–	–	**226,880**	Nil-cost	Jul-18
	Jul 2016	–	304,456	–	–	**304,456**	Nil-cost	Jul-19

Notes:

1. The performance criteria applicable to the 2014 award reflect the basket of measures relating to TSR, EPS, organic revenue growth and cash conversion set out on page 78.

   The performance criteria applicable to the 2015 award are the same as those for the 2014 award.

   The performance criteria applicable to the 2016 awards are provided on pages 79 and 80.
2. The Committee assessed the extent to which the performance conditions applicable to the 2013 awards were met and determined that they should vest at 69.5% of the original award granted. The Committee also assessed the extent to which the performance conditions applicable to the 2014, 2015 and July 2016 awards were met and determined that they should lapse in their entirety following exercise of negative discretion by the Committee.
3. The market price of the Company's shares as at 31 March 2017 was 221.9p. The highest and lowest prices during the year were 290.0p and 180.4p respectively.
4. Ruby McGregor-Smith and Suzanne Baxter stepped down from the Board on 12 December 2016 and 10 February 2017 respectively; their outstanding share interests above are at those dates.
5. Awards made since 2015 are subject to an additional holding period.

Director share ownership

	Number of ordinary shares beneficially owned as at 31 March 2017 (or date of cessation if earlier)	Number of ordinary shares beneficially owned as at 31 March 2016 (or date of appointment if later)
Executive Directors		
Phil Bentley[1]	**1,852,656**	0
Sandip Mahajan	**0**	0
Ruby McGregor-Smith[2]	**639,612**	567,090
Suzanne Baxter[2]	**280,714**	256,126
Non-Executive Directors		
Roger Matthews	**100,000**	100,000
Larry Hirst	**25,000**	25,000
Jack Boyer	**5,000**	5,000
Mark Reckitt	**4,000**	4,000

Notes:

1. Phil Bentley joined the Board on 1 November 2016.
2. Ruby McGregor-Smith and Suzanne Baxter stepped down from the Board on 12 December 2016 and 10 February 2017 respectively; their shareholdings above are shown at those dates and at 31 March 2016.

Share dilution

The Company manages dilution rates within the standard guidelines of 10% of issued ordinary share capital in respect of all employee schemes and 5% in respect of discretionary schemes. In calculating compliance with these guidelines the Company allocates available headroom on a ten-year flat-line basis, making adjustments for projected lapse rates and projected increases in issued share capital.

LTIP and deferred bonus awards are satisfied through the market purchase of shares held by the Mitie Group plc Employee Benefit Trust. The potential dilution of the Company's issued share capital is set out below in respect of all awards granted in the last ten years under the Company's equity-based incentive schemes which are being satisfied through the allotment of new shares or treasury shares.

Share dilution at 31 March 2017

	Dilution
All share plans (maximum 10%)	7.6%
Discretionary share plans (maximum 5%)	4.0%

Shareholder voting

Mitie remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Executive Directors' remuneration, the Group seeks to understand the reasons for any such vote, and will detail here any actions in response to it.

A resolution to approve the Directors' remuneration policy as set out in the Company's Annual Report for the year ended 31 March 2015 was passed at the Company's 2015 AGM. At the Company's 2016 AGM, a resolution was passed to approve the 2016 Directors' remuneration report (excluding the summary of the Directors' remuneration policy). The results of the votes on these resolutions were as follows:

Number of votes	Votes in favour	Votes against	Votes withheld[1]
2015 Directors' remuneration policy	205.1m	14.0m	21.4m
2015 AGM	93.6%	6.4%	–
2016 Directors' remuneration report	227.2m	21.2m	1.2m
2016 AGM	91.5%	8.5%	–

Note:

1. Votes withheld are not counted in the calculation of the proportion of votes for or against a resolution.

Remuneration Committee and its advisors

The Remuneration Committee seeks and considers advice from independent remuneration advisors where appropriate. FIT Remuneration Consultants (FIT) were appointed by the Committee in December 2013 to provide independent advice on executive remuneration. FIT attended Committee meetings and provided advice and analysis of executive remuneration. The advisors provide no other services to the Company (save in relation to services connected to executive remuneration and share plans) and also comply with the Code of Conduct for Remuneration Consultants. FIT's total cost of advice to the Committee for the year was £70,246 (such fees being charged in accordance with FIT's standard terms of business).

The Committee specifically considered the position of FIT and was satisfied that the advice the Committee received was objective and independent, given that no other services were provided to the Company.

The Directors present their annual report, together with the audited financial statements of the Group and the Company, for the year ended 31 March 2017.

The following information is incorporated into the Directors' report: other disclosures by reference:

- Strategic report on pages 2 to 37;
- The Chairman's introduction to corporate governance on pages 41 and 42;
- The Board report on pages 43 to 48;
- Audit Committee report on pages 49 to 59;
- Nomination Committee report on pages 60 and 61;
- Directors' remuneration report on pages 62 to 86;
- Directors' responsibilities statement on pages 93 and 94; and
- Notes to the financial statements as detailed in this section.

For the purposes of compliance with paragraphs 4.1.5R(2) and 4.1.8R of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the strategic report and this Directors' report: other disclosures (including the sections of the Annual Report and Accounts incorporated by reference) comprise the management report.

Principal Group activities

The Company is the holding company of the Group. The principal activity of the Company is to provide management services to the Group. The Group's activities are focused on the provision of strategic outsourcing services. The detailed strategy for the Group can be found on pages 4 and 5 of the Strategic report. Further details of the subsidiary undertakings of the Company are listed in Note 41 to the financial statements.

The Group operates in the UK, the Republic of Ireland, Guernsey, Jersey, Germany, France, Finland, Norway, Sweden, the Netherlands, Spain, Poland, Switzerland, Belgium, Nigeria, Kenya, Ghana and UAE.

Shares and shareholders

Share capital and powers of shareholders

The Group is financed through both equity share capital and debt instruments. Details of the Company's share capital are given in Note 32 to the financial statements and the detail of its debt instruments is set out in Note 27 to the financial statements.

The Company has a single class of shares being 2.5p ordinary shares (Ordinary Shares). Ordinary Shares have no right to any fixed income and each Ordinary Share has the right to one vote per share at general meetings of the Company. Under the Company's Articles of Association (the Articles), holders of Ordinary Shares are entitled to participate in any dividends pro-rata to their holding.

In accordance with the Articles, the Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the Annual General Meeting (AGM). A final dividend may be declared by the shareholders in a general meeting by ordinary resolution, but such dividend cannot exceed the amount recommended by the Board.

The Articles can be amended in accordance with their provisions, the Companies Act 2006 and related legislation. A copy of the Articles is available at www.mitie.com/investors/corporate-governance.

Powers of the Company to issue or buy back its own shares

At the 2016 AGM shareholders authorised:

- the Directors to allot Ordinary Shares up to an aggregate nominal amount of £2,969,340 representing one-third of the issued share capital (excluding treasury shares) as at 25 May 2016;
- the dis-application of pre-emption rights over allotted shares up to an aggregate nominal value equal to £890,802, equating to 10% of Mitie's issued share capital (excluding treasury shares) and 9.72% of the issued share capital including treasury shares, each as at 25 May 2016; and
- the Company to make market purchases of its own shares up to a total of 35,632,084 Ordinary Shares (representing 10% of the issued share capital as at 25 May 2016 (excluding treasury shares)).

These standard authorities will expire on 30 September 2017 or at the conclusion of the AGM in 2017, whichever is the earlier. Further details of these authorisations are available in the notes to the Notice of 2016 AGM and shareholders are referred to the Notice of 2017 AGM, which contains similar provisions in respect of the Company's share capital (available at www.mitie.com/investors/shareholder-services).

During the year, the Directors utilised the above authorities to allot 6,070,568 Ordinary Shares to an aggregate nominal amount of £151,764 to employees participating in Mitie's share schemes and to minority shareholders in consideration for shares purchased in connection with Mitie Model investments.

The Company undertook market purchases of 9,055,995 of its own shares during the year (representing 2.5% of the issued share capital of the Company as at 31 March 2017). The shares equated to an aggregate nominal value of £226,400 and the total aggregate amount paid was £24,229,063 (including expenses).

Following the exercise of awards under the Mitie Group plc 2011 Save As You Earn Scheme and the Mitie Group plc 2001 and 2011 Executive Share Option Schemes 1,180,406 Ordinary Shares were distributed from Treasury.

The total number of Ordinary Shares held by the Company in treasury as at 31 March 2017 therefore reduced to 9,280,093 (representing 2.5% of the issued share capital of the Company at 31 March 2017).

Significant interests in the Company's share capital

As at 31 May 2017, the Company has been notified of the following significant holdings of voting rights in its Ordinary Shares under the Disclosure Guidance and Transparency Rules:

	Number of Ordinary Shares	Percentage of share capital at the date of notification
Silchester International Investors LLP	57,725,383	16.05%
FMR LLC	32,440,297	8.95%
Harris Associates L.P.	18,393,003	5.12%
Brandes Investment Partners LP	18,117,242	5.05%
Heronbridge	18,366,728	5.00%

Changes that have occurred between the end of the period under review and 9 June 2017, the latest practicable date before approval of the report, are as follows:

	Number of Ordinary Shares	Percentage of share capital at the date of notification
STRS Ohio	11,000,000	3.06%

Details of the Directors' interests in the Company's share capital are set out in the Directors' remuneration report on pages 83 to 85.

Restrictions on the trading of Mitie shares

Ordinary Shares that are issued as consideration upon the acquisition by the Company of the shares of minority shareholders in subsidiaries of the Group that participate in the Mitie Model generally have contractual restrictions placed upon them that both prevent the transfer of such shares and/or attach specific claw-back provisions for periods of up to two years following allotment. Recipients of Ordinary Shares received in this way are contractually restricted from selling the shares issued as consideration, generally for a maximum of two years.

There are no specific restrictions on the size of any shareholding or on the transfer of shares, which are both governed by the provisions of the Articles.

The Directors are not aware of any agreements entered into by Company shareholders that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital.

The Group operates a Share Trading and Insider Dealing Procedure which provides a framework to identify persons who may have access to inside information relating to the Company and explains the rules applicable to them for dealing in Company shares. Individuals who may have access to such information are informed individually and required to read, understand and follow the procedures detailed in the procedure.

Employee share schemes and plans

Details of employee share schemes and long term incentive plans are set out in Note 37 to the financial statements. Details of awards made during the year to, and held by, Executive Directors are set out in the Directors' remuneration report on pages 83 to 85.

Under the terms of certain shareholders' agreements and articles of association relating to Mitie Model companies, minority shareholders in such companies may provide an option for the purchase by the Company of their minority shares. The mechanism for calculating the price to be paid in respect of such transfer is transparent, on an arm's-length basis, and in accordance with the pricing structure generally applicable for other transfers under the Mitie Model.
In consideration for these purchases, the Company generally has the option to settle payment in cash or in Ordinary Shares.

Shareholder engagement

The Board is committed to an ongoing, pro-active dialogue between the Company and its shareholders. A full programme, led by the Chief Executive Officer and Chief Financial Officer, of formal and informal events, institutional investor meetings and presentations is held throughout the year.

The Board receives an investor relations report at each Board meeting detailing corporate news, share price activity, investor relations activity and major movements in shareholdings. The Board is also regularly updated and is provided with investor feedback, stockbroker updates and detailed analyst reports following the half-year and full-year results presentations. The Chairman is responsible for ensuring that the Board is made aware of the issues and concerns of the major shareholders.

The Chairman and Senior Independent Director are available for additional meetings with shareholders upon request. The Board encourages an ongoing dialogue between the Directors and investors and all Directors were present at the 2016 AGM.

Latest Group information, financial reports, corporate governance and sustainability matters, half-year and full-year results presentations, major shareholder information and all announcements are made available to shareholders via the Mitie website (www.mitie.com) which has a specific area dedicated to investor relations.

Electronic communications

The Directors remain committed to improving and extending the electronic methods by which the Company communicates with its shareholders, not only allowing the latest information on the Group to be provided more efficiently but recognising the environmental benefits. The Board encourages each shareholder to join the growing number of investors electing to receive their information electronically and further details on how to register are provided in the Shareholder information section.

Significant agreements – change of control

There are a number of agreements with provisions that take effect, alter or terminate upon a change of control of the Company such as bank facility agreements and other financial arrangements, employee share scheme rules and articles of association of certain Mitie Model companies. None of these are considered to be significant in terms of their likely impact on the normal course of business of the Group. The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs solely because of a change of control.

Directors

Board of Directors

The members of the Board, and their biographical details (including details of Committee chairmanships and other positions held), are set out on pages 38 to 40.
To comply with the UK Corporate Governance Code (the Code), the Directors with the exception of the Chairman will submit themselves for election or re-election at the forthcoming AGM and details are provided in the Notice of AGM which is available at www.mitie.com/investors/shareholder-services.

During the year, Non-Executive Director independence was considered by the Board. The Board determined that, as at 31 March 2017, all Non-Executive Directors were independent in mind and judgement, and free from any material relationship that could interfere with their ability to discharge their duties effectively.

Director development

The Chairman regularly meets with both the Executive and Non-Executive Directors to discuss specific director development and training needs. The annual Board evaluation also addresses these requirements and ensures that the appropriate level of knowledge, understanding and expertise of the Board is sufficiently maintained.

Director appointments

With regard to the appointment and replacement of Directors, the Company is governed by the Articles, the Code, the Companies Act 2006 and related legislation.

Directors' conflicts of interest

The Board has a formal policy on the declaration and management of Directors' conflicts of interests, in accordance with the Articles, which has operated effectively during the year. Any potential situation or transactional conflict must be reported as soon as possible to the Chairman, the Chief Executive Officer and the Company Secretary. Where a potential conflict is authorised (under the statutory powers and powers granted under the Articles to the Board), such conflict is kept under ongoing review.

Director indemnities

The Group maintains directors' and officers' liability insurance, providing appropriate cover for any legal action brought against its directors and/or officers. The Articles extend the protection provided to directors in respect of any litigation against directors relating to their position as a director of the Company, and specifically provide that the Company may indemnify directors against any liability incurred in connection with any negligence, default, breach of duty or breach of trust in relation to the Company and that the Company may fund defence costs. Individual directors would still be liable to pay damages awarded to the Company in any action against them by the Company, to pay any criminal or regulatory fine against them and to repay their defence costs (to the extent funded by the Company) if their defence was unsuccessful.

Director commitments

Executive Directors are permitted to accept appointments outside the Group provided permission is sought from the Chairman and the Chief Executive Officer and that the additional appointments do not interfere with the Director's ability to discharge their duties effectively.
The commitments outside the Group of each Executive Director are detailed in the Directors' remuneration report on page 72. Executive Directors are entitled to retain fees earned from any external appointments.

The commitments outside the Group of the Chairman and each Non-Executive Director are included on pages 38 to 40. The Chairman does not hold any significant commitments outside of the Group.

Statement of the Directors in respect of the Annual Report and Accounts

As required by the Code, the Directors confirm that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including the following:

- the Annual Report and Accounts is drafted by senior management with overall co-ordination by the Group General Counsel and Company Secretary to ensure consistency across the relevant sections;
- a review is undertaken to assess whether the Annual Report and Accounts is fair, balanced and understandable using a set of pre-defined indicators (such as consistency with internally reported information, investor communications and relative performance in the industry);
- comprehensive reviews of drafts of the Annual Report and Accounts are undertaken by the Executive Directors and other senior management;
- an advanced draft is reviewed by the Group General Counsel and Company Secretary and external legal advisors; and
- the final draft is reviewed by the Audit Committee prior to consideration by the Board.

Employees and communications with employees

Details of Mitie's employment policies, consultation practices and how it communicates with its employees are included in the Sustainability and People sections of our website.

Disabled persons

Details in respect of the Group's approach to employing, training and developing the careers of disabled people can be found in the Sustainability section of our website.

Future developments
The Strategic report sets out the Board's view on the future development of the Group.

Research and development
Given the nature of the Group's activities, it does not carry out any material research and development work.

Political donations
The Company included a resolution in its 2016 AGM notice to shareholders in relation to the ability to make political donations. Although Mitie's long-standing policy of not making any political donations will continue, it is possible that certain routine activities (including charitable donations) undertaken by Mitie might unintentionally fall within the wide definition of payments constituting political donations and expenditure as set out in the Companies Act 2006. The resolution, which was duly passed, granted the Company the relevant statutory authority until the 2017 AGM subject to a total aggregate cap for Mitie and its subsidiary companies of £50,000.

Finance
Financial results and dividends
A detailed commentary on the operational and financial results of the Group for the year is contained within the strategic report and the Finance review on pages 14 to 29. The loss before tax from continuing operations for the financial year is £58.2m (2016: £91.9m profit).

The Directors declared an interim dividend of 4.0p per Ordinary Share (2016: 5.4p) with a total value of £14.1m (2016: £19.2m) which was paid to shareholders on 1 February 2017.

The Directors do not propose to recommend a final dividend for the year, given the current trading performance of the Company.

The total dividend per Ordinary Share for the year ended 31 March 2017 is 4.0p (2016: 12.1p).

The Company operates a Dividend Re-investment Plan (DRIP) which allows shareholders to build their holding by using the cash dividend to purchase additional ordinary shares in Mitie. Further details on the operation of the DRIP and how to apply can be found in the Shareholder information section and are available from Mitie's Registrar.

During the year, the trustees of the Company's Employee Benefit Trust waived dividends on Ordinary Shares held.

Financing liabilities
The Group's financial instruments include bank borrowing facilities, finance leases, overdrafts, US private placement loan notes and performance guarantees. Various derivatives are used to manage interest, currency and other risks when necessary or material.

The principal objective of these instruments is to raise funds for general corporate purposes and to manage financial risk. Further details of these instruments are given in Note 27 to the financial statements.

Events after the balance sheet date
Following the year end the Group approached its lenders to seek their agreement to an amendment to covenant calculation definitions, to provide flexibility in response to accounting issues raised in the balance sheet review process. The lenders provided their consent to this amendment on 7 June 2017.

Disclosure of information under Listing Rule 9.8.4
The annual report is required to contain certain information under Listing Rule 9.8.4. Where this information has not been cross-referenced within the Group financial statements, it can be found in the following sections:

Details of long-term incentive schemes	• Directors' remuneration report pages 62 to 86; and Note 37 to the accounts
Shareholder waivers of dividends and future dividends	• Directors' report: other disclosures on this page

In respect of shareholder waivers of dividends and future dividends, in addition to the agreement by the trustees of the Mitie Group plc Employee Benefit Trust to waive dividends payable on the Group's shares it holds for satisfying awards under various Mitie Group plc share plans, in accordance with Section 726 of the Companies Act 2006 no dividends can be paid to the Company in respect of the shares it holds in treasury.

There are no other disclosures to be made under Listing Rule 9.8.4.

None of the shareholders is considered to be a Controlling Shareholder (as defined in Listing Rule 6.1.2.A).

Going concern
The Directors acknowledge the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014.

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic report as referred to on pages 2 to 37. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 26 to 29. In addition, Note 28 to the consolidated financial statements includes details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

In assessing the Group's ability to continue as a going concern, the Board reviews and approves the annual budget including 12 month forecasts of cash flows and borrowing requirements. The Board reviews the Group's sources of available funds and the level of headroom available against its committed borrowing facilities. The Group's financial forecasts, taking into account possible sensitivities in trading performance, indicate that the Group will be able to operate within the level of its committed borrowing facilities.

The Group benefits from a committed facility of £275.0m, which will mature in July 2021. Together with the £251.8m US Private Placement notes, this gives the Group total committed funding of £526.8m, of which £257.9m was undrawn at 31 March 2017.

The Group's US Private Placement notes and bank debt contain certain financial covenants. The primary ratios are net debt to EBITDA and EBITDA to net finance costs. These covenants are tested on a rolling 12 month basis as at the March and September reporting dates. At 31 March 2017, both covenant tests were passed, following the successful negotiation of a waiver to exclude judgemental, non-cash items relating to the balance sheet review. The Group is forecasting to remain within its banking covenants during the year to 31 March 2018 and has stress-tested these calculations for reasonable possible adverse variances in trading and cash performance. While recognising that there can be no absolute certainty, the Directors believe that these covenant tests will be met.

Based on the above, the Directors consider it reasonable to assume that the Group has adequate resources to continue its operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Accounts.

Viability statement

This statement is detailed in full on page 37.

In accordance with provision C.2.2 of the 2016 edition of the Code, the Directors have assessed the viability of the Group over a three year period to 31 March 2020 taking into account the Group's current position and the potential impact of the principal risks set out in the strategic report. Based on this assessment the Directors have a reasonable expectation that the Group is and will continue to be viable.

Disclosure of information to the auditors

Each of the Directors in office as of the date of approval of this Annual Report and Accounts confirms that:

- so far as he/she is aware, there is no relevant audit information (being information required by the Company's auditors in the preparation of their report) of which the Company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

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

Culture

Mitie has appointed a new executive management team and adopted a new strategy. As part of that strategy, it will develop a new Mitie Way of carrying on business. The Mitie Way will have many elements including vision, culture, values and branding. The vision has been already been defined and seeks to take "Mitie Beyond FM…to a Connected Workspace". At this stage, our new culture and values remain under development and will be critical to our future success. The new culture will cover all aspects of the business, from "who we are" to "what we do" and "how we do it" and will incorporate the elements of our existing One Code which includes health and safety, sustainability, diversity and equality, bribery and corruption, conflicts of interest. financial and non-financial accounting and reporting. We expect that this work will be completed in 2017 and we will put the new culture and values on our website when they are completed.

Sustainability

We have continued to increase our focus on the evaluation of our environmental impacts and have worked with the Carbon Trust in order to continually assess policies, processes and performance. Our environmental performance has continued to improve.

Scope	Stream	Units	2010 baseline totals	2016 reported	**2016-2017**	% change vs baseline 2010	% change vs previous Year
Electricity and gas							
Energy consumption (inc. Mitie-managed and landlord-managed energy supplies)	Elec	kWh	9,091,141	7,306,750	**6,624,127**	-27.1%	-9.3%
	Gas	kWh	7,980,537	5,129,193	**5,493,067**	-31.2%	7.1%
	Total	kWh	17,071,678	12,435,943	**12,117,194**	-29.0%	-2.6%
	Total without MIHomeCare	kWh	17,071,678	10,061,587	**8,528,089**	-50.0%	-15.2%
	Intensity	kWh/employee	302	199	**194**	-35.6%	-2.6%
	Intensity	kWh/£m	9,925	5,569	**5,426**	-45.3%	-2.6%
Transport fuel							
Transport (inc. fleet and expensed fuel)	Fleet	ltrs	15,780,065	14,765,387	**14,436,075**	-8.5%	-2.2%
	Expensed	ltrs	1,124,286	1,357,653	**1,071,037**	-4.7%	-21.1%
	Total	ltrs	16,904,351	16,123,040	**15,507,112**	-8.3%	-3.8%
	Intensity	ltrs/£m	9,828	7,220	**6,945**	-29.3%	-3.8%
Water							
Water consumption	Water	m3	29,306	29,602	**45,214**	54.3%	52.7%
Waste							
Waste management	Waste	tonnes	1,436	971	**861**	-40.1%	-11.4%
	Recycled	%	31%	62%	**59%**	91.8%	-4.3%
	Waste to landfill	tonnes	989	368	**349**	-64.7%	-5.1%

Carbon reporting and the environment

The Company is required to state the annual quantity of emissions in tonnes of carbon dioxide equivalent from activities for which the Group is responsible, including combustion of fuel and the operation of facilities. Details of the Group's emissions during the year ended 31 March 2017 are set out on the Company's website www.mitie.com.

Current reporting period: 01/04/2016 – 31/03/2017

We depend on our local communities to provide the engaged and talented people we need to deliver great service and in return we support them through a wide range of initiatives. Over the past year, we have donated time and money, raised awareness and funds, and hosted a range of events for local people to participate in and enjoy.

AGM

Mitie's AGM will be held on 26 July 2017 at 11:30am at UBS, 5 Broadgate, London, EC2M 2QS.

By order of the Board

Peter Dickinson
Company Secretary

12 June 2017

Statement of Directors' responsibilities in respect of the Annual Report, the remuneration report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 'Reduced Disclosure Framework' has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 'Presentation of Financial Statements' that Directors requires:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, and for the preparation of a Directors' remuneration report which complies with the relevant requirements of the Companies Act 2006, the UKLA's Listing Rules and the UKLA's Disclosure Guidance and Transparency Rules.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

To the best of each Director's knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

By order of the Board

Phil Bentley
Chief Executive Officer

12 June 2017

Sandip Mahajan
Chief Financial Officer

12 June 2017

Independent auditor's report to the members of Mitie Group plc

Opinion on financial statements of Mitie Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related Notes 1 to 51.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: Effect of potential prior year restatements Impairment of goodwill in the Property division Recoverability of aged or disputed debtors and accrued income Healthcare disposal Presentation of 'other items' in the consolidated income statement Appropriateness of revenue and profit recognition Management override of controls Within this report, any new risks are identified with and any risks which are the same as the prior year identified with. Following the impairment of goodwill in the Healthcare division reported in the interim financial statements, this is no longer assessed as a key risk. Instead, we have identified a key risk regarding the disposal of Healthcare.
Materiality	The materiality that we used in the current year was £3.8m which was determined on the basis of a normalised and adjusted profit before tax.
Scoping	The scope of our Group audit was established to include the primary trading entities across the three trading divisions covering 90% of revenue, 87% of profit before tax and 83% of net assets.
Significant changes in our approach	We have identified new risks arising from the events and trading results in the year. As a consequence of the current year trading performance, we have revised our basis of determining materiality so it more appropriately reflects the circumstances of the business in the current year.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group	
As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1(a) to the financial statements and the Directors' statement on the longer-term viability of the group contained within the strategic report on page 37. We are required to state whether we have anything material to add or draw attention to in relation to: • the Directors' confirmation on page 48 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures on pages 30 to 36 that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in Note 1(a) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the Directors' explanation on page 37 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	**We confirm that we have nothing material to add or draw attention to in respect of these matters.** **We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.**

Independence	
We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.	**We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.**

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Following the impairment of goodwill in the Healthcare division reported in the interim financial statements, this is no longer assessed as a key risk impacting our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. However, we have assessed the prior year impact arising from the impairment of goodwill in the Healthcare division as part of the prior year restatements key risk.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Effect of potential prior year restatements

Risk description	During the course of management's balance sheet review, announced in the trading update on 18 January 2017, and in responding to the Corporate Reporting Review Committee queries regarding the impairment of goodwill in the Healthcare division, a number of adjustments to the prior year results (income statement and reserves) amounting to £60.9m have been identified and recorded in the financial statements arising from information which has now been made available. These included the impairment of goodwill in the Healthcare division of £26.0m, the remainder relating to the write-back of intangible assets, under-accrual of costs and overstatement of trade receivables and accrued income. There is judgement in evaluating whether the matters identified represent accounting errors or changes in accounting judgement. The Group's accounting policy for, and analysis of, prior year restatements is disclosed in Note 1(c) within the "Basis of preparation and significant accounting policies". The key judgements in respect of prior year restatements are considered on page 53 within the Audit Committee section of the Directors' report.
How the scope of our audit responded to the risk	We have assessed the design and implementation of the management's controls relating to the review, challenge and approval of internal accounting papers. We have also considered management bias in each of the matters identified as a prior year adjustment in the context of the current year results, the prior year results and compliance with the Group's financial covenants. We have challenged management's decision to record a prior year adjustment and have inspected the supporting evidence and accounting papers prepared by the Group to validate the positions adopted and assessed compliance with relevant accounting standards. In particular we have considered whether the various matters reflect a prior period error or a change in accounting estimate, as defined by International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. We have obtained a detailed understanding of the facts underpinning the matters, requested from management all internal and external correspondence and audit evidence relating to the various matters, interviewed operational and financial management knowledgeable of the issues, where still employed by the business, and obtained copies of signed legal agreements or equivalent evidence, as applicable. We have engaged technical specialists to increase our professional scepticism through detailed analysis of the individual adjustments identified. We also engaged senior independent audit partners to challenge any inherent management bias across all the adjustments as a whole.
Key observations	Based on our work performed, we observed that the judgements applied were appropriate. We noted that deficiencies in internal review controls, particularly management's controls relating to the review, challenge and approval of matters relating to financial close, goodwill impairment and contract judgements, resulted in certain balances not being appropriately recorded in the consolidated financial statements in the prior year.

Impairment of goodwill in the Property division

Risk description	In accordance with International Accounting Standard 36 'Impairment of Assets' and the Group's accounting policy, management is required to carry out an annual impairment test of the Group's goodwill of £358.9m prior to impairment charges, of which £85.2m, is recorded in the Property division. Goodwill is disclosed in Note 14 to the financial statements. Trading performance in the Property division has declined in the past year, with a loss before tax of £9.3m recorded in the current year and management has recorded an impairment charge of £15.0m for the year. There is inherent uncertainty involved in forecasting the future cash flows of the division, including: the variability in forecast contract income and margin due to contract attrition and new contract wins or extensions; the impact of changes in market conditions; the impact of changes in Government public sector policy; the availability of Local Authority budgets; the impact of Brexit; and the selection of an appropriate discount rate. The Group's accounting policy for goodwill is disclosed in Note 1(b) within the "Basis of preparation and significant accounting policies". The key judgements in respect of goodwill are disclosed in Note 2 "Measurement and impairment of goodwill and other intangible assets" and is considered on page 55 within the Audit Committee section of the Directors' report.
How the scope of our audit responded to the risk	We have assessed the design and implementation of relevant controls over the Group's budgeting and forecasting process as well as the impairment review process. We have challenged the reasonableness of management's key judgements. Specifically, our work included, but was not limited to: • evaluating management's historical forecasting accuracy; • assessing one-off items which management has identified as impacting the current year and the risk of these items being pervasive in the business; • benchmarking long-term growth rates to applicable market data, taking into consideration available public information including, but not limited to, Government public sector policy and the impact of Brexit; • considering the performance of peers and available market data on output trends, both historic and forecast; • engaging Deloitte industry valuation specialists to challenge the discount rate applied as well as the clerical accuracy of management's impairment model; • challenging the forecast revenue and margin growth assumptions as well as forecast assumptions around new contract wins or extensions, contract attrition, contract margins, cost reductions and the allocation of central costs by benchmarking against historic performance and performance on similar projects; and • assessing whether the forecasts adopted in the impairment review were Board approved and consistent with those used in the going concern and longer-term viability assessment. We independently determined whether or not a reasonably possible change to key operating assumptions could result in an impairment in order to critically assess management's position. We tested the sensitivity of the impairment to reasonably possible changes in each of the key assumptions and reviewed management's sensitivity disclosure to check compliance with the financial reporting standards. We also assessed whether the Group's disclosures about the sensitivity of outcomes reflected the risks inherent in the valuation of goodwill.
Key observations	Whilst further actions are required by the Group to achieve these forecasts over the short and medium term, we concluded that the assumptions applied in the impairment model were within an acceptable range, and that the overall position adopted, resulting in an impairment of £15.0m, was reasonable.

Recoverability of aged or disputed debtors and accrued income

Risk description	Material amounts of the Group's billed and unbilled work remain outstanding for more than three months as resolution of open issues remains ongoing on various contracts. The aged nature of these balances increases the risk of recoverability, particularly where there is disagreement or dispute. In addition we have considered the increased risk arising from the decline in trading performance in the year. Trade debtors and accrued income are disclosed in note 19 to the financial statements. Credit risk associated with trade debtors is disclosed in note 28 to the financial statements. There is significant management judgement involved in assessing the recoverability of these balances, taking into consideration the Group's contractual rights, available evidence of work performed, as well as the status of ongoing commercial negotiations. This judgement is compounded by system limitations which require a manual ageing of contractual balances, increasing the risk of error. In the current year the Group has recognised a valuation allowance of £13.9m in respect of aged and disputed balances. The Group's accounting policy for trade debtors and accrued income is disclosed in Note 1(b) within the "Basis of preparation and significant accounting policies".
How the scope of our audit responded to the risk	We have assessed the design and implementation of key controls over the financial reporting process. In particular, we have focused on the appropriate ageing of billed and unbilled balances recorded in the financial accounts and review of these aged positions. We have extended the scope of our work on aged balances and, on a sample basis, have challenged the validity of the recorded debtors and accrued income by obtaining external confirmation of the balances, such as client approval of works orders. We have challenged the validity of these balances together with the completeness of management's provisions. We have read correspondence as well as internal and external legal counsel reports regarding any disputed contractual amounts and positions. We have interviewed commercial and project managers and challenged the financial position adopted on the key contracts, gathering evidence of work performed and the status of negotiations where appropriate.
Key observations	Based on our work performed and evidence gathered, we are satisfied that the trade debtors and accrued income recorded in the financial statements are reasonable.

Healthcare disposal

Risk description	The Group's Healthcare division (MiHomecare) was disposed of during the year. The Group has recorded a loss on disposal of £30.4m and associated costs of disposal, largely driven by a £9.5m contribution to trading losses payable to the purchaser. The terms of the sale are complex in relation to the completeness of the disposal costs recognised which include the provision for certain warranties. Discontinued operations and disposal of subsidiaries are disclosed in Note 6 to the financial statements. The Group's accounting policy for discontinued operations and disposal of subsidiaries is disclosed in Note 1(b) within the "Basis of preparation and significant accounting policies".
How the scope of our audit responded to the risk	We have evaluated the design and implementation of the key controls over the disposal of the Healthcare business, including controls in respect of the calculation of loss on disposal and exit costs. We have read a copy of the sale agreement and used this to challenge the accuracy and completeness of the obligations recorded in the financial statements. We have reviewed the completeness of recorded provisions by challenging the assumptions underpinning the calculations, in particular, the adequacy of an indemnity provision for employee costs and associated presentation. We have audited the balance sheet on the date of disposal and re-calculated the expected loss on disposal. We have specifically reviewed the appropriateness of the disclosures set out in Note 6 to the accounts detailing the background to the sale, the key terms of sale and the recorded position and considered the appropriate presentation as discontinued operations.
Key observations	We are satisfied that the loss on disposal of the Healthcare business has been appropriately calculated and presented in the financial statements and the estimated exit costs are reasonable.

Presentation of 'other items' in the consolidated income statement

Risk description	£153.5m of transactions have been presented as 'other items' in the consolidated statement of comprehensive income. Other items are disclosed in Note 5 to the financial statements and are intended to reflect transactions that fall outside the normal course of business. These include goodwill impairment, the results of disposals, restructuring costs and acquisition related costs. There is judgement in evaluating whether a transaction meets the definition described in the Group's accounting policy and whether its presentation is 'fair, balanced and understandable'. Failure to disclose clearly the nature and impact of material 'other item' earnings may distort the reader's view of the financial result in the year. The Group's accounting policy for statutory and non-statutory measures of performance is disclosed in Note 1(b) within the "Basis of preparation and significant accounting policies". The key judgements in respect of other items are disclosed in Note 2 "Critical accounting judgements and key sources of estimation uncertainty".
How the scope of our audit responded to the risk	We have assessed the design and implementation of relevant controls over the financial statement review process by management and the Audit Committee. We have benchmarked against market practice, including, but not limited to: • the guidance published by the Financial Reporting Council in their thematic review; and • the guidance included in the "Guidelines on Alternative Performance Measures", issued by the European Securities and Markets Authority (ESMA). We have understood the composition of other items identified as one-off by management, disclosed at Note 5 and included within management's Alternative Performance Measure of operating profit before other items and agreed a sample of items to supporting documentation. We have challenged management's rationale for the presentation of items within the income statement as 'other items', particularly around the areas of higher judgement such as restructuring costs to determine whether the costs recognised as 'other items' meet the criteria of the accounting policy for such items defined by the Group. This includes assessing the incremental nature of the costs, the extent to which the costs are non-recurring and whether they are specific to individual events, and considering whether they should be classified as part of results before other items. Our work has also included a review of material items included within the income statement to identify income and expenses which may be exceptional by nature but have not been separately identified. We have independently evaluated and challenged the appropriate disclosure of these balances and consulted with Deloitte technical specialists on financial reporting.
Key observations	We are satisfied that presentation of the transactions included within 'other items' is reasonable.

Appropriateness of revenue and profit recognition

Risk description	Certain of the Group's project-based service contracts are long term in nature. The contractual arrangements that underpin the measurement and recognition of revenue by the Group can be complex and incorporate penalty clauses in the event of non-compliance. The Group is therefore required to make operational and financial assumptions to estimate future performance over periods that can extend beyond five years. There are significant accounting judgements required to apply the Group's revenue recognition policies to the long-term complex contracts. The prediction of future events contains inherent risk and a high degree of management judgement. Variability of contract penalties, underlying delivery costs and customer disputes can put additional pressure on margins and on future contract profitability. Revenue and operating profit is disclosed in Note 4 to the financial statements. Management's assessment of the through-life margin requires both the delivery of future cost saving initiatives and plans to improve revenue. This brings with it an inherent level of risk and a requirement for the operational teams to deliver these assumptions. The key judgements impacting the recognition of revenue and resulting operating profit include: • interpretations of terms and conditions in relation to the required service obligations in accordance with contractual arrangements; • consideration of the Group's performance against contractual obligations and the impact on revenue and costs of delivery; • determining the stage of completion and forecasting with reasonable certainty contract revenue and costs; and • the recognition and recoverability of contract related assets, including those recognised as direct incremental costs prior to service commencement. We focused our testing on contracts with the following characteristics: • contract related assets that are materially sensitive to changes in the forecast margin; • contracts that have the potential for material losses; and • contracts with risks leading to material judgements. The Group's accounting policy for revenue is disclosed in Note 1(b) within the "Basis of preparation and significant accounting policies". The key judgements in respect of revenue are disclosed in Note 2 "Revenue recognition" and is considered on page 56 within the Audit Committee section of the Directors' report.

Appropriateness of revenue and profit recognition

How the scope of our audit responded to the risk	We have tested the operating effectiveness of the key controls over the contract process including contract monitoring, billings and approvals, the general IT controls over certain of the systems used to generate the information and management's review and approval of the contract accounting applied. We have attended and inspected minutes from certain meetings forming a key part of the Group's risk and contract accounting process to challenge fully at a management level, the ongoing performance and judgements taken on long-term complex contracts. In addition: • we have assessed management's judgement regarding the appropriate timing of revenue recognition, including when a percentage of completion basis was applied, by challenging the validity and reasonableness of forecast revenue and costs. As part of our assessment we have reviewed papers documenting management's balance sheet review which was supported by KPMG. As part of this we attended Audit Committee meetings alongside KPMG. Where contract negotiations are ongoing, particularly with regard to contract extensions or new contracts, we discussed the current status with the respective contract manager and reviewed correspondence where relevant; • we reviewed significant contract terms for the conditions that underpin the revenue and the profit recognition assumptions. This is particularly relevant in our assessment of variable reactive and project related revenue forecasts and our assessment of the Group's exposure to any performance related penalties. In addition we considered the impact of any contract variations including any discounts that have been provided; • we have performed substantive tests and substantive analytical procedures on costs incurred to date and profitability forecasts. This included challenging management's assumptions on revenue, future costs including projected savings and the actions required to achieve these and by analysing historic performance. Through this analysis we assessed the underlying accounting treatment of contract related assets and assessed the recoverability of these assets against future profitability; • we challenged the assumptions in the forecasts and through-life margin assumptions prepared by management, to determine whether onerous contracts have been appropriately recognised and adequately disclosed. This was particularly relevant where contract performance had deteriorated in the year and contract initiatives which had previously been assumed were not delivered. In determining where onerous provisions are required we have considered the historic performance, assessed the assumptions regarding operational risk and the actions management is taking together with the contractual obligations and remaining term of the contract. Our efforts were focused around challenging management's plan to improve operational performance, reduce cost and secure revenue increases; • we performed our own independent sensitivity analysis and we have undertaken additional analysis on key assumptions to which management's provisioning judgements are more sensitive. We also held discussions with in-house and external legal counsel and read appropriate documentation to evaluate contractual claims and disputes with customers and subcontractors and to assess any issues with the interpretation of contracts; and • for contract related assets which have been written off or where onerous contract provisions have been created we have assessed whether the resulting charge was a change in estimate arising from new information in the year or whether it represented a correction in a prior year error.
Key observations	We consider the range of judgements across the contract portfolio of long-term complex contracts to be appropriate. From the evidence obtained, we did not identify any incremental onerous contracts over and above the arrangements identified by management's own procedures. We considered the level of provisioning to be acceptable in the context of the Group financial statements taken as a whole. We are satisfied with the Group's related disclosures of these onerous contracts in light of the underlying assumptions and accounting judgements made.

Management override of controls

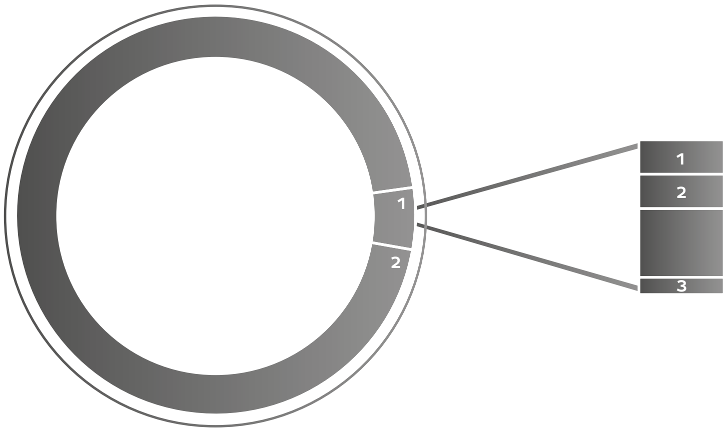
Risk description	The decentralised nature of the Group, coupled with the evolving systems and control environment, means that there is an increased risk of errors remaining undetected and aggregating to cause a material misstatement to the Group. Furthermore, the financial results are sensitive to significant estimates and judgements, where there is a broad range of acceptable outcomes that could lead to different levels of profit and revenue being reported in the financial statements. Relatively small changes in the basis of those judgements and estimates could result in the Group meeting, exceeding or falling short of forecasts, guidance or targets. Consequently, the recovery of contractual balances is dependent on management being consistent in pursuing a course of action. We have evaluated the trading performance and governance events in the year, the prior year restatements, the amendments obtained on the Group's covenants and the significant judgement applied on a number of our identified risks of material misstatement and identified that there is a key risk of management override of controls. Further, management has identified instances of override of controls during the year, resulting in a number of prior year restatements. Management is in a unique position potentially to manipulate accounting records and financial statements by overriding controls that otherwise appear to be operating effectively. The key judgements in respect of management override of controls are considered on page 57 within the Audit Committee section of the Directors' report.
How the scope of our audit responded to the risk	We have tested the operating effectiveness of the key controls over management's review and approval of financial results. Consistent with all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that represented a risk of material misstatement. In addition to the procedures performed to address the risks as discussed above related to prior year restatements, impairment of goodwill in the Property division, recoverability of aged or disputed debtors and accrued income, presentation of other items and appropriateness of revenue and profit recognition, we have extended our enquiries designed to assess whether judgements and estimates exhibited unconscious bias or whether management had taken systematic actions to manipulate the reported results. We have applied an increased level of scepticism throughout the audit by increasing the involvement of senior audit team personnel, with particular focus on audit procedures designed to assess whether revenues and costs have been recognised in the correct accounting period and whether key assumptions and judgements applied were appropriate. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. Procedures designed to address these risks included testing of material journal entries and post-close adjustments, testing and evaluating management's key accounting estimates for reasonableness and consistency, undertaking procedures to check the completeness and appropriate cut-off of revenue and expenses and testing the occurrence and accuracy of revenue transactions. In addition, we incorporate an element of unpredictability into our audit work each year. We have attended the Audit Committee meetings throughout the year and read minutes of meetings of the Board of Directors. We have also attended and inspected minutes from certain management and project meetings, forming a key part of the Group's risk and contract accounting process to challenge at a management level the ongoing performance on long-term complex contracts.
Key observations	We observe there have been instances of weak implementation of the key controls in the year, particularly over management's control relating to review, challenge and approval of key accounting estimates and judgements. Progress has been made by the Group towards the latter part of the financial year, however, the controls were not in place for the whole year. Based on our work performed, we consider that the judgements and position adopted by management, in aggregate, is reasonable.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£3.8m (2016: £5.0m).
Basis for determining materiality	5% of normalised and adjusted profit before tax. Normalised and adjusted profit before tax has been calculated using an average of historic profit before tax and forecast profit based on brokers' consensus forecast. Historic profit before tax is adjusted to remove one-off and non-recurring items, including costs associated with businesses being exited and restructuring and acquisition related costs. In the prior year, materiality was determined on the basis of 5.2% of statutory profit before tax.
Rationale for the benchmark applied	We have revised our approach to determining materiality in light of the trading performance in the period and the significant impact of matters identified in the current year and non-trading items on the statutory profit measure.



1 Group materiality
2 Normalised and adjusted PBT £75.5m

1 Group materiality £3.8m
2 Component materiality range £1.9m to £2.7m
3 Audit Committee reporting threshold £0.19m

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £190,000 (2016: £100,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

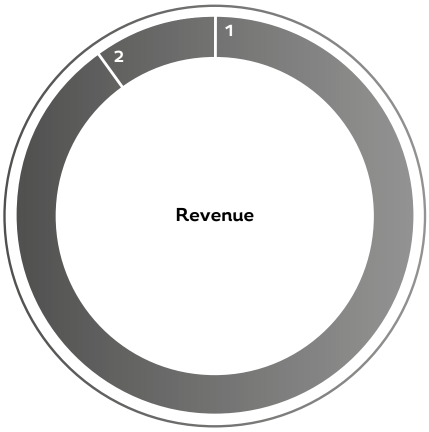
An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

The Group operates through a number of legal entities which form reporting components based on service lines. Audits for Group reporting purposes were performed over the significant legal entities covering all the three trading divisions (a change from the four in prior year as two of the trading divisions were merged at the start of the current year) and representing approximately 90% (2016: 96%) of the Group's revenue, 87% (2016: 100%) of Group profit before tax and 83% (2016: 94%) of Group net assets.

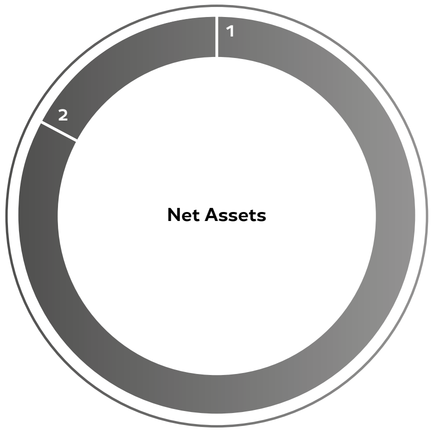
The Group audit team approved component materiality levels, which ranged from £1.9m to £2.7m having regard to the mix of size and risk profile of the Group across the components. The work on all components was performed by the Group auditors based in each location under the direction and supervision of the Group engagement partner. The Group engagement partner visited all the component locations. Various telephone conference meetings were also held with these local auditors throughout the audit process covering planning and fieldwork.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the overseas entities, dormant entities and non-significant entities which were not subject to audit work for the purposes of the Group audit.



1 Full audit scope **90%**
2 Review at group level **10%**

1 Full audit scope **87%**
2 Review at group level **13%**



1 Full audit scope **83%**
2 Review at group level **17%**

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate governance statement

Under the Listing Rules we are also required to review part of the corporate governance statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Independent auditor's report to the members of Mitie Group plc continued

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Charlton FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
12 June 2017

Consolidated income statement
For the year ended 31 March 2017

	Notes	2017 Before other items £m	2017 Other items‡ £m	2017 Total £m	2016 – Restated*† Before other items £m	2016 – Restated*† Other items‡ £m	2016 – Restated*† Total £m
Continuing operations							
Revenue	3,4	**2,126.3**	**–**	**2,126.3**	2,146.9	–	2,146.9
Cost of sales		**(1,896.5)**	**–**	**(1,896.5)**	(1,849.8)	–	(1,849.8)
Gross profit		**229.8**	**–**	**229.8**	297.1	–	297.1
Administrative expenses		**(236.7)**	**(36.6)**	**(273.3)**	(183.8)	(6.3)	(190.1)
Share of profit of joint ventures and associates	17	**0.6**	**–**	**0.6**	0.6	–	0.6
Operating (loss)/profit	4,7	**(6.3)**	**(36.6)**	**(42.9)**	113.9	(6.3)	107.6
Investment revenue	9	**–**	**–**	**–**	0.1	–	0.1
Finance costs	10	**(15.3)**	**–**	**(15.3)**	(15.8)	–	(15.8)
Net finance costs		**(15.3)**	**–**	**(15.3)**	(15.7)	–	(15.7)
(Loss)/profit before tax		**(21.6)**	**(36.6)**	**(58.2)**	98.2	(6.3)	91.9
Tax	11	**3.3**	**4.1**	**7.4**	(19.5)	1.3	(18.2)
(Loss)/profit from continuing operations after tax		**(18.3)**	**(32.5)**	**(50.8)**	78.7	(5.0)	73.7
Discontinued operations							
Loss from discontinued operations	6	**(11.4)**	**(121.0)**	**(132.4)**	(5.0)	(34.0)	(39.0)
(Loss)/profit for the year	4	**(29.7)**	**(153.5)**	**(183.2)**	73.7	(39.0)	34.7
Attributable to:							
Equity holders of the parent		**(30.5)**	**(153.5)**	**(184.0)**	71.6	(39.0)	32.6
Non-controlling interests		**0.8**	**–**	**0.8**	2.1	–	2.1
		(29.7)	**(153.5)**	**(183.2)**	73.7	(39.0)	34.7
(Loss)/earnings per share (EPS) attributable to equity shareholders of the parent							
From continuing operations:							
– basic	13	**(5.5)p**	**(9.2)p**	**(14.7)p**	21.6p	(1.5)p	20.1p
– diluted	13	**(5.4)p**	**(9.2)p**	**(14.6)p**	21.3p	(1.4)p	19.9p
From continuing and discontinued operations:							
– basic	13	**(8.7)p**	**(43.7)p**	**(52.4)p**	20.1p	(10.9)p	9.2p
– diluted	13	**(8.6)p**	**(43.3)p**	**(51.9)p**	19.9p	(10.8)p	9.1p

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

† See Note 6 for further detail on the re-presentation of the prior year comparatives due to the treatment of the Healthcare business as a discontinued operation.

‡ Other items are as described in Note 5.

Consolidated statement of comprehensive income
For the year ended 31 March 2017

	Notes	2017 £m	2016 Restated* £m
(Loss)/profit for the year		**(183.2)**	34.7
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of net defined benefit pension liability	38	**(35.4)**	3.0
Income tax credit/(charge) relating to items not reclassified		**5.5**	(1.6)
		(29.9)	1.4
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**1.3**	0.2
Gains/(losses) on hedge of a net investment taken to equity		**0.1**	(0.7)
Cash flow hedges:			
(Losses)/gains arising during the year		**(26.2)**	6.7
Reclassification adjustment for profits/(losses) included in profit and loss		**21.4**	(4.4)
Income tax credit/(charge) relating to items that may be reclassified		**0.3**	(0.7)
		(3.1)	1.1
Other comprehensive (expense)/income for the financial year		**(33.0)**	2.5
Total comprehensive (expense)/income for the financial year		**(216.2)**	37.2
Attributable to:			
Equity holders of the parent		**(217.0)**	35.1
Non-controlling interests		**0.8**	2.1

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

Consolidated balance sheet
As at 31 March 2017

	Notes	2017 £m	2016 Restated* £m	2015 Restated* £m
Non-current assets				
Goodwill	14	**343.9**	439.5	464.4
Other intangible assets	15	**53.2**	64.6	73.8
Property, plant and equipment	16	**32.3**	49.3	53.3
Interest in joint ventures and associates	17	**0.6**	0.6	1.1
Derivative financial instruments	18	**–**	14.4	8.0
Trade and other receivables	19	**50.3**	84.8	58.5
Deferred tax assets	23	**22.2**	10.4	13.9
Total non-current assets		**502.5**	663.6	673.0
Current assets				
Inventories	24	**6.8**	9.9	11.0
Trade and other receivables	19	**381.0**	432.1	416.8
Derivative financial instruments	18	**35.8**	–	–
Current tax asset		**12.1**	–	–
Cash and cash equivalents	25	**129.1**	93.1	96.4
Total current assets		**564.8**	535.1	524.2
Total assets		**1,067.3**	1,198.7	1,197.2
Current liabilities				
Trade and other payables	26	**(559.9)**	(496.1)	(476.6)
Current tax liabilities		**–**	(3.9)	(2.9)
Financing liabilities	27	**(310.8)**	(1.9)	(1.8)
Provisions	29	**(20.4)**	(8.5)	(10.5)
Total current liabilities		**(891.1)**	(510.4)	(491.8)
Net current (liabilities)/assets		**(326.3)**	24.7	32.4
Non-current liabilities				
Trade and other payables	26	**(3.4)**	(2.5)	(8.0)
Financing liabilities	27	**(1.3)**	(283.9)	(279.2)
Provisions	29	**(6.4)**	(0.5)	(7.4)
Retirement benefit liabilities	38	**(74.2)**	(35.5)	(35.8)
Deferred tax liabilities	23	**(1.1)**	(4.4)	(7.5)
Total non-current liabilities		**(86.4)**	(326.8)	(337.9)
Total liabilities		**(977.5)**	(837.2)	(829.7)
Net assets		**89.8**	361.5	367.5

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of 31 March 2016 and 31 March 2015.

Consolidated balance sheet continued

As at 31 March 2017

	Notes	**2017** **£m**	2016 Restated* £m	2015 Restated* £m
Equity				
Share capital	32	**9.2**	9.3	9.4
Share premium account	33	**130.6**	127.7	122.6
Merger reserve	33	**91.8**	80.1	80.1
Own shares reserve	33	**(42.2)**	(48.8)	(47.5)
Other reserves	33	**10.3**	9.9	7.6
Hedging and translation reserve	33	**(8.0)**	(4.6)	(6.4)
Retained (losses)/earnings		**(104.2)**	185.0	198.7
Equity attributable to equity holders of the parent		**87.5**	358.6	364.5
Non-controlling interests		**2.3**	2.9	3.0
Total equity		**89.8**	361.5	367.5

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of 31 March 2016 and 31 March 2015.

The consolidated financial statements of Mitie Group plc, company registration number SC019230 were approved by the Board of Directors and authorised for issue on 12 June 2017. They were signed on its behalf by:

Phil Bentley
Chief Executive Officer

Sandip Mahajan
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 March 2017

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves £m	Hedging and translation reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
At 1 April 2015 –as reported	9.4	122.6	80.1	(47.5)	7.6	(6.4)	209.2	**375.0**	3.3	**378.3**
Restatements*	–	–	–	–	–	–	(10.5)	**(10.5)**	(0.3)	**(10.8)**
At 1 April 2015 – restated*	9.4	122.6	80.1	(47.5)	7.6	(6.4)	198.7	**364.5**	3.0	**367.5**
Profit for the year	–	–	–	–	–	–	32.6	**32.6**	2.1	**34.7**
Other comprehensive income	–	–	–	–	–	1.8	0.7	**2.5**	–	**2.5**
Total comprehensive income	–	–	–	–	–	1.8	33.3	**35.1**	2.1	**37.2**
Shares issued	–	5.1	–	–	–	–	–	**5.1**	–	**5.1**
Dividends paid	–	–	–	–	–	–	(42.2)	**(42.2)**	(0.2)	**(42.4)**
Share buybacks	(0.1)	–	–	–	0.1	–	(15.3)	**(15.3)**	–	**(15.3)**
Purchase of own shares	–	–	–	(6.6)	–	–	–	**(6.6)**	–	**(6.6)**
Share-based payments	–	–	–	5.3	2.2	–	0.3	**7.8**	–	**7.8**
Tax on share-based payment transactions	–	–	–	–	–	–	0.1	**0.1**	–	**0.1**
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	10.1	**10.1**	(2.0)	**8.1**
At 31 March 2016 – restated*	9.3	127.7	80.1	(48.8)	9.9	(4.6)	185.0	**358.6**	2.9	**361.5**
Loss for the year	–	–	–	–	–	–	(184.0)	**(184.0)**	0.8	**(183.2)**
Other comprehensive expense	–	–	–	–	–	(3.4)	(29.6)	**(33.0)**	–	**(33.0)**
Total comprehensive expense	–	–	–	–	–	(3.4)	(213.6)	**(217.0)**	0.8	**(216.2)**
Shares issued	0.1	2.9	11.7	–	–	–	–	**14.7**	–	**14.7**
Dividends paid	–	–	–	–	–	–	(37.4)	**(37.4)**	(0.1)	**(37.5)**
Share buybacks	(0.2)	–	–	(0.2)	0.4	–	(24.4)	**(24.4)**	–	**(24.4)**
Share-based payments	–	–	–	6.8	–	–	2.4	**9.2**	–	**9.2**
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	(16.2)	**(16.2)**	(1.3)	**(17.5)**
At 31 March 2017	9.2	130.6	91.8	(42.2)	10.3	(8.0)	(104.2)	**87.5**	2.3	**89.8**

* See Note 1(c) for an explanation and analysis of the prior year adjustments included above in respect of the profit for the year ended 31 March 2016 and of retained earnings at 1 April 2015.

Consolidated statement of cash flows

For the year ended 31 March 2017

		Notes	2017 £m	2016 Restated* £m
Operating (loss)/profit	– continuing operations		**(42.9)**	107.6
	– discontinued operations		**(135.2)**	(42.0)
Adjustments for:				
Share-based payment expense		37	**6.2**	5.2
Defined benefit pension charge		38	**4.3**	4.4
Defined benefit pension contributions		38	**(2.4)**	(3.0)
Acquisition costs		5	**1.2**	0.3
Depreciation of property, plant and equipment		16	**14.1**	15.1
Amortisation of intangible assets		15	**23.8**	17.0
Share of profit of joint ventures and associates		17	**(0.6)**	(0.6)
Impairment of goodwill and intangible assets			**109.2**	33.2
Loss/(profit) on disposal of businesses			**30.4**	(0.5)
Loss on disposal of property, plant and equipment			**1.0**	–
Operating cash flows before movements in working capital			**9.1**	136.7
Decrease in inventories			**3.2**	1.1
Decrease/(increase) in receivables			**74.8**	(41.7)
Increase in payables			**58.4**	16.4
Increase in provisions			**5.6**	2.1
Cash generated by operations		40	**151.1**	114.6
Income taxes paid			**(15.3)**	(15.7)
Interest paid			**(12.7)**	(13.4)
Acquisition costs		5	**(0.3)**	(0.3)
Net cash inflow from operating activities			**122.8**	85.2
Investing activities				
Interest received			**0.1**	–
Purchase of property, plant and equipment			**(14.5)**	(15.7)
Purchase of subsidiary undertakings, net of cash acquired		34	**–**	(0.6)
Purchase of non-controlling interests		34	**(1.4)**	(7.4)
Dividends received from joint ventures and associates			**0.6**	0.7
Investment in derivative financial instruments			**–**	1.9
Purchase of other intangible assets		15	**(12.4)**	(8.9)
Disposals of property, plant and equipment			**1.0**	2.2
Disposal of subsidiaries, including cash disposed			**(1.7)**	–
Net cash outflow from investing activities			**(28.3)**	(27.8)

* See Note 1(c) for an explanation and analysis of the prior year adjustments included above in respect of the year ended 31 March 2016.

Consolidated statement of cash flows continued

For the year ended 31 March 2017

	Notes	2017 £m	2016 Restated* £m
Financing activities			
Repayments of obligations under finance leases		**(1.6)**	(3.1)
Proceeds on issue of share capital		**0.1**	5.0
Bank loans repaid		**–**	(2.2)
Proceeds from new borrowings		**1.7**	–
Proceeds from re-issue of Treasury shares	33	**2.4**	(3.7)
Share buybacks	32	**(24.4)**	(14.4)
Equity dividends paid	12	**(37.4)**	(42.3)
Non-controlling interests dividends paid		**(0.1)**	(0.2)
Other financing items		**0.4**	–
Net cash outflow from financing		**(58.9)**	(60.9)
Net increase/(decrease) in cash and cash equivalents		**35.6**	(3.5)
Net cash and cash equivalents at beginning of the year		**93.1**	96.4
Effect of foreign exchange rate changes		**0.4**	0.2
Net cash and cash equivalents at end of the year	25	**129.1**	93.1

The above statement of consolidated cash flows includes cash flows from both continuing and discontinued operations. Further details of the cash flows relating to discontinued operations are shown in Note 6.

Reconciliation of net cash flow to movements in net debt	Notes	2017 £m	2016 Restated* £m
Cash drivers			
Net increase/(decrease) in cash and cash equivalents		**35.6**	(3.5)
(Increase)/decrease in bank loans		**(1.7)**	0.3
Non-cash drivers			
Non-cash movement in private placement notes and associated hedges		**(4.4)**	3.0
Effect of foreign exchange rate changes		**0.4**	0.2
Decrease/(increase) in finance leases		**1.2**	(0.5)
Decrease/(increase) in net debt during the year		**31.1**	(0.5)
Opening net debt		**(178.3)**	(177.8)
Closing net debt	31	**(147.2)**	(178.3)

* See Note 1(c) for an explanation and analysis of the prior year adjustments included above in respect of the year ended 31 March 2016.

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

The group's financial statements for the year ended 31 March 2017 have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union and therefore the Group's financial statements comply with Article 4 of the EU IAS Regulation.

As more fully detailed in the Directors' report, the Group's financial statements have been prepared on a going concern basis.

The Group's financial statements have been prepared on the historical cost basis, except for certain financial instruments which are required to be measured at fair value.

Accounting standards that are newly effective in the current year

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2016 except for the following amendments, which were effective for the first time in the current year but had no impact on the results or financial position of the Group:

- Amendments to IAS 1 'Presentation of financial statements' – disclosure initiative;
- Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortisation;
- Amendments to IFRS 11 'Joint Arrangements' – Accounting for acquisitions of interests in joint operations; and
- Amendments resulting from annual improvements to IFRSs 2012-2014 and 2013-2015 cycle.

Accounting standards that are not yet mandatory and have not been applied by the Group

The following standards and interpretations have been issued but are not yet mandatorily effective (and in some cases have not yet been adopted by the EU) and have not been applied by the Group:

- IFRS 9 'Financial instruments';
- IFRS 15 'Revenue from contracts with customers';
- IFRS 16 'Leases';
- Amendments to IFRS 2 'Share-based payment' – classification and measurement of share-based payment transactions;
- Amendments to IAS 7 'Cash flow statements' – disclosure initiative;
- Amendments to IAS 12 'Income taxes' – recognition of deferred tax assets for unrealised losses; and
- Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' – sale or contribution of assets between an investor and its associate or joint venture.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

- IFRS 9 will impact both the measurement and disclosures of financial instruments;
- IFRS 15 introduces a new revenue recognition model and is due to be effective for periods beginning on or after 1 January 2018. It will have a material impact on the reported assets and income statement of the Group. The Group is conducting a detailed review of IFRS 15 with the view to early adopting the standard for the year ending 31 March 2018.

  The review of the impact of IFRS 15 is continuing and will be completed during 2017. The key impacts identified to date are:

  Percentage of completion accounting on long-term complex contracts – the five step model for revenue recognition contained in IFRS 15 introduces the concept of performance obligations. Performance obligations are the contractual promise by an entity to transfer goods or services to a customer. Percentage of completion accounting does not provide an appropriate representation of the satisfaction of performance obligations on these long-term complex contracts and consequently will no longer be considered applicable to these contracts. Therefore, it will not be appropriate to carry forward accrued revenue in relation to percentage of completion accounting on these contracts.

  Mobilisation costs – under IFRS 15, costs of mobilising new contracts will have to meet different criteria in order to be classified as a cost of fulfilling a contract. This change will materially affect both: (i) the amount of costs capitalised on long-term complex contracts that have been accounted for under the percentage of completion method; and (ii) the amount of costs that have been capitalised previously as mobilisation costs; and
- IFRS 16 will require nearly all leases to be recognised on the balance sheet as liabilities with corresponding assets being created. It will be effective for periods beginning on or after 1 January 2019.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until detailed reviews have been completed.

1. Basis of preparation and significant accounting policies continued

(b) Significant accounting policies under IFRS

The significant accounting policies adopted in the preparation of the Group's IFRS financial information are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Mitie Group plc and all its subsidiaries. The parent company has applied FRS 101 'Reduced Disclosure Framework' in the preparation of its individual financial statements. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The results, assets and liabilities of joint ventures and associates are accounted for under the equity method of accounting. Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring the accounting policies used into line with those used by the Group.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full.

Interests of non-controlling interest shareholders are measured at the non-controlling interest's proportion of the net fair value of the assets and liabilities recognised. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

In the financial statements the Group has elected to provide some further disclosures and performance measures, reported as 'before other items', in order to present its financial results in a way that demonstrates the performance of continuing operations excluding the results from restructuring and acquisition related costs, and the amortisation or write-off of acquired intangible assets and goodwill. Results before other items are a non-statutory measure.

'Other items' are defined as items of income or expenditure which, in the opinion of the Directors, are material or unusual in nature or of such significance that they require separate disclosure on the face of the income statement in accordance with IAS 1 'Presentation of Financial Statements'. Should these items be reversed disclosure of this would also be as other items. Further detail of other items is set out in Note 5 to the financial statements.

In addition, following the guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authorities (ESMA), the Group has included an APM appendix to the financial statements on page 174. These APMs are measures which disclose the adjusted performance of the Group excluding specific items which are regarded as non-recurring. The Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance.

Foreign currency

The financial statements of each of the Group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

1. Basis of preparation and significant accounting policies continued

On consolidation, the assets and liabilities of the Group's overseas operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing at the balance sheet date. Income and expenses are translated into sterling at average exchange rates for the period. Exchange differences arising are recognised directly in equity in the Group's hedging and translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Revenue
Revenue represents income recognised in respect of services provided during the period (stated net of sales taxes) and is earned predominantly within the United Kingdom. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. When revenue is recognised but has not yet been billed accrued income arises. Deferred income arises when the Group has billed clients in advance of recognising revenue.

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

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance sheet date. Revenue from time and material contracts is recognised at the contractual rates as labour hours and tasks are delivered and direct expenses incurred. In other cases, the Group distinguishes between the following types of contract:

Revenue recognition: repeat service-based contracts (single and bundled contracts)
Revenue is recognised on a straight-line basis unless this is not an accurate reflection of the work performed. Where a straight-line basis is not appropriate, for example if specific works on contracts represent a significant element of the whole, revenue is recognised based on the percentage of completion method, based on the proportion of costs incurred at the balance sheet date relative to the total estimated cost of completing the contracted work.

Costs incurred, after the confirmation of preferred bidder, that are specific costs incurred to ensure that the project or programme has appropriate organisational, operational and technical infrastructures and mechanisms in place to enable the delivery of full services under the contract target operating model are defined as mobilisation costs. These costs are included within trade and other receivables on the balance sheet provided that the costs relate directly to the contract, are separately identifiable, can be measured reliably and that the future net cash inflows from the contract are estimated to be no less than the amounts capitalised.

Such costs may be incurred when a contract is awarded, or when there is a subsequent change in the scope of contracted services. The mobilisation costs are amortised over the contracted period (including any contracted extension periods), generally on a straight-line basis, or on a basis to reflect the profile of work to be performed over the contracted period if the straight-line basis is not considered to be appropriate for the specific contract to which the costs relate. If the contract becomes loss making, any unamortised costs are written off and the expected loss is provided for immediately.

Revenue recognition: long-term complex contracts
The group has a number of long-term contracts for the provision of complex project-based services, predominantly integrated facilities management contracts. These are contracts which are transformational in nature and usually five years in initial duration.

In this context, transformational means that the cost to the client over the life of the contract is reduced as a result of significant transformations in service provision. Typically these contracts are priced to average the annual charge to the client over the contract period and involve the provision of multiple service lines, with a single management team providing an integrated service.

Where the outcome of such complex project-based contracts can be measured reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is measured by the proportion of contract costs incurred for work performed to date compared to the total estimated contract costs using the percentage of completion methodology.

Contract costs used to determine the stage of completion are recognised in the income statement as expenses in the period in which they are incurred and include transition costs, which are similar in nature to mobilisation costs under repeat service-based contracts. Transition costs are expenses incurred in the performance of transitioning services provided after confirmation of preferred bidder and before commencement of full services under the contract target operating model; no profit margin is recognised for these transition costs.

1. Basis of preparation and significant accounting policies continued

Contract costs also include transition costs arising when there is a subsequent change in the scope of contracted services and include budgeted cost savings. Where the outcome of a complex project-based contract cannot be estimated reliably, contract revenue is recognised to the extent that it is probable that contract costs will be recovered. Full provision is made for all known or anticipated losses on each contract immediately as losses are forecast. In a number of long-term complex contracts, the achievement of certain key performance indicators (KPIs) is a significant milestone which enables revenue to be recognised. KPIs are generally measured contemporaneously with the performance of the service, rather than being measured over a long period or retrospectively.

Revenue recognition: other
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Borrowing costs
Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Borrowing costs are recognised in the income statement in the period in which they are incurred, with the finance charges relating to the direct cost of debt issue spread over the period to redemption using the effective interest method.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities; or when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. It is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement for the period and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

1. Basis of preparation and significant accounting policies continued

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost less expected residual value of the assets over their estimated useful lives and is calculated on a straight-line basis as follows:

Freehold buildings and long leasehold property	50 years
Leasehold improvements	period of the lease
Plant and vehicles	3–10 years

Annually the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets
Intangible assets identified in a business acquisition are capitalised at fair value as at the date of acquisition.

Software and development expenditure is capitalised as an intangible asset if the asset created can be identified, if it is probable that the asset created will generate future economic benefits and if the development cost of the asset can be measured reliably.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are reviewed for impairment annually, or more frequently when there is an indication that they may be impaired. Amortisation expense is charged to administrative expenses in the income statement on a straight-line basis over its useful life.

Joint ventures and associates
The Group has an interest in joint ventures which are entities in which the Group has joint control. The Group also has an interest in associates which are entities in which the Group has significant influence.

The Group accounts for its interest in joint ventures and associates using the equity method. Under the equity method the Group's share of the post-tax result of joint ventures and associates is reported as a single line item in the consolidated income statement. The Group's interest in joint ventures and associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets.

Inventories
Inventories are stated at the lower of cost and net realisable value.

Costs represent materials, direct labour and overheads incurred in bringing the inventories to their present condition and location. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and estimated selling costs. Provision is made for obsolete, slow moving or defective items where appropriate.

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

Assets that are assessed not to be individually impaired are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the Group's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

1. Basis of preparation and significant accounting policies continued

The carrying amount of the financial asset is reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

Financial assets comprise loans and receivables and are measured at initial recognition at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised where there is objective evidence that the asset is impaired. Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities comprise trade payables, financing liabilities, bank and other borrowings, and deferred contingent consideration. These are measured at initial recognition at fair value and subsequently at amortised cost with the exception of derivative financial instruments which are measured at fair value, and deferred contingent consideration which is measured at the Directors' best estimate of the likely future obligation. Bank and other borrowings are stated at the amount of the net proceeds after deduction of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

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

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments, including cross-currency interest rate swaps and forward foreign exchange contracts, to manage the Group's exposure to financial risks associated with interest rates and foreign exchange. Derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value, determined by reference to market rates, at each balance sheet date and included as financial assets or liabilities as appropriate. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

The Group may designate certain hedging instruments including derivatives as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges
Hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

Cash flow hedges
Hedges are classified as cash flow hedges when they hedge the exposure to changes in cash flows that are attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity within the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

1. Basis of preparation and significant accounting policies continued

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

Hedges of net investments in foreign operations
Hedges are classified as net investment hedges when they hedge the foreign currency exposure to changes in the Group's share in the net assets of a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in equity are reclassified to the income statement in the same way as exchange differences relating to the foreign operation as described above.

Leasing
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Any lease incentives are amortised on a straight-line basis over the non-cancellable period for which the Group has contracted to lease the asset, together with any further terms for which the Group has the option to continue to lease the asset if, at the inception of the lease, it is judged to be reasonably certain that the Group will exercise the option.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Business combinations
The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed. The acquiree identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

1. Basis of preparation and significant accounting policies continued

Where applicable, the consideration for an acquisition includes any assets or liabilities resulting from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information, obtained within one year from the acquisition date, about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in accordance with IAS 39, either in the income statement or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognised.

Any business combinations prior to 1 April 2010 were accounted for using the standards in place prior to the adoption of IFRS 3 (revised 2008) which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between; (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, of an investment in an associate or a joint venture.

Share-based payments
The Group operates a number of executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For all grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes or Monte Carlo models and the corresponding expense is recognised on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Retirement benefit costs
The Group operates and participates in a number of defined benefit schemes. In respect of the schemes in which the Group participates, the Group accounts for its legal and constructive obligations over the period of its participation which is for a fixed period only.

In addition, the Group operates a number of defined contribution retirement benefit schemes for all qualifying employees.

Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if applicable) are recognised in full in the period in which they occur. They are recognised in the statement of comprehensive income.

Current service cost and past service cost are recognised in the income statement, in administrative expenses, whilst the net interest cost is recognised in net finance costs.

The retirement benefit liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

1. Basis of preparation and significant accounting policies continued

(c) Prior year restatements

During the year there was an apparent significant shortfall in the expected profitability of the Group for the year ended 31 March 2017. A new executive management team was appointed in December and January and they immediately launched an Accounting Review process to provide confidence that all relevant accounting standards were appropriately reflected in the Group's financial reporting.

Following additional information becoming available, the review work has identified a number of prior year errors that, due to their materiality, require the restatement of the results for the year ended 31 March 2016, as well as the consolidated balance sheet positions as at 31 March 2016 and at 31 March 2015.

These prior year restatements relate to the following areas:

Impairment of Healthcare goodwill

The Healthcare goodwill impairment testing for the year ended 31 March 2016 was carried out by reference to a business plan, which incorrectly included within it an apprenticeships business and certain other assumptions. Correcting for these errors in the goodwill impairment model would have resulted in Healthcare goodwill being impaired by £26.0m in the year ended 31 March 2016. This amount has now been written off to the consolidated income statement in the year ended 31 March 2016.

Additionally there was a material disclosure deficiency in the 2016 Annual Report and Accounts, in that there was a failure to disclose the significant judgements made around the inclusion of new service line expansion plans in the Healthcare business, adjacent to existing skills and assets already in the business. See Note 2 for further details.

Intangible asset write-off

Errors arising from the incorrect application of accounting policies during the impairment testing of other intangible assets for the year ended 31 March 2014 resulted in the carrying value of capitalised software costs within intangible assets being overstated at 31 March 2015 and 31 March 2016. At 31 March 2015 this resulted in a net asset value of £2.8m being written off to the consolidated income statement together with a corresponding increase in the deferred tax asset of £0.5m. In the consolidated income statement for the year ended 31 March 2016 a credit for £0.5m has now been included in respect of amortisation no longer required, and a corresponding reduction in the deferred tax asset of £0.1m.

Under-accrual of costs

A number of under-accruals, or under-provisions, of various categories of costs have been identified in relation to prior years. These costs have now been written off to the consolidated income statement in the relevant years and were incurred in relation to:

i) employee bonuses that were paid during the year ended 31 March 2017 but related to the financial years ended 31 March 2015 and 31 March 2016 totalling £8.3m (2015 - £0.6m and 2016 - £7.7m); and

ii) under-provision of insurance liabilities that were outstanding at 31 March 2015 (£5.6m) and 31 March 2016 (£0.3m) and contract related provisions of £2.2m in the year to 31 March 2016.

The tax impacts of these adjustments were credits to the consolidated income statement of £1.3m in 2015 and £2.0m in 2016.

Overstatement of trade receivables and accrued income

Certain revenue recognition polices relating to the inclusion of disputed items in project revenues, the deferral in recognition of commercial claims and the recognition of profit margins on accrued income balances were not applied correctly, resulting in an overstatement of trade receivables and accrued income at 31 March 2015 (£4.6m) and 31 March 2016 of (£11.2m). These amounts have now been written off to the consolidated income statement along with a corresponding credit to tax of £1.0m in 2015 and £2.2m in 2016.

1. Basis of preparation and significant accounting policies continued

Summary
A summary of the combined impact of the prior year adjustments on the consolidated income statement and consolidated statement of cash flows for the year ended 31 March 2016 as well as the consolidated balance sheet as at 31 March 2016 arising from the restatements is as follows:

Consolidated income statement for the year ended 31 March 2016

	As previously reported £m	Discontinued operations £m	As reported continuing operations £m	Impairment of healthcare goodwill £m	Intangible asset write-off £m	Under-accrual of costs £m	Over-statement of trade receivables and accrued income £m	Restated £m
Continuing operations								
Revenue	2,231.9	(75.8)	**2,156.1**	–	–	–	(9.2)	**2,146.9**
Gross profit	322.6	(15.1)	**307.5**	–	–	–	(10.4)	**297.1**
Operating profit/(loss)	112.5	16.0	**128.5**	–	0.5	(10.2)	(11.2)	**107.6**
Profit/(loss) before tax	96.8	16.0	**112.8**	–	0.5	(10.2)	(11.2)	**91.9**
Tax	(19.3)	(3.0)	**(22.3)**	–	(0.1)	2.0	2.2	**(18.2)**
Profit/(loss) after tax	77.5	13.0	**90.5**	–	0.4	(8.2)	(9.0)	**73.7**
Loss from discontinued operations	–	(13.0)	**(13.0)**	(26.0)	–	–	–	**(39.0)**
Profit/(loss) for the year	77.5	–	**77.5**	(26.0)	0.4	(8.2)	(9.0)	**34.7**

Consolidated statement of cash flows for the year ended 31 March 2016

	As reported £m	Impairment of healthcare goodwill £m	Intangible asset write-off £m	Under accrual of costs £m	Over-statement of trade receivables and accrued income £m	Restated £m
Net cash flow from operating activities	85.2	–	–	–	–	**85.2**
Net cash outflow from investing activities	(27.8)	–	–	–	–	**(27.8)**
Net cash outflow from financing activities	(60.9)	–	–	–	–	**(60.9)**
Net decrease in cash and cash equivalents	(3.5)	–	–	–	–	**(3.5)**
Net cash and cash equivalents at beginning of the year	96.4	–	–	–	–	**96.4**
Effect of foreign exchange rate changes	0.2	–	–	–	–	**0.2**
Net cash and cash equivalents at end of the year	93.1	–	–	–	–	**93.1**

1. Basis of preparation and significant accounting policies continued

Consolidated balance sheet as at 31 March 2016

	As reported £m	Impairment of healthcare goodwill £m	Intangible asset write off £m	Under-accrual of costs £m	Over-statement of trade receivables and accrued income £m	Restated £m
Non-current assets						
Goodwill	465.5	(26.0)	–	–	–	**439.5**
Other intangible assets	66.9	–	(2.3)	–	–	**64.6**
Property, plant and equipment	49.3	–	–	–	–	**49.3**
Interest in joint ventures and associates	0.6	–	–	–	–	**0.6**
Derivative financial instruments	14.4	–	–	–	–	**14.4**
Trade and other receivables	86.0	–	–	–	(1.2)	**84.8**
Deferred tax assets	10.0	–	0.4	–	–	**10.4**
Total non-current assets	692.7	(26.0)	(1.9)	–	(1.2)	**663.6**
Current assets						
Inventories	9.9	–	–	–	–	**9.9**
Trade and other receivables	446.7	–	–	–	(14.6)	**432.1**
Cash and cash equivalents	93.1	–	–	–	–	**93.1**
Total current assets	549.7	–	–	–	(14.6)	**535.1**
Total assets	1,242.4	(26.0)	(1.9)	–	(15.8)	**1,198.7**
Current liabilities						
Trade and other payables	(487.8)	–	–	(8.3)	–	**(496.1)**
Current tax liabilities	(10.4)	–	–	3.3	3.2	**(3.9)**
Financing liabilities	(1.9)	–	–	–	–	**(1.9)**
Provisions	(0.4)	–	–	(8.1)	–	**(8.5)**
Total current liabilities	(500.5)	–	–	(13.1)	3.2	**(510.4)**
Net current assets	49.2	–	–	(13.1)	(11.4)	**24.7**
Non-current liabilities						
Trade and other payables	(2.5)	–	–	–	–	**(2.5)**
Financing liabilities	(283.9)	–	–	–	–	**(283.9)**
Provisions	(0.5)	–	–	–	–	**(0.5)**
Retirement benefit liabilities	(35.5)	–	–	–	–	**(35.5)**
Deferred tax liabilities	(4.4)	–	–	–	–	**(4.4)**
Total non-current liabilities	(326.8)	–	–	–	–	**(326.8)**
Total liabilities	(827.3)	–	–	(13.1)	3.2	**(837.2)**
Net assets	415.1	(26.0)	(1.9)	(13.1)	(12.6)	**361.5**
Total equity	415.1	(26.0)	(1.9)	(13.1)	(12.6)	**361.5**

1. Basis of preparation and significant accounting policies continued

Consolidated balance sheet as at 31 March 2015

	As reported £m	Impairment of healthcare goodwill £m	Intangible asset write off £m	Under-accrual of costs £m	Over-statement of trade receivables and accrued income £m	Restated £m
Non-current assets						
Goodwill	464.4	–	–	–	–	**464.4**
Other intangible assets	76.6	–	(2.8)	–	–	**73.8**
Property, plant and equipment	53.3	–	–	–	–	**53.3**
Interest in joint ventures and associates	1.1	–	–	–	–	**1.1**
Derivative financial instruments	8.0	–	–	–	–	**8.0**
Trade and other receivables	58.5	–	–	–	–	**58.5**
Deferred tax assets	13.4	–	0.5	–	–	**13.9**
Total non-current assets	675.3	–	(2.3)	–	–	**673.0**
Current assets						
Inventories	11.0	–	–	–	–	**11.0**
Trade and other receivables	421.4	–	–	–	(4.6)	**416.8**
Cash and cash equivalents	96.4	–	–	–	–	**96.4**
Total current assets	528.8	–	–	–	(4.6)	**524.2**
Total assets	1,204.1	–	(2.3)	–	(4.6)	**1,197.2**
Current liabilities						
Trade and other payables	(476.0)	–	–	(0.6)	–	**(476.6)**
Current tax liabilities	(5.2)	–	–	1.3	1.0	**(2.9)**
Financing liabilities	(1.8)	–	–	–	–	**(1.8)**
Provisions	(4.9)	–	–	(5.6)	–	**(10.5)**
Total current liabilities	(487.9)	–	–	(4.9)	1.0	**(491.8)**
Net current assets	40.9	–	–	(4.9)	(3.6)	**32.4**
Non-current liabilities						
Trade and other payables	(8.0)	–	–	–	–	**(8.0)**
Financing liabilities	(279.2)	–	–	–	–	**(279.2)**
Provisions	(7.4)	–	–	–	–	**(7.4)**
Retirement benefit liabilities	(35.8)	–	–	–	–	**(35.8)**
Deferred tax liabilities	(7.5)	–	–	–	–	**(7.5)**
Total non-current liabilities	(337.9)	–	–	–	–	**(337.9)**
Total liabilities	(825.8)	–	–	(4.9)	1.0	**(829.7)**
		–				
Net assets	378.3	–	(2.3)	(4.9)	(3.6)	**367.5**
		–				
Total equity	378.3	–	(2.3)	(4.9)	(3.6)	**367.5**

2. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 1 above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

The Group's revenue recognition policies, which are set out in Note 1(b), are central to how the Group measures the work it has performed in each financial year; some of these could be considered as key sources of estimation uncertainty.

The revenue recognised for certain long-term complex project-based services is based on the stage of completion of the contract activity. This is measured by comparing the proportion of costs incurred, which include transition costs reflecting costs incurred in the performance of transitioning services, against the estimated whole-life contract costs. This requires significant judgements to be made in forecasting the outcomes of the long-term contracts.

Particular judgement is required in evaluating the operational and financial business plans for these contracts to forecast the expected whole-life contract billings, costs and margin and to assess the recoverability of any resulting accrued income through the life of the contract. In forming the judgement around expected whole-life contract billings, account is taken of potential deductions from and increments to revenue that may arise from the application of performance related measures under contracts.

This requires management to apply judgements and estimates that draw on the knowledge and experience of the Group's project managers and delivery teams together with the Group's commercial and finance professionals. Whilst there may be a broad range of possible outcomes based on the relevant circumstances of the individual contract, the Group has controls in place whereby all significant contracts are reviewed on a monthly basis and reforecast quarterly.

The amounts recognised as revenue, profit and contract assets are sensitive to changes in assumptions, for example:

- **Revenue measurement** – in line with the Group's revenue recognition policy for long-term complex contracts, revenue is recognised on these contracts to the extent that the outcome of the project can be reliably measured. For long-term complex contracts this requires judgements to be made on which elements of the contract can be accurately forecast. These contracts will usually comprise fixed revenue streams, variable works and project works. Project works are not included as part of a long-term complex contract on the basis that these amounts are discretionary and consequently cannot be reliably forecast. Therefore these projects are accounted for separately. The revenue streams that can be reliably forecast comprise the fixed elements (for example for ongoing cleaning and security services) and variable works.
- **Contract profitability and costs to complete** – long-term complex contracts are transformational in nature and there is a commitment to work in partnership with the client from the outset of the contract to drive significant cost savings and efficiencies throughout the life of the contract. During the mobilisation of a contract a target operating model is developed. This target operating model shows how the services that are part of the contract will be delivered during the contract and is subject to a continuous review/improvement process throughout the duration of the contract. The target operating model, cost saving initiatives identified and revenue pipeline will be combined into a financial plan for the individual contract. Only cost saving initiatives that are considered to be reasonably certain in terms of timing and scale are included in the plan. Management's ability to accurately forecast the costs to complete the contract involves judgements around cost savings to be achieved over time, anticipated profitability of the contract, as well as contract specific performance KPIs. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.
- **Renegotiation of terms** – the Group often enters into renegotiations of existing contract terms such as the timing or the specifications of the services to be delivered. Depending on the outcome of such negotiations, the timing and amount of revenue recognised may be different.
- **Recoverability of contract related assets** – linked to the profitability of contracts above, management is also required to determine the recoverability of contract related assets, accrued income and accounts receivable. Judgement is required in determining whether or not the future economic benefits from contracts are sufficient to recover these contract assets.

Review of accounting policies and estimates

The Group has undertaken an accounting review process to provide confidence that all relevant accounting standards were appropriately reflected in its financial reporting. The review has considered how the Group's accounting policies have been applied and interpreted, which has resulted in a number of more conservative applications of accounting estimates and judgements in the following areas:

- **Work in progress** – for certain Engineering Services projects profit margins on work in progress will only be recognised when the project is complete.
- **Transition costs on long-term complex contracts** – the methodology for recognising revenue on transition costs incurred at the start of a contract has been changed. No gross profit margin will be applied to the revenue attributable to these costs.

2. Critical accounting judgements and key sources of estimation uncertainty continued

- **Uncontracted revenue streams on long-term complex contracts** – the approach to assessing the whole-life profitability of long-term complex contracts has been revised. Uncontracted project works are excluded from the percentage of completion calculation for these contracts and instead accounted for as repeat service-based contracts.
- **Mobilisation costs incurred at the commencement of contracts** – the items incurred at the outset of the contract, which are spread over the contract life, have been reassessed with more items being expensed immediately.

Profit before other items
'Other items' are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of other items or not requires judgement.

Other items after tax of £153.5m (2016 restated: £39.0m) were charged to the income statement for the year ended 31 March 2017. An analysis of the amounts included in other items is detailed in Note 5.

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

Assessment of a prior year error in relation to goodwill on the Healthcare CGU
At 31 March 2016, the reported carrying value of Healthcare goodwill was £107.2m, with value-in-use calculated at £145.4m. At 30 September 2016 it was determined that the carrying value of this goodwill was fully impaired and written down to a nil value. Subsequently a large proportion of the Healthcare CGU was sold for £2 and the Group agreed to contribute £9.5m towards the trading losses of the business and the turnaround plan (see Note 6 'Discontinued operations and disposal of subsidiaries' for further details on the sale of the Healthcare division).

As explained in the Audit Committee report on page 55 the FRC's Corporate Reporting Review Committee has made enquiries in this area. During the course of preparation of our response to its February 2017 letter, new evidence came to light that had not previously been provided to the external auditor, the Audit Committee or the Board. The Audit Committee appointed KPMG to review the circumstances surrounding the judgement made on Healthcare goodwill at 31 March 2016.

As a result of the review, the Audit Committee has considered whether there were one or more errors, which in accordance with IAS 8, require a prior year adjustment.

As part of this assessment the Audit Committee considered the further information that was available at 31 March 2016 but had not been communicated to the external auditor, the Audit Committee or the Board. It has concluded that:

- One or more errors had been made in the preparation of the plan that was approved by the Board and formed the basis for the impairment testing of Healthcare goodwill. Correction of those errors reduces the value in use by £64.0m which results in an impairment to Healthcare goodwill of £26.0m as at 31 March 2016. The Audit Committee believes that this is a prior period error in accordance with IAS 8 and consequently a prior year adjustment is made in these accounts to goodwill at 31 March 2016 (see Note 1(c) 'Prior year restatements' for further details on the prior year restatements made).
- A number of other judgements were made in respect of the impairment testing of Healthcare goodwill at 31 March 2016, which were impacted by the discovery of further information and has been considered by the Board and Audit Committee as part of the preparation of the 2017 Annual Report and Accounts.

  These judgements relate to the inclusion of new service line expansion plans in the Healthcare business, adjacent to existing skills and assets already in the business, namely provision of telecare services, community healthcare and supply of temporary staff on an agency basis.

  Additionally, the inclusion of Tascor, acquired in January 2016, subsequently renamed Care & Custody Health and retained by Mitie following the disposal of the Healthcare business in February 2017, was regarded as part of the Healthcare CGU, rather than with the CGU that included Care & Custody (Soft FM CGU).

  Had these been regarded as prior year errors rather than changes in judgement, the amount of the prior year adjustment would have increased by £44.0m.

2. Critical accounting judgements and key sources of estimation uncertainty continued

The Directors have specifically reviewed the IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' definition of a change in accounting estimate which states that "changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors". The Audit Committee has carefully reconsidered the judgements it made in the light of the discovery of new information and notwithstanding this becoming available and taken into account, considers that the judgements made as to what should be classified as a prior year error have been formed on a reasonable basis. However, the Audit Committee recognises that the failure to disclose these judgements in the 2016 Annual Report and Accounts was in itself a material disclosure deficiency.

Measurement and impairment of goodwill and other intangible assets
The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of suitable discount rates. Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the CGUs to which the goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates to use in order to calculate present values.

The carrying value of goodwill and other intangible assets is £397.1m (2016 restated: £504.1m) at the balance sheet date; see Notes 14 and 15. A sensitivity analysis has been performed and the Board has concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of the Soft Facilities Management and Hard Facilities Management CGUs.

Further sensitivity testing was performed for the Group's Property Management CGU where the financial performance of the business has deteriorated during the year. On the basis of this review the Board has concluded that an impairment of £15.0m is required. A sensitivity analysis is included in Note 14.

Useful economic life of other intangible assets
The Group held £53.2m of other intangible fixed assets at the balance sheet date, of which £46.9m is attributable to software and development expenditure. Determining the appropriate useful economic life (UEL) and amortisation profile for these assets requires a level of judgement.

Following the review of accounting policies and estimates (as discussed in the section above), a more accurate application of the accounting policy has been applied. The Group has undertaken a reassessment of the UEL of software related intangible assets and has adopted a revised amortisation profile for these assets. This change in estimate results in an additional £7.5m of amortisation in the year ended 31 March 2016.

Provisions, contingent liabilities and onerous contracts
The Company and various of its subsidiaries are, from time to time, party to legal proceedings and claims that are in the ordinary course of business. Judgements are required in order to assess whether these legal proceedings and claims are probable and the liability can be reasonably estimated, resulting in a provision. Or, alternatively, whether the items meet the definition of contingent liabilities.

When a contract is expected to incur future unavoidable losses and has therefore become onerous, judgment is required to assess the future expected revenue and costs and hence to determine the appropriate level of provision.

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 March 2017 of £26.8m (2016 restated: £9.0m). Further details are included in Note 29.

Measurement of defined benefit pension obligations
The measurement of defined benefit obligations requires judgement. It is dependent on material key assumptions including discount rates, life expectancy rates, future returns on assets and future contribution rates. The present value of defined benefit obligations at the balance sheet date is £263.3m (2016: £201.9m); see Note 38 for further detail and a sensitivity analysis.

3. Revenue

Continuing operations	**2017** **£m**	2016 Restated* £m
Rendering of services	**2,124.6**	2,141.9
Construction contracts	**1.7**	5.0
Total revenue as disclosed in the consolidated income statement	**2,126.3**	2,146.9
Investment revenue (Note 9)	**–**	0.1
Total revenue as defined in IAS 18	**2,126.3**	2,147.0

* See Note 1 (c) for an explanation and analysis of the prior year restatement included above in respect of the year ended 31 March 2016.

4. Business and geographical segments

Revenue, operating profit before other items and operating profit margin before other items are the primary measures of performance that are reported to and reviewed by the chief operating decision maker of the business.

Business segments – structure during the year
The group manages its business on a service division basis. With effect from 1 April 2016, the divisional structure was reorganised into three trading divisions being Facilities Management, Property Management and Healthcare. These divisions are the basis on which the group reported its primary segmental information and are unchanged from the previous reporting period, with the exception of Soft FM and Hard FM, which were previously reported separately and then subsequently reported as one Facilities Management division, and Tilley Roofing which transferred from Facilities Management to Property Management and Care and Custody which transferred from Facilities Management to Healthcare.

	2017				2016 – Restated*			
	Revenue £m	**Operating profit/(loss before other items[1] £m**	**Operating profit/(loss margin before other items[1] %**	**Profit/(loss) before tax £m**	Revenue £m	Operating profit/(loss) before other items[1] £m	Operating profit/(loss) margin before other items[1] %	Profit/(loss) before tax £m
Facilities Management ‡	**1,822.6**	**1.5**	**0.1**	**(13.9)**	1,795.5	95.8	5.3	84.5
Property Management ‡	**257.3**	**(9.2)**	**(3.6)**	**(9.3)**	313.8	14.9	4.7	15.0
Healthcare	**46.4**	**1.4**	**3.0**	**1.6**	37.6	3.2	8.5	(1.3)
Other items+ (Note 5)	**–**	**–**	**–**	**(36.6)**	–	–	–	(6.3)
Continuing operations	**2,126.3**	**(6.3)**	**(0.3)**	**(58.2)**	2,146.9	113.9	5.3	91.9
Healthcare	**59.2**	**(12.0)**	**(20.1)**	**(12.0)**	75.8	(5.9)	(7.8)	(5.9)
Other items+	**–**	**–**	**–**	**(123.2)**	–	–	–	(36.1)
Discontinued operations	**59.2**	**(12.0)**	**(20.1)**	**(135.1)**	75.8	(5.9)	(7.8)	(42.0)
Total	**2,185.5**	**(18.3)**	**(0.8)**	**(193.4)**	2,222.7	108.0	4.9	49.9

Notes:

1. Other items are as described in Note 5.

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

\+ Other items can be analysed by business segment as follows: Facilities Management £15.6m (2016: £4.7m); Property Management £20.7m (2016: £1.6m); and Healthcare £0.3m (2016: nil). Other items in respect of discontinued operations is comprised of amounts in respect of the impairment of goodwill, loss on disposal of the healthcare business, restructuring costs and acquisition related items. All of these amounts are shown before tax. Impairments have been recognised in the Property Management £15.0m (2016: £nil) and the discontinued Healthcare £81.1m (2016: £26.0m) segments.

‡ Tilley Roofing has transferred from Facilities Management to Property Management in the segments above. Tilley Roofing results included in Property Management are as follows – Revenue £34.8m (2016: £34.4m), Operating profit before other items £0.8m (2016: £1.5m), and Profit before tax £0.7m (2016: £1.6m).

Business segments – structure from 1 April 2017. The Property Management division has been combined into a Public Services division along with Care & Custody (Health) and Care & Custody, which were previously included within the Healthcare and Facilities Management divisions respectively. The Facilities Management division has been split out into Cleaning & Environmental Services, Security, Catering, Engineering Services and Professional Services & Connected Workspace.

4. Business and geographical segments continued

Business segments – structure from 1 April 2017

	2017				2016 – Restated*			
	Revenue £m	Operating profit/(loss) before other items[1] £m	Operating profit/(loss) margin before other items[1] %	Profit/(loss) before tax £m	Revenue £m	Operating profit/(loss) before other items[1] £m	Operating profit/(loss) margin before other items[1] %	Profit/(loss) before tax £m
Cleaning & Environmental Services	**395.4**	**6.0**	**1.5**	**5.4**	408.7	25.5	6.2	25.2
Security	**404.2**	**16.1**	**4.0**	**17.0**	364.4	20.8	5.7	21.7
Catering	**134.3**	**4.7**	**3.5**	**4.4**	126.6	5.4	4.3	5.1
Engineering Services	**797.4**	**0.2**	**0.0**	**(8.1)**	800.3	53.7	6.7	45.2
Professional Services & Connected Workspace	**90.9**	**4.2**	**4.6**	**4.3**	97.9	5.5	5.6	5.7
Public Services	**304.1**	**(2.3)**	**(0.8)**	**(1.5)**	349.0	18.9	5.4	20.0
Corporate overheads	**–**	**(35.2)**	**n/a**	**(43.1)**	–	(15.9)	n/a	(24.7)
Other items+ (Note 5)	**–**	**–**	**–**	**(36.6)**	–	–	–	(6.3)
Continuing operations	**2,126.3**	**(6.3)**	**(0.3)**	**(58.2)**	2,146.9	113.9	5.3	91.9
Healthcare	**59.2**	**(12.0)**	**(20.1)**	**(12.0)**	75.8	(5.9)	(7.8)	(5.9)
Other items+	**–**	**–**	**–**	**(123.2)**	–	–	–	(36.1)
Discontinued operations	**59.2**	**(12.0)**	**(20.1)**	**(135.2)**	75.8	(5.9)	(7.8)	(42.0)
Total	**2,185.5**	**(18.3)**	**(0.8)**	**(193.4)**	2,222.7	108.0	4.9	49.9

Notes:

1. Other items are as described in Note 5.

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

\+ Other items can be analysed by business segment as follows: Cleaning & Environmental Services £1.3m (2016: £nil), Security £0.6m (2016: £0.2m), Catering £0.4m (2016: £0.3m), Engineering Services £8.8m (2016: £3.5m), Professional Services & Connected Workspace £1.5m (2016: £0.5m), Public Services £17.9m (2016: £1.5m) and Corporate overheads £6.1m (2016: £0.3m). Other items in respect of discontinued operations is comprised of amounts in respect of the impairment of goodwill, loss on disposal of the healthcare business, restructuring costs and acquisition related items. All of these amounts are shown before tax. Impairments have been recognised in the Public Services £15.0m (2016: £nil) and the discontinued Healthcare £81.1m (2016: £26.0m)

No single customer accounted for more than 10% of external revenue in 2017 or 2016.

IFRS 8 requires that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker and consequently no segment assets are disclosed.

Geographical segments

	2017				2016 – Restated*			
	Revenue £m	Operating profit/(loss) before other items[1]	Operating profit/(loss) margin before other items[1] %	Profit/(loss) before tax £m	Revenue £m	Operating profit/(loss) before other items[1] £m	Operating profit/(loss) margin before other items[1] %	Profit/(loss) before tax £m
United Kingdom	**2,018.1**	**(4.8)**	**(0.2)**	**(54.8)**	2,060.3	117.9	5.7	96.5
Other countries	**108.2**	**(1.5)**	**(1.4)**	**(3.4)**	86.6	(4.0)	(4.6)	(4.6)
Continuing operations	**2,126.3**	**(6.3)**	**(0.3)**	**(58.2)**	2,146.9	113.9	5.3	91.9
United Kingdom	**59.2**	**(12.0)**	**(20.1)**	**(135.2)**	75.8	(5.9)	(7.8)	(42.0)
Other countries	**–**	**–**	**–**	**–**	–	–	–	–
Discontinued operations	**59.2**	**(12.0)**	**(20.1)**	**(135.2)**	75.8	(5.9)	(7.8)	(42.0)
Total	**2,185.5**	**(18.3)**	**(0.8)**	**(193.4)**	2,222.7	108.0	4.9	49.9

Notes:

1. Other items are as described in Note 5.

* See Note 1(c) for an explanation and analysis of the prior year adjustments included above in respect of the year ended 31 March 2016.

5. Other items

The Group separately reports the impairment of goodwill, the write-off and amortisation of acquisition related intangible assets, the results of disposals, restructure costs, acquisition costs and other exceptional items and their related tax effect as other items:

					2017
Continuing operations	Impairment of goodwill £m	Healthcare disposal £m	Restructure costs £m	Acquisition related items £m	Total £m
Administrative expenses	**(15.0)**	**–**	**(14.9)**	**(6.7)**	**(36.6)**
Other items before tax	**(15.0)**	**–**	**(14.9)**	**(6.7)**	**(36.6)**
Tax	**–**	**–**	**3.0**	**1.1**	**4.1**
Other items after tax	**(15.0)**	**–**	**(11.9)**	**(5.6)**	**(32.5)**
Discontinued operations					
(Loss) from discontinued operations net of tax	**(81.1)**	**(30.4)**	**(0.3)**	**(9.2)**	**(121.0)**
Total	**(96.1)**	**(30.4)**	**(12.2)**	**(14.8)**	**(153.5)**

					2016 Restated*
Continuing operations	Impairment of goodwill £m	Businesses being exited £m	Restructure credit £m	Acquisition related items £m	Total £m
Administrative expenses	–	(2.2)	2.2	(6.3)	(6.3)
Other items before tax	–	(2.2)	2.2	(6.3)	(6.3)
Tax	–	0.4	(0.4)	1.3	1.3
Other items after tax	–	(1.8)	1.8	(5.0)	(5.0)
Discontinued operations					
(Loss) from discontinued operations net of tax	(26.0)	–	–	(8.0)	(34.0)
Total	(26.0)	(1.8)	1.8	(13.0)	(39.0)

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

Impairment of goodwill
Following the Board's decision to withdraw from the domiciliary healthcare market, the remaining carrying value of goodwill for the Healthcare CGU was fully impaired during the year. In addition an impairment of £15.0m has been recognised in relation to the Property Management CGU. See Note 14 for further details.

Healthcare disposal
During the year the Group decided to withdraw from the domiciliary healthcare market and completed the sale of the Healthcare division on 28 February 2017. See Note 6 for further details.

Restructure costs
The restructure costs included in other items relate to one-off costs of organisational change associated with the Group's cost efficiency and change programmes. These one-off incremental expenses are analysed below:

	Continuing operations £m	Discontinued operations £m	2017 £m	2016 £m
Credit from design & build asset management contracts in Energy Solutions	**–**	**–**	–	2.2
Redundancy payments	**(9.2)**	**(0.3)**	**(9.5)**	–
Cost of change team	**(3.4)**	**–**	**(3.4)**	–
Expenditure and provisions in respect of property closure	**(2.3)**	**(0.1)**	**(2.4)**	–
Restructuring (costs)/credit	**(14.9)**	**(0.4)**	**(15.3)**	2.2
Taxation	**3.0**	**0.1**	**3.1**	(0.4)
Restructuring (costs)/credit net of taxation	**(11.9)**	**(0.3)**	**(12.2)**	1.8

5. Other items continued

Acquisition related items

Acquisition related items include the write-offs and amortisation charge for acquisition related intangibles £5.5m (2016: £6.0m), the accrual of contingent consideration that is required to be treated as remuneration £0.9m (2016: nil) and acquisition costs £0.3m (2016: £0.3m). Acquisition related items from discontinued operations relate to the impairment and amortisation of acquisition related intangibles net of tax £9.2m (2016: £8.0m). See Note 15 for further details.

6. Discontinued operations and disposal of subsidiaries

As a result of the Board's decision to withdraw from the domiciliary healthcare market, the sale of the Healthcare division completed on 28 February 2017. The disposal resulted in the control of Enara Group Limited (Enara) and Complete Care Holdings Limited (Complete Care) passing to Apposite Capital LLP (Apposite) for £2. In addition, the Group agreed to contribute £9.5m towards the trading losses of the business and the turnaround plan.

The trading results of the Healthcare business have been classified as discontinued operations as defined by IFRS 5 'Non-current assets held for sale and discontinued operations'.

The net assets of Healthcare at the date of disposal were as follows:

	2017 £m
Non-current assets	
Other intangible assets	**1.5**
Property, plant and equipment	**1.1**
Deferred tax assets	**0.4**
Total non-current assets	**3.0**
Current assets	
Trade and other receivables	**14.7**
Cash and cash equivalents	**1.7**
Total current assets	**16.4**
Total assets	**19.4**
Current liabilities	
Trade and other payables	**(5.3)**
Financing liabilities	**(0.1)**
Current tax liabilities	**(0.4)**
Total current liabilities	**(5.8)**
Net assets	**13.6**
Deferred contribution payable to purchaser	**9.5**
Other costs of disposal	**7.3**
Total consideration	**–**
Loss on disposal	**(30.4)**

Net cash outflow arising on disposal:	
Consideration on disposal	**–**
Cash and cash equivalents disposed of	**1.7**
	1.7

Of the £9.5m contribution to trading losses, nil was paid during the financial year ended 31 March 2017. The Group paid £5.4m of the contribution to Apposite on 3 April 2017. The remaining £4.1m is payable on 1 July 2017.

6. Discontinued operations and disposal of subsidiaries continued

The results of the Healthcare discontinued operations in the current and prior periods are presented below:

	2017 £m	2016 £m
Revenue	**59.2**	75.8
Cost of sales	**(48.8)**	(60.7)
Gross profit	**10.4**	15.1
Administrative expenses	**(22.4)**	(21.0)
Operating loss before other items	**(12.0)**	(5.9)
Other items	**(123.2)**	(36.1)
Operating loss before tax	**(135.2)**	(42.0)
Tax	**2.8**	3.0
Loss from discontinued operations for the year	**(132.4)**	(39.0)

Of the £2.8m (2016: £3.0m) of tax credits included in the above results, £2.2m (2016: £2.1m) relates to other items.

The effect of discontinued operations on segment results is disclosed in Note 4.

Cash flows from discontinued operations included in the consolidated cash flow statement are as follows:

	2017 £m	2016 £m
Net cash flows from operating activities (after tax)	**(8.8)**	(9.4)
Net cash flows from investing activities	**(0.4)**	(0.4)
Net cash flows from financing activities	**–**	–
	(9.2)	(9.8)

7. Operating profit

Operating profit has been arrived at after charging:

Continuing and discontinued operations	2017 £m	2016 Restated* £m
Depreciation of property, plant and equipment (Note 16)	**14.1**	15.1
Amortisation of intangible assets (Note 15)	**23.8**	17.0
Impairment of goodwill (Note 14)	**96.1**	26.0
Impairment of other intangible assets (Note 15)	**3.0**	1.0
Impairment of acquisition related intangible assets (Note 15)	**10.1**	6.2
Loss on disposal of property, plant and equipment	**1.0**	–
Loss on disposal of subsidiary (Note 6)	**30.4**	–
Impairment loss recognised on trade receivables (Note 19)	**13.9**	2.1
Write-downs of inventories recognised as an expense	**1.4**	–
Impairment loss recognised on accrued income	**4.5**	–

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

7. Operating profit continued

A detailed analysis of auditor's remuneration is provided below:

	2017 £'000	2016 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**40**	35
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	**1,037**	731
Total audit fees	**1,077**	766
Other audit related services to the Group	**70**	59
Tax services*	**85**	74
Corporate finance service	**–**	53
Other services	**15**	22
Total non-audit fees	**170**	208
Total	**1,247**	974

* The tax services expense recognised in the year to 31 March 2017 relates to the financial years ended 31 March 2016 (£76k) and 31 March 2015 (£9k).

8. Staff costs

Number of people	2017	2016 Restated
The average number of people employed during the financial year was:		
Facilities Management	**49,585**	51,499
Property Management	**2,354**	2,498
Healthcare	**4,340**	5,335
Total Group	**56,279**	59,332

The number of people employed at 31 March was:

Total Group	**52,798**	59,591

Their aggregate remuneration comprised:	2017 £m	2016 Restated £m
Wages and salaries	**1,068.9**	1,026.0
Social security costs	**82.2**	79.2
Other pension costs	**16.7**	21.3
Share-based payments (Note 37)	**6.2**	5.2
Total	**1,174.0**	1,131.7

Details of Directors' remuneration and interests are provided in the audited section of the Directors' remuneration report and should be regarded as an integral part of this Note.

9. Investment revenue

Continuing operations	2017 £m	2016 £m
Interest on bank deposits	**–**	0.1

10. Finance costs

Continuing operations	2017 £m	2016 £m
Interest on bank facilities	**3.1**	3.6
Interest on private placement loan notes	**9.6**	9.6
Bank fees	**1.0**	1.1
Interest on obligations under finance leases	**0.2**	0.2
Gain arising on derivatives in a designated fair value hedge	**(4.9)**	(0.8)
Loss arising on adjustment for the hedged item in a designated fair value hedge	**5.0**	0.9
Net interest on defined benefit pension scheme assets and liabilities	**1.3**	1.2
Total	**15.3**	15.8

11. Tax

Continuing and discontinued operations	2017 £m	2016 Restated* £m
Current tax	**(0.9)**	17.0
Deferred tax (Note 23)	**(9.3)**	(1.8)
Tax (credit)/change for the year	**(10.2)**	15.2
Continuing operations	**(7.4)**	18.2
Discontinued operations (Note 6)	**(2.8)**	(3.0)
Tax (credit)/change for the year	**(10.2)**	15.2

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

Corporation tax is calculated at 20% (2016: 20%) of the estimated taxable profit for the year. A reconciliation of the tax charge to the elements of loss before tax per the consolidated income statement elements is as follows:

	2017			2016 – Restated*		
Continuing and discontinued operations	Before other items £m	Other items £m	Total £m	Before other items £m	Other items £m	Total £m
Loss before tax	**(33.6)**	**(159.8)**	**(193.4)**	92.3	(42.4)	49.9
Tax at UK rate of 20% (2016: 20%)	**(6.7)**	**(32.0)**	**(38.7)**	18.5	(8.5)	10.0
Reconciling tax charges for:						
Non-tax deductible charges	**0.4**	**0.3**	**0.7**	0.2	–	0.2
Share-based payments	**0.8**	**–**	**0.8**	0.8	–	0.8
Loss on disposal of business	**–**	**6.1**	**6.1**	–	–	–
Impairment of goodwill	**–**	**19.2**	**19.2**	–	5.2	5.2
Overseas tax rates	**0.1**	**–**	**0.1**	0.2	–	0.2
Impact of change in statutory tax rates	**1.2**	**0.1**	**1.3**	(0.1)	(0.1)	(0.2)
Prior year adjustments	**0.3**	**–**	**0.3**	(1.0)	–	(1.0)
Tax (credit)/charge for the year	**(3.9)**	**(6.3)**	**(10.2)**	18.6	(3.4)	15.2
Effective tax rate for the year	**11.5%**	**3.9%**	**5.3%**	20.1%	8.0%	30.4%

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

In addition to the amounts charged to the consolidated income statement, tax credits relating to retirement benefit costs and hedged items amounting to £6.1m (2016: £2.1m charge) have been taken directly to the statement of comprehensive income and £0.3m relating to share-based payments has been charged (2016: £0.1m credited) directly to equity.

The effective tax rate on profit before other items is generally higher than the statutory tax rate due to entertaining costs, commercial property depreciation and share-based payment charges not being wholly tax deductible and tax losses incurred overseas. However, as losses were incurred in 2017 the effective rate is lower than the statutory tax rate due to permanent differences such as those described above and the impact of a change in tax rates.

The UK corporation tax rate reduced from 20% to 19% from 1 April 2017 and will reduce to 17% from 1 April 2020. This will reduce the Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 31 March 2017 have been adjusted to reflect these changes. A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation.

12. Dividends

	2017 £m	2016 £m
Amounts recognised as distributions in the year:		
Final dividend for the year ended 31 March 2016 of 6.7p (2015: 6.5p) per share	**23.3**	23.1
Interim dividend for the year ended 31 March 2017 of 4.0p (2016: 5.4p) per share	**14.1**	19.2
	37.4	42.3
Proposed final dividend for the year ended 31 March 2017 of nil (2016: 6.7p) per share	**–**	23.4

13. Earnings per share

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

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

From continuing operations	2017 £m	2016 Restated* £m
Net (loss)/ profit before other items attributable to equity holders of the parent	**(19.1)**	76.6
Other items net of tax	**(32.5)**	(5.0)
Net (loss)/ profit attributable to equity holders of the parent	**(51.6)**	71.6

From continuing and discontinued operations	2017 £m	2016 Restated* £m
Net (loss)/profit before other items attributable to equity holders of the parent	**(30.5)**	71.6
Other items net of tax	**(153.5)**	(39.0)
Net (loss)/profit attributable to equity holders of the parent	**(184.0)**	32.6

Number of shares	2017 million	2016 million
Weighted average number of ordinary shares for the purpose of basic EPS	**351.0**	355.4
Effect of dilutive potential ordinary shares: share options	**3.7**	4.1
Weighted average number of ordinary shares for the purpose of diluted EPS	**354.7**	359.5

	2017 p	2016 Restated* p
From continuing operations:		
Basic (loss)/ earnings before other items per share‡	**(5.5)**	21.6
Basic (loss)/ earnings per share	**(14.7)**	20.1
Diluted (loss)/ earnings before other items per share‡	**(5.4)**	21.3
Diluted (loss)/ earnings per share	**(14.6)**	19.9
From continuing and discontinued operations:		
Basic (loss)/ earnings before other items per share‡	**(8.7)**	20.1
Basic (loss)/ earnings per share	**(52.4)**	9.2
Diluted (loss)/ earnings before other items per share‡	**(8.6)**	19.9
Diluted (loss)/ earnings per share	**(51.9)**	9.1

* See Note 1(c) for an explanation and analysis of the prior year restatement included above in respect of the year ended 31 March 2016.

‡ Other items are as described in Note 5.

The weighted average number of ordinary shares in issue during the year excludes those accounted for in the own shares reserve (see Note 33).

14. Goodwill

	£m
Cost	
At 1 April 2015	464.4
Acquisition of subsidiaries	0.7
Impact of foreign exchange	0.4
At 1 April 2016	465.5
Change in consideration C&C Health	(0.1)
Disposal of subsidiary	(107.1)
Impact of foreign exchange	0.6
At 31 March 2017	**358.9**
Accumulated impairment losses	
At 1 April 2015	–
Impairment of healthcare goodwill – restated*	26.0
At 1 April 2016 - restated*	26.0
Impairment of healthcare goodwill	81.1
Impairment of property goodwill	15.0
Disposal of subsidiary	(107.1)
At 31 March 2017	**15.0**
Carrying amount	
At 31 March 2017	**343.9**
At 31 March 2016 - restated*	439.5

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

Impairment of healthcare goodwill
As explained in Note 6 to these Financial Statements, during the financial year the Board decided to withdraw from the domiciliary healthcare market and the sale of the Healthcare division was completed on 28 February 2017.

In light of the Group's decision to withdraw from the domiciliary healthcare market and the healthcare loss recorded in the first half of the year, the Group undertook an impairment review of the goodwill and intangible assets associated with the Healthcare business. This reassessment of the estimate of the recoverable amount of the Healthcare CGU resulted in a full impairment of the carrying value of goodwill and acquisition related intangible assets for the Healthcare CGU.

Goodwill impairment testing
Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Additions during the prior year relate to goodwill recognised on one acquisition. More details are presented in Note 34.

Goodwill has been allocated to CGUs, which align with the business segments, as this is how goodwill is monitored by the Group internally. The Group tests goodwill at least annually for impairment or more frequently if there are indicators that goodwill may be impaired.

A summary of the goodwill balances and discount rates used to assess the forecast cash flows from the CGUs is as follows:

	Discount rate 2017 %	Discount rate 2016 %	**Goodwill 2017 £m**	Goodwill 2016 Restated* £m
Facilities Management – Soft	**8.4**	7.9	**172.4**	171.8
Facilities Management – Hard	**8.5**	8.0	**101.3**	101.3
Property Management	**12.1**	9.2	**70.2**	85.2
Healthcare	**–**	9.1	**–**	81.2
			343.9	439.5

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

14. Goodwill continued

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 forecast inflation. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

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 of 2.0%.

Discount rates
The pre-tax discount rates used to assess the forecast cash flows from CGUs are derived from the Company's post-tax Weighted Average Cost of Capital, which was 7.3% at 31 March 2017 (2016: 7.0%), and is adjusted for the risks specific to the business being assessed and the market in which the CGU operates. All CGUs have the same access to the Group's treasury functions and borrowing lines to fund their operations.

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 and Hard Facilities Management 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.

Impairment testing for new business segment structure
As detailed in Note 4 to the financial statements the business segments structure has been amended from 1 April 2017. This amendment to business segment structure has necessitated a restructuring of the CGUs categorisation used for goodwill impairment testing.

A summary of the goodwill balances and discount rates used to assess the forecast cash flows from the CGUs within the new business segment structure is as follows:

	Pre-tax discount rate %	Post-tax discount rate %	Goodwill 2017 £m
Cleaning & Environmental Services	**8.4**	**7.3**	**33.1**
Security	**8.4**	**7.3**	**101.7**
Catering	**9.1**	**7.8**	**15.7**
Engineering Services	**8.4**	**7.3**	**107.5**
Professional Services & Connected Workspace	**10.3**	**8.8**	**15.7**
Public Services	**12.1**	**9.8**	**70.2**
Total Group			**343.9**

Impairment testing and sensitivity analyses have been undertaken for the CGUs in this new structure 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 Cleaning & Environmental Services, Security, Catering, Engineering Services or Professional Services & Connected Workspace CGUs.

14. Goodwill continued

Review of the carrying value of goodwill in the Property Management CGU
In the year the Property Management CGU (which now forms the bulk of the Public Services CGU) reported a loss of £9.2m principally from irrecoverable debts and accrued income in certain contracts which are being exited. As part of its annual review of impairment, the Group has updated its estimate of the recoverable amount of the CGU, including various downside scenarios, which has resulted in an impairment of £15.0m being taken and a goodwill carrying value of £70.2m at 31 March 2017.

Key assumptions
The key assumptions underpinning the calculations of the net present value of future cash flows include:

- the calculations are based on a five year plan approved by the Board;
- adjusted revenue of £267.4m in FY17 and compound annual revenue growth of 2.9%;
- adjusted operating profit of £10.2m (after management charges) underpinning the growth in operating margin of 1.3% over the first five years of the plan. This includes the best estimate of the outcome of contractual disputes discussed further in Note 35;
- a terminal value growth rate of 2.0%, based on inflationary projections; and
- pre-tax discount rate for the CGU of 12.1% which has been adjusted for the risks specific to the market in which the CGU operates.

In reviewing the carrying value, the following factors have also been considered:

- circumstances surrounding the in-year loss and future trading expectations;
- the controls framework in the Property Management business;
- macro pressures in the social housing market;
- route to new sales; and
- management resource to deliver the budget.

Sensitivity analysis for Property Management CGU impairment testing
The value in use calculations are reliant on the accuracy of managements forecasts and the assumptions that underlie them as well as the discount rate and growth rates applied. Sensitivity analysis was performed on the forecasts to consider the impact of certain trading scenarios and changes in assumptions both individually and in combination.

A combination of these sensitivities concluded that an impairment of £15.0m represented the Audit Committee's best estimate. A 1% change in discount rate would result in a £7.5m sensitivity. A £1.0m change in operating profit would result in a £7.6m sensitivity.

15. Other intangible assets

	Acquisition related				
	Customer relationships £m	Other £m	**Total acquisition related £m**	Software and development expenditure £m	**Total £m**
Cost					
At 1 April 2015	88.4	10.9	**99.3**	55.7	**155.0**
Additions	–	–	**–**	8.9	**8.9**
Reclassifications from property, plant and equipment (Note 16)	–	–	**–**	8.5	**8.5**
At 1 April 2016	88.4	10.9	**99.3**	73.1	**172.4**
Additions	–	–	**–**	12.4	**12.4**
Disposal of subsidiary	–	–	**–**	(2.9)	**(2.9)**
Reclassifications from property, plant and equipment (Note 16)	–	–	**–**	14.5	**14.5**
Impact of foreign exchange	–	–	**–**	0.2	**0.2**
At 31 March 2017	88.4	10.9	**99.3**	97.3	**196.6**
Amortisation					
At 1 April 2015 – restated*	51.2	8.8	**60.0**	21.2	**81.2**
Charge for the year – restated*	9.5	0.4	**9.9**	7.1	**17.0**
Impairment of intangible asset – restated*	–	–	**–**	1.0	**1.0**
Impairment of acquisition related intangible assets	6.2	–	**6.2**	–	**6.2**
Reclassifications from property, plant and equipment (Note 16)	–	–	**–**	2.4	**2.4**
At 1 April 2016 – Restated	66.9	9.2	**76.1**	31.7	**107.8**
Charge for the year	6.4	0.4	**6.8**	17.0	**23.8**
Impairment of software and development expenditure	–	–	**–**	3.0	**3.0**
Impairment of acquisition related intangible assets	10.1	–	**10.1**	–	**10.1**
Disposal of subsidiary	–	–	**–**	(1.4)	**(1.4)**
Impact of foreign exchange	–	–	**–**	0.1	**0.1**
At 31 March 2017	83.4	9.6	**93.0**	50.4	**143.4**
Carrying amount					
At 31 March 2017	5.0	1.3	**6.3**	46.9	**53.2**
At 31 March 2016 – restated*	21.5	1.7	**23.2**	41.4	**64.6**

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of 31 March 2016.

Customer relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. These currently range from four to eight years. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives which currently range from three to ten years. Software and development costs are amortised over their useful lives of between five and ten years, once they have been brought into use.

During the year the Group has undertaken a reassessment of the useful economic life of software and development expenditure related intangible assets and has adopted a revised amortisation profile for these assets. This change in accounting estimate resulted in an additional £7.5m of amortisation in the year ended 31 March 2017.

The customer relationships relating to the healthcare business were impairment tested at 30 September 2016 in accordance with IAS 36 following the decision to withdraw from the domiciliary healthcare market and the healthcare loss recorded in the half year. As a result, an impairment of £10.1m (2016: £6.2m) was recognised.

Reclassifications from property, plant and equipment relate to completed software and development expenditure which was held in plant and vehicles whilst being developed.

16. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and vehicles £m	**Total £m**
Cost				
At 1 April 2015	2.7	18.0	109.4	**130.1**
Additions	–	0.6	18.6	**19.2**
Acquired with subsidiaries	–	–	0.2	**0.2**
Reclassifications to intangible assets (Note 15)	–	–	(8.5)	**(8.5)**
Reclassifications within property, plant and equipment	–	0.5	(0.5)	**–**
Disposals	(1.1)	(0.3)	(17.2)	**(18.6)**
At 1 April 2016	1.6	18.8	102.0	**122.4**
Additions	–	0.3	14.4	**14.7**
Reclassifications to intangible assets (Note 15)	–	–	(14.5)	**(14.5)**
Disposals	(0.3)	(2.3)	(25.3)	**(27.9)**
Disposal of subsidiaries	–	(0.1)	(5.3)	**(5.4)**
Impact of foreign exchange	–	0.1	0.2	**0.3**
At 31 March 2017	1.3	16.8	71.5	**89.6**
Accumulated depreciation and impairment				
At 1 April 2015	0.6	8.4	67.8	**76.8**
Charge for the year	0.1	1.4	13.6	**15.1**
Reclassifications to intangible assets (Note 15)	–	–	(2.4)	**(2.4)**
Reclassifications within property, plant and equipment	–	0.3	(0.3)	**–**
Disposals	(0.2)	(0.3)	(15.9)	**(16.4)**
At 1 April 2016	0.5	9.8	62.8	**73.1**
Charge for the year	–	1.5	12.6	**14.1**
Disposals	(0.1)	(0.7)	(25.1)	**(25.9)**
Disposal of subsidiaries	–	–	(4.3)	**(4.3)**
Impact of foreign exchange	–	–	0.3	**0.3**
At 31 March 2017	0.4	10.6	46.3	**57.3**
Carrying amount				
At 31 March 2017	0.8	6.2	25.2	**32.3**
At 31 March 2016	1.1	9.0	39.2	**49.3**

The net book value of plant and vehicles held under finance leases included above was £2.8m (2016: £4.0m).

Additions to plant and vehicles during the year amounting to £0.2m (2016: £3.5m) were financed by new finance leases.

17. Interest in joint ventures and associates

The Group's interests in joint ventures and associates are accounted for in the consolidated financial statements using the equity method.

The Group's share of result of joint ventures and associates included in the consolidated income statement was as follows:

	2017 £m	2016 £m
Revenue	**3.7**	3.9
Operating profit	**0.6**	0.6
Share of profit of joint ventures and associates	**0.6**	0.6

17. Interest in joint ventures and associates continued

The Group's share of net assets of joint ventures and associates as at 31 March 2017 was as follows:

	2017 £m	2016 £m
Non-current assets	–	–
Current assets	0.8	0.9
Current liabilities	(0.2)	(0.3)
Non-current liabilities	–	–
Interest in joint ventures and associates	**0.6**	0.6

Joint ventures and associate undertakings are not material to the Group. None have significant restrictions on the ability to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. These results have been taken from unaudited management accounts.

18. Derivative financial instruments

Derivative financial instruments (Note 28)	2017 £m	2016 £m
Included in current assets	35.8	–
Included in non-current assets	–	14.4
Total	**35.8**	14.4

19. Trade and other receivables

	2017 £m	2016 Restated* £m
Amounts receivable for the sale of services	201.8	212.8
Provision for doubtful debts	(16.2)	(4.6)
Trade receivables	185.6	208.2
Amounts recoverable on construction contracts (Note 20)	0.1	2.6
Mobilisation costs (Note 22)	21.0	28.6
Accrued income	178.1	224.1
Prepayments‡	22.7	35.9
Other debtors#	23.8	17.5
Total	**431.3**	516.9
Included in current assets	381.0	432.1
Included in non-current assets+	50.3	84.8
Total	**431.3**	516.9

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of 31 March 2016.

\+ Non-current trade and other receivables comprise accrued income on long-term complex contracts of £40.8m (2016 restated: £67.5m) and mobilisation costs of £9.5m (2016 restated: £17.3m) which are further analysed in Notes 21 and 22 respectively.

‡ Prepayments include costs incurred for fixed price services where income will be recognised over the contract period.

Accrued income includes cost incurred for project and reactive works in the Engineering Services division where income will be recognised on completion.

At 31 March 2017 the Group utilised £110.7m of invoice discounting facilities (2016: £82.2m).

19. Trade and other receivables continued

Ageing of trade receivables:

	2017 £m	2016 Restated* £m
Neither impaired nor past due	**159.4**	157.7
Not impaired and less than three months overdue	**26.8**	38.1
Not impaired and more than three months overdue	**15.4**	14.4
Impaired receivables	**0.2**	2.6
Provision for doubtful debts	**(16.2)**	(4.6)
Total	**185.6**	208.2

Movement in the provision for doubtful debts:

	2017 £m	2016 Restated* £m
Balance at the beginning of the year	**4.6**	8.4
Impairment losses recognised	**13.9**	2.1
Amounts written off as uncollectable	**(0.8)**	(4.3)
Amounts recovered during the year	**–**	(1.6)
Disposal of business	**(1.5)**	–
Impact of foreign exchange	**–**	–
Total	**16.2**	4.6

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of 31 March 2016.

The average credit period taken on sales of services was 27 days (2016 restated: 29 days).

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

20. Amounts recoverable on construction contracts

	2017 £m	2016 Restated* £m
Construction contract costs incurred plus recognised profits less recognised losses to date	**39.7**	46.3
Less progress billings	**(39.6)**	(43.7)
Amounts due from construction contract customers included in trade and other receivables	**0.1**	2.6
Included in current assets	**0.1**	2.6
Included in non-current assets	**–**	–
Total	**0.1**	2.6

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of 31 March 2016.

At 31 March 2017, retentions held by customers for contract work amounted to £2.3m (2016: £4.7m) and were held in accrued income.

21. Accrued income on long-term complex contracts

	2017 £m	2016 Restated* £m
At 1 April	**70.6**	43.8
Amounts recognised in the income statement	**(20.4)**	26.8
At 31 March	**50.2**	70.6
Included in current assets	**9.4**	3.1
Included in non-current assets	**40.8**	67.5
Total	**50.2**	70.6

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of 31 March 2016.

£21.2m of the accrued income on long-term complex contracts is attributable to transition costs (2016: £26.5m).

The accrued income on long-term complex contracts balance at the end of each subsequent financial year is projected to be:

	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m
2017	**n/a**	**40.8**	**27.8**	**16.9**	**8.8**	**3.2**
2016 – Restated	67.5	54.3	36.8	24.4	14.1	5.5

22. Mobilisation costs

	2017 £m	2016 £m
At 1 April	**28.6**	30.6
Additions	**12.4**	12.0
Amounts recognised in the income statement	**(20.0)**	(14.0)
At 31 March	**21.0**	28.6
Included in current assets	**11.5**	11.3
Included in non-current assets	**9.5**	17.3
Total	**21.0**	28.6

Under IFRS 15 mobilisation costs will be replaced by fulfilment costs. The criteria for capitalising costs as a fulfilment cost will be focused on the individual task being performed. The potential impact of this is being reviewed as part of the overall IFRS 15 review project.

23. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period:

	Losses £m	Accelerated tax depreciation £m	Retirement benefit obligations £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	**Total £m**
At 1 April 2015 – restated*	–	1.0	7.1	(7.5)	1.9	3.9	**6.4**
Credit/(charge) to income	–	0.4	0.9	3.1	(0.4)	(2.2)	**1.8**
(Charge)/credit to equity and the statement of comprehensive income	–	–	(1.6)	–	(0.2)	(0.5)	**(2.3)**
Acquisition of subsidiaries	–	–	–	–	–	0.1	**0.1**
At 1 April 2016 – restated*	–	1.4	6.4	(4.4)	1.3	1.3	**6.0**
Credit/(charge) to income	0.8	5.1	0.7	3.3	(0.3)	(0.3)	**9.3**
(Charge)/credit to equity and the statement of comprehensive income	–	–	5.5	–	(0.3)	0.6	**5.8**
Acquisition of subsidiaries	–	–	–	–	–	–	**–**
At 31 March 2017	0.8	6.5	12.6	(1.1)	0.7	1.6	**21.1**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2017 £m	2016 Restated* £m
Deferred tax assets	**22.2**	10.4
Deferred tax liabilities	**(1.1)**	(4.4)
Net deferred tax asset	**21.1**	6.0

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of 31 March 2016.

The Group has unutilised income tax losses of £14.2m (2016: £9.3m) that are available for offset against future profits. In addition the Group has £0.8m (2016: £0.8m) of capital losses.

A deferred tax asset has been recognised in respect of certain unutilised losses and allowances on the basis that there are expected future profits to be generated. Deferred tax has been calculated using the corporation tax rates disclosed in Note 11.

24. Inventories

	2017 £m	2016 £m
Work-in-progress	**–**	2.5
Materials	**6.8**	7.4
Total	**6.8**	9.9

25. Cash and cash equivalents

	2017 £m	2016 £m
Cash and cash equivalents	**129.1**	93.1

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of the assets approximates their fair value.

Included in cash and cash equivalents are deposits totalling £0.6m (2016: £0.9m) held by the Group's insurance subsidiary, which are not readily available for the general purposes of the Group.

At 31 March 2017 the Group utilised £110.7m (2016: £82.2m) of invoice discounting facilities.

26. Trade and other payables

	2017 £m	2016 Restated* £m
Payments received on account	**1.8**	0.1
Trade creditors	**244.7**	206.8
Other taxes and social security	**84.3**	82.7
Other creditors	**24.5**	9.6
Accruals	**160.4**	151.4
Deferred income	**47.6**	48.0
Total	**563.3**	498.6
Included in current liabilities	**559.9**	496.1
Included in non-current liabilities	**3.4**	2.5
Total	**563.3**	498.6

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of 31 March 2016.

Trade creditors, accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 71 days (2016: 40 days).

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

27. Financing liabilities

	2017 £m	2016 £m
Bank loans – under committed facilities	**15.3**	13.6
Private placement notes	**294.0**	268.2
Obligations under finance leases (Note 30)	**2.8**	4.0
Total	**312.1**	285.8
Included in current liabilities	**310.8**	1.9
Included in non-current liabilities	**1.3**	283.9
Total	**312.1**	285.8

As discussed in Note 42, subsequent to the reporting period, on 7 June 2017, the Group's lenders agreed an amendment to covenant calculation definitions. In accordance with the requirements of IAS 1, it has been necessary to classify the drawn amounts on the funding arrangements as current rather than non-current liabilities. The final maturity dates of all facilities remain unchanged.

The banking facilities and private placement notes are unsecured but have financial and non-financial covenants and obligations commonly associated with these arrangements. Included in current financing liabilities are £1.5m (2016: £1.9m) of obligations under finance leases (see Note 30).

With the exception of derivative financial instruments and the private placement notes, all financing liabilities are held at amortised cost. The Directors estimate that their carrying value approximates their fair value. Derivative financial instruments are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through profit or loss unless they are designated as hedges for which hedge accounting can be applied (see Note 28). The carrying value of the private placement notes at 31 March 2017 includes a fair value adjustment for interest rate and currency risk of £0.2m (2016: £0.7m). The fair value of the private placement notes is not significantly different from their carrying value.

At 31 March 2017, the Group had available £257.9m (2016: £259.4m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facilities have an expiry date of July 2021. The loans carry interest rates which are currently determined at 1.0% over LIBOR. Details of the Group's contingent liabilities are provided in Note 35.

27. Financing liabilities continued

The weighted average interest rates paid during the year on the overdrafts and loans outstanding were as follows:

	2017 %	2016 %
Overdrafts	**2.1**	2.1
Bank loans	**1.2**	1.3
Private placement notes	**3.8**	3.8

Private placement notes
On 13 December 2012, the Group issued US$153.0m and £55.0m of private placement (PP) notes in the United States Private Placement market. This followed the issue on 16 December 2010 of US$96.0m and £40.0m of PP notes in the United States Private Placement market. The PP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the Group. In order to manage the risk of foreign currency fluctuations and to manage the Group's finance costs through a mix of fixed and variable rate debt, the Group has entered into cross currency interest rate swaps. The swap contracts have the same duration and other critical terms as the borrowings and are considered to be highly effective. The amount, maturity and interest terms of the PP notes are as shown below:

Tranche	Maturity date	Amount	Interest terms	Swap interest
7 year	16 December 2017	US$48.0m	US$ fixed at 3.39%	£ fixed at 3.88%
7 year	16 December 2017	US$48.0m	US$ fixed at 3.39%	£ LIBOR + 1.26%
9 year	16 December 2019	£40.0m	£ fixed at 4.38%	n/a
10 year	16 December 2022	US$76.0m	US$ fixed at 3.85%	£ fixed at 4.05%
10 year	16 December 2022	US$77.0m	US$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	£25.0m	£ fixed at 3.87%	n/a
12 year	16 December 2024	£30.0m	£ fixed at 4.04%	n/a

28. Financial instruments

Classification
The Group's principal financial assets are cash and cash equivalents, trade receivables and derivative financial instruments. With the exception of derivative financial instruments, all financial assets are classified as loans and receivables.

The Group's principal financial liabilities are trade payables, financing liabilities and deferred contingent consideration. With the exception of derivative financial instruments, private placement notes and deferred contingent consideration, all financial liabilities are held at amortised cost.

Derivative financial instruments and private placement loan notes are measured initially at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through the income statement unless they are designated as hedges for which hedge accounting can be applied. Deferred contingent consideration is measured at the Directors' best estimate of the likely future obligation.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense) for each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

Risk management objectives
The Group's treasury function monitors and manages the financial risks relating to the operations of the Group. These risks include those arising from interest rates, foreign currencies, liquidity, credit and capital management. The Group seeks to minimise the effects of these risks by using effective control measures and, where appropriate, derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by Group policies and reviewed regularly. Group policy is not to trade in financial instruments. The risk management policies remain unchanged from the previous year.

Interest rate risk
The Group's activities expose it to the financial risks of interest rates. The Group's treasury function reviews its risk management strategy on a regular basis and will appropriately enter into derivative financial instruments in order to manage interest rate risk. Having issued US$249.0m and £95.0m of notes in the US PP fixed rate market, the Group has swapped US$48.0m into floating rate debt.

28. Financial instruments continued

Interest rate sensitivity
The interest rate sensitivity has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. All financial liabilities, other than financing liabilities, are interest free.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2017 and reserves would decrease/increase by £0.8m (2016: £0.6m).

Foreign currency risk
The Group has limited exposure to transactional foreign currency risk from trading transactions in currencies other than the functional currency of individual group entities and some exposure to translational foreign currency risk from the translation of its operations in Europe. The Group considers the need to hedge its exposures appropriately and will enter into forward foreign exchange contracts to mitigate any significant risks.

In addition, the Group has fully hedged the US dollar exposure on its PP notes into sterling using cross currency interest rate swaps (see Hedging activities below).

At 31 March 2017 £6.9m (2016: £5.0m) of cash and cash equivalents were held in foreign currencies. Included in bank loans were £17.1m (2016: £15.6m) of loans denominated in foreign currency.

Liquidity risk
The Group monitors its liquidity risk using a cash flow projection model which considers the maturity of the Group's assets and liabilities and the projected cash flows from operations. Bank facilities, which allow for appropriate headroom in the Group's daily cash movements, are then arranged. Details of the Group's bank facilities can be found in Note 27.

The tables below summarise the maturity profile (including both undiscounted interest and principal cash flows) of the Group's financial liabilities:

Financial liabilities at 31 March 2017	**Within one year £m**	**In the second to fifth years £m**	**After five years £m**	**Total £m**
Trade creditors	**244.7**	**–**	**–**	**244.7**
Other creditors	**24.5**	**–**	**–**	**24.5**
Financing liabilities	**106.2**	**70.2**	**181.2**	**357.6**
Deferred contingent consideration	**0.3**	**–**	**–**	**0.3**
Financial liabilities	**375.7**	**70.2**	**181.2**	**627.1**

Financial liabilities at 31 March 2016	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	206.8	–	–	206.8
Other creditors	9.6	–	–	9.6
Financing liabilities	28.5	140.6	170.8	339.9
Deferred contingent consideration	0.4	–	–	0.4
Financial liabilities	245.3	140.6	170.8	556.7

Credit risk
The Group's credit risk is monitored on an ongoing basis and formally reported quarterly. The value of business placed with financial institutions is reviewed on a daily basis.

The Group's credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies and are managed through regular review.

The amounts presented in the balance sheet in relation to the Group's trade receivables are net of provisions for doubtful debts.

The Group's credit risk is primarily attributable to its trade receivables. Before accepting a new customer, the Group uses external credit scoring systems to assess the potential customer's credit quality and define an appropriate credit limit which is reviewed regularly.

28. Financial instruments continued

In determining the recoverability of a trade receivable, the Group considers the credit quality of the counterparty. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Directors believe that there is no further provision required in excess of the provision for doubtful debts at the balance sheet date.

The maximum exposure to credit risk in relation to trade receivables at the balance sheet date is the fair value of trade receivables. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty or group of counterparties.

Capital management risk
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the Group consists of net debt per Note 31 and equity per the consolidated statement of changes in equity.

The Group's capital structure is reviewed regularly. In 2013, the Board approved a share purchase policy to maintain share numbers at a broadly consistent level year on year with the aim of ensuring that the interests of shareholders are not diluted by the issue of shares that support the Group's various share schemes, nor by the issue of shares as consideration for earn outs under the Mitie model. During the year, the Group bought back 9.1m (2016: 5.2m) shares at a cost of £24.4m (2016: £15.2m) and subsequently cancelled these shares. From time to time shares are bought to be held in Treasury in order to offset shares issued under various share schemes and to hedge against shares to be issued in the future. During the year, nil (2016: 2.3m) shares were bought to be held in Treasury at a total cost of £nil (2016: £6.6m). Further details are provided in Notes 32 and 33.

The Group is not subject to externally imposed regulatory capital requirements with the exception of those applicable to the Group's captive insurance subsidiary, which is monitored on a regular basis.

Hedging activities

Cash flow hedges
The Group holds a number of cross-currency interest rate swaps designated as cash flow hedges on US$201.0m of PP notes. Biannual fixed interest cash flows arising over the periods to December 2022 and denominated in US$ from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. All cash flow hedges were assessed as being highly effective as at 31 March 2017.

Fair value hedges
The Group holds a number of cross-currency interest rate swaps designated as fair value hedges on US$48.0m of PP notes. Fixed interest cash flows denominated in US$ from the US Private Placement market are exchanged for floating interest cash flows denominated in sterling. All fair value hedges were assessed as being highly effective as at 31 March 2017.

Hedge of net investment in foreign operations
Included in bank loans at 31 March 2017 was a borrowing of €9.5m (2016: €9.5m) which has been designated as a hedge of the net investment in the Republic of Ireland business of Dalkia FM in Ireland and is being used to hedge the Group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of the borrowing are transferred to equity to offset gains or losses on the translation of the net investment.

Derivative financial instruments
The carrying values of derivative financial instruments at the balance sheet date were as follows:

	Assets 2017 £m	Assets 2016 £m	**Liabilities 2017 £m**	Liabilities 2016 £m
Cross-currency interest rate swaps designated as cash flow hedges	**27.0**	10.3	**–**	–
Cross-currency interest rate swaps designated as fair value hedges	**8.8**	4.1	**–**	–
Derivative financial instruments hedging private placement notes	**35.8**	14.4	**–**	–

Derivative financial instruments are measured at fair value. Fair values of derivative financial instruments are calculated based on a discounted cash flow analysis using appropriate market information for the duration of the instruments.

28. Financial instruments continued

Financial instruments fair value disclosure

Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from other observable inputs for the asset or liability; and
- Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

The Directors consider that the derivative financial instruments fall into Level 2 and that deferred contingent consideration falls into Level 3.

Deferred contingent consideration is measured at the Directors' best estimate of the likely future obligation based on the attainment of certain profit targets. In assessing the likely future obligation, the Directors have used their experience and knowledge of market conditions, alongside internal business plans and growth forecasts. Actual amounts payable may vary up to a maximum of £0.3m (2016: £0.4m) dependent upon the results of the acquired businesses.

The following table shows the reconciliation from the opening to closing balances for Level 3 fair values:

	Deferred contingent consideration £m
At 1 April 2016	0.4
Change in consideration C&C Health (Note 14)	(0.1)
At 31 March 2017	**0.3**

There were no transfers between levels during the year. All contracts are gross settled.

29. Provisions

	Legal costs £m	Healthcare provision £m	Deferred contingent consideration £m	Insurance reserve £m	Onerous leases £m	Contract costs £m	**Total £m**
At 1 April 2016 – Restated*	–	–	0.4	6.4	–	2.2	**9.0**
Amounts recognised in the income statement	2.0	6.0	–	7.0	0.1	3.7	**18.8**
Amounts recognised through goodwill	–	–	(0.1)	–	–	–	**(0.1)**
Utilised within captive insurance subsidiary	–	–	–	(0.1)	–	–	**(0.1)**
Utilised in the period	–	–	–	(6.7)	–	–	**(6.7)**
Reclassified from accruals	–	–	–	5.9	–	–	**5.9**
At 31 March 2017	2.0	6.0	0.3	12.5	0.1	5.9	**26.8**
Included in current liabilities	2.0	6.0	0.3	6.1	0.1	5.9	**20.4**
Included in non-current liabilities	–	–	–	6.4	–	–	**6.4**
Total	2.0	6.0	0.3	12.5	0.1	5.9	**26.8**

* See Note 1 (c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

The provisions balance includes the following items:

The legal costs provision relates to professional fees payable and the potential cost of settlement of outstanding claims against the Group.

The Healthcare provision relates to the anticipated costs of separation of the Healthcare business from the Group, that is anticipated to crystallise over the next two years. See Note 6 for more detail on disposal.

The insurance reserve provides for the self-insured element of Fleet and Liability claims that will typically settle over three to five years. This includes a provision for claims that are expected but have not yet been reported.

Contract cost provisions relate to various obligations arising in the ordinary course of providing services in line with commercial contracts that may require settlement largely over periods up to two years.

30. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Amounts payable under finance leases:				
Within one year	**1.7**	2.0	**1.5**	1.9
In the second to fifth years inclusive	**1.2**	2.3	**1.3**	2.1
	2.9	4.3	**2.8**	4.0
Less: future finance charges	**(0.1)**	(0.3)	**–**	–
Present value of lease obligations	**2.8**	4.0	**2.8**	4.0
Less: amount due for settlement within 12 months	**(1.5)**	(1.9)	**(1.5)**	(1.9)
Amount due for settlement after 12 months	**1.3**	2.1	**1.3**	2.1

The average remaining lease term is 22 months (2016: 23 months). For the year ended 31 March 2017, the average effective borrowing rate was 1.8% (2016: 4.1%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are protected by the lessors' rights over the leased assets.

31. Analysis of net debt

	2017 £m	2016 £m
Cash and cash equivalents (Note 25)	**129.1**	93.1
Bank loans (Note 27)	**(15.3)**	(13.6)
Private placement notes (Note 27)	**(294.0)**	(268.2)
Derivative financial instruments hedging private placement notes (Note 28)	**35.8**	14.4
Net debt before obligations under finance leases	**(144.4)**	(174.3)
Obligations under finance leases (Note 30)	**(2.8)**	(4.0)
Net debt	**(147.2)**	(178.3)

32. Share capital

Ordinary shares of 2.5p	**Number million**	**£m**
Allotted and fully paid		
At 1 April 2015	375.2	9.4
Share buybacks	(5.2)	(0.1)
Issued under share option schemes	2.1	–
At 1 April 2016	372.1	9.3
Share buybacks	(9.1)	(0.2)
Issued for acquisitions	6.0	0.1
Issued under share option schemes	0.1	–
At 31 March 2017	**369.1**	**9.2**

During the year 9.1m (2016: 5.2m) ordinary shares of 2.5p were purchased at a cost of £24.4m (2016: £15.2m) and subsequently cancelled.

During the year 6.0m (2016: nil) ordinary shares of 2.5p were allocated in respect of the acquisition of non-controlling interests at a mid-market price of 244.4p (2016: nil) giving rise to share premium of £2.8m (2016: nil) and merger reserve of £11.7m (2016: nil).

During the year 0.1m (2016: 2.1m) ordinary shares of 2.5p were allotted in respect of share option schemes at a price between 201.0p and 260.2p (2016: 162.0p and 318.6p) giving rise to share premium of £0.1m (2016: £5.1m).

33. Reserves

Share premium account
The share premium account represents the premium arising on the issue of equity shares (see Note 32).

Merger reserve
The merger reserve represents amounts relating to premiums arising on shares issued subject to the provisions of Section 612 of the Companies Act 2006.

Own shares reserve
The Group uses shares held in the Employee Benefit Trust and SIP Trust to satisfy options under the Group's LTIP and SIP share option schemes respectively. During the year nil treasury shares were purchased (2016: 2.3m at a cost of £6.6m). Treasury shares are held so that they can be reissued at a later date if required (see details of capital management risk in Note 28). Proceeds from the issue of 1.2m (2016: 1.3m) treasury shares to satisfy options under the Group's share schemes in the year were £2.4m (2016: £3.7m) at a cost of £3.4m (2016: £3.8m).

The own shares reserve at 31 March 2017 represents the cost of 15.2m (2016: 17.5m) ordinary shares in Mitie Group plc, with a weighted average of 16.5m (2016: 18.8m) shares during the year.

Other reserves
Other reserves are comprised of the share-based payment reserve of £9.4m (2016: £9.4m), the revaluation reserve of £(0.2)m (2016: £(0.2)m), the capital redemption reserve of £0.9m (2016: £0.5m) and other reserves of £0.2m (2016: £0.2m).

The share-based payment reserve represents credits relating to equity-settled share-based payment transactions that have not yet fully vested (see Note 37).

Hedging and translation reserve
The hedging and translation reserve of £(8.0)m (2016: £(4.6)m) includes balances in respect of the Group's cash flow hedges (see Note 28). The net cash flow hedge movement during the year of £(4.8)m (2016: £2.3m) is included within Other comprehensive income. The hedging and translation reserve also includes balances arising on translation of the Group's overseas operations and in respect of net investment hedges.

34. Acquisitions

Current year acquisitions – purchase of non-controlling interests
On 24 August 2016, the Group purchased employee minority shareholdings in three of its successful 'Mitie Model' businesses: Mitie Business Services UK Limited (MBSUKL), Mitie Technical Facilities Management Limited (MTFML), and Mitie Care and Custody Limited (MCCL) in accordance with the respective articles of association and shareholders' agreements of those companies.

The total maximum consideration for all three purchases amounted to £16.1m. This was satisfied with £1.4m in cash and as to the remaining £14.7m by the issue of 6,015,255 new ordinary shares of 2.5p each in Mitie valued at 244.38 p per share. This is the average of the closing middle market price for the five banking days immediately preceding 26 July 2016. Earlier in this financial year, Mitie purchased its own shares in the market to offset this share issue. The purchased shares were cancelled following their acquisition.

As a result of these acquisitions Mitie owns 100% of the issued share capital of MBSUKL and MTFML, and 93.14% of the issued share capital of MCCL. The shareholdings purchased, primarily held by certain of the employees and senior management of the relevant subsidiary companies, are detailed below:

- MBSUKL – 27.29% of the issued share capital, comprising 116,000 B ordinary shares of £0.01 each, for a consideration of £0.8m. The consideration was satisfied by £0.1m in cash and £0.7m by the issue of 275,428 new Mitie Shares;
- MTFML – 8.93% of the issued share capital, comprising 952,000 B ordinary shares of £0.01 each, for a consideration of £12.1m. The consideration was satisfied by £1.0m in cash and £11.1m by the issue of 4,563,029 new Mitie Shares; and
- MCCL – 27.42% of the issued share capital, comprising 170,022 B ordinary shares of £0.01 each, for a consideration of £3.2m. The consideration was satisfied by £0.3m in cash and £2.9m by the issue of 1,176,798 new Mitie Shares.

Prior year acquisitions – purchase of Tascor Medical Services Limited
On 29 January 2016, Mitie acquired the leading UK custodial medical services provider for a total consideration of £0.6m. The business has been renamed Care and Custody (Health) Limited. The transaction has been accounted for by the acquisition method of accounting in accordance with IFRS 3 (revised 2008). The provisional acquisition accounting as disclosed in the 2016 Annual Report and Accounts was reviewed during the year resulting in a £0.1m reduction to the consideration payable and the value of goodwill.

35. Contingent liabilities

The Company and various of its subsidiaries are, from time to time, party to contractual disputes that arise in the ordinary course of business. Specifically, there are three ongoing contractual disputes with clients of Mitie's Property Management business which are subject to claims or potential claims of a material nature. In one instance, discussions are ongoing between the Company and the counterparty, to determine both liability and potential quantum. In relation to the other two matters, arbitration proceedings have commenced. The Directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect on the Group's financial position, other than as provided for in the accounts. In appropriate cases, a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction, due to the uncertainty of the actual costs and liabilities that may be incurred. The Directors will continue to monitor events as matters progress.

In addition, the Company and its subsidiaries have provided guarantees and indemnities in respect of performance, issued by financial institutions on its behalf, amounting to £23.8m (2016: £23.6m) in the ordinary course of business. These are not expected to result in any material financial loss.

The Group participates in several industry multi-employer defined benefit schemes. These multi-employer schemes have historically not been able to calculate the Group's share of net liabilities and the Group funds the schemes through paying employer pension contributions. In the event that a multi-employer scheme is able to calculate the Group's share of net pension liability, then this liability would then be recognised in the Group's financial statements. Where the Group (or subsidiary of the Group) exits such schemes, pension legislation may require the Group to fund the Group's share of the total amount of net liabilities with a one-off cash payment (a section 75 debt). Contingent liabilities related to the retirement benefit schemes are disclosed in Note 38.

There is currently a specific National Minimum Wage enquiry being undertaken by the Government in relation to two individuals in one division. In respect of this enquiry the Directors believe their risk to be immaterial. Based on the outcome of this enquiry, there is an uncertainty as to whether further enquiries could be initiated over a wider population across the Group. At this stage, due to the nature and complexity of assessing compliance, it is not possible to estimate the potential economic exposure. In common with other UK businesses with a large number of employees operating near the minimum wage, the Group is at risk of potential deficiency in respect of current and past employees. As part of a wider HR transformation project, the Directors are reviewing the end to end HR processes and systems.

36. Operating lease arrangements

The Group as lessee:

	2017 £m	2016 £m
Minimum lease payments under operating leases recognised in income for the year	**32.1**	27.4

At the balance sheet date, the group had total outstanding aggregate commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £m	2016 £m
Within one year	**24.7**	19.7
In the second to fifth years inclusive	**30.6**	30.5
After five years	**7.6**	5.4
Total	**62.9**	55.6

Operating lease payments represent rentals payable by the Group for certain of its office properties and hire of vehicles and other equipment. These leases have average durations ranging from three to ten years. No arrangements have been entered into for contingent rental payments.

37. Share-based payments

The Company has six equity-settled share schemes. The Group also awards performance-related bonuses for Executive Directors which are deferred in shares and are accounted for as a share-based payment charge.

Discretionary share plans:

The Mitie Group plc Long Term Incentive Plan (LTIP)
The LTIP was introduced in 2007. The awards of shares or rights to acquire shares (the awards) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is three years, although for awards granted in 2015 and subsequently some are subject to a holding period of up to a further two years. If the awards remain unexercised after a period of twelve months from the date of vesting the awards expire. The awards may be forfeited if the employee leaves the Group. Before the awards can be exercised, performance conditions must be satisfied which are based on movements in a range of market and non-market measures over a three year period.

The Mitie Group plc 2001 Executive share option scheme (ESOS)
The ESOS exercise price is equal to the average market value of the shares over the five day period immediately preceding the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group.

The Mitie Group plc 2011 Executive share option scheme (ESOS)
The ESOS exercise price is equal to the average market value of the shares on the business day preceding grant or, if the Remuneration Committee decides, the average market value of shares over a number of preceding business days (not to exceed 20). The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group. Before options can be exercised, a performance condition must be satisfied; the performance condition is linked to the percentage growth in earnings per share over a three year period.

The Conditional share plan (CSP)
The CSP was introduced in 2014. The awards of shares or the rights to acquire shares (the award) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is determined at the discretion of the Remuneration Committee and is generally two or three years. If the awards remain unexercised after a period of ten years from the date of grant the awards expire. The awards may be forfeited if the employee leaves the Group.

Non-discretionary share plans:

The Mitie Group plc 2011 SAYE scheme
The SAYE scheme is open to eligible UK resident employees. The exercise price is not less than 80% of the market value of the shares determined using either: the share price preceding the date on which invitations to participate in the scheme are issued or an average share price over five days preceding the invitation date. The vesting period is three years. If the options remain unexercised after a period of six months from the date of vesting, the options expire. Options may be forfeited if the employee leaves the Group.

37. Share-based payments continued

The Share Incentive Plan (SIP)

The SIP was introduced in 2011 and is open to all eligible UK resident employees. Under the scheme, eligible employees are invited to invest in partnership shares which are purchased in the market on their behalf and held in a separate UK trust. One matching share is awarded for every ten partnership shares purchased and has a holding period of three years. Matching shares are funded by way of market purchases.

Details of the awards and share options outstanding during the year are as follows:

	2017		2016	
	Number of share options (million)	**Weighted average exercise price (p)**	Number of share options (million)	Weighted average exercise price (p)
Outstanding at 1 April	**21.4**	**162**	22.1	157
Granted during the year	**7.5**	**87**	8.1	170
Forfeited during the year	**(5.4)**	**178**	(4.6)	130
Exercised during the year	**(2.6)**	**98**	(4.2)	192
Outstanding at 31 March	**20.9**	**141**	21.4	162
Exercisable at the end of the year	**3.5**	**213**	2.2	216

The Group recognised the following expenses related to share-based payments:

	2017 £m	2016 £m
Discretionary share plans	**4.8**	4.0
Non-discretionary share plans	**1.4**	1.2
	6.2	5.2

The movement on the share-based payment reserve, which is part of other reserves, comprises the charge to the income statement for the year of £6.2m (2016: £5.2m) net of the cumulative charge to the income statement of £6.2m (2016: £3.0m) in respect of schemes that have vested in the year, which is released to retained earnings.

The share based payment entry in own share reserve of £6.8m (2016: £5.3m) reflects the use of treasury shares and shares held by the Employee Benefit Trust in settlement of exercised share options. The £2.4m (2016: £0.3m) in retained earnings includes £6.2m (2016: £3.0m) relating to vesting schemes described above net of the cost of shares used to settle options and dividend equivalents.

The weighted average share price at the date of exercise for share options exercised during the year was 234p (2016: 313p). The options outstanding at 31 March 2017 had exercise prices (other than nil in the case of the LTIP, the CSP and the matching shares under the SIP) ranging from 201p – 319p (2016: 191p – 319p) and a weighted average remaining contractual life of 4.0 years (2016: 3.8 years). In the year ended 31 March 2017, options were granted in respect of the SAYE, LTIP, CSP, SIP and deferred bonus schemes. The aggregate of the estimated fair values of the options granted on those dates was £11.1m (2016: £6.9m).

The fair value of options is measured by use of the Black-Scholes and Monte Carlo models.

The inputs into the Black-Scholes model are as follows:

	2017	2016
Share price (p)	**276 – 318**	251 – 318
Exercise price (p)	**0 – 319**	0 – 319
Expected volatility (%)	**23 – 30**	25 – 30
Expected life (years)	**3 – 4**	3 – 5
Risk-free rate (%)	**0.13 – 1.1**	0.13 – 1.1
Expected dividends (%)	**3.5 – 4.7**	3.5 – 4.1

37. Share-based payments continued

The inputs into the Monte Carlo model are as follows:

	2017	2016
Share price (p)	**247 – 319**	251 – 319
Average correlation with TSR benchmark (%)	**26 – 35**	26 – 32
Expected volatility (%)	**18 – 23**	18 – 24
Expected life (years)	**3**	3
Risk-free rate (%)	**0.16 – 1.29**	0.64 – 1.29

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon historical data and has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

38. Retirement benefit schemes

The Group has a number of pension arrangements for employees:

- Defined contribution schemes for the majority of its employees; and
- Defined benefit schemes which include a group scheme and other, smaller schemes.

The Group operates a number of defined contribution pension schemes for qualifying employees. The Group has a defined benefit pension scheme called the Mitie Group plc Pension Scheme (Group scheme) where Mitie Group plc is the principal employer. The Group participates in a number of other defined benefit schemes (Other schemes) in respect of certain employees who joined the Group under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).

Defined contribution schemes

A defined contribution scheme is a pension scheme under which the Group pays contributions to an independently administered fund; such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once these contributions have been paid. Members' benefits are determined by the amount of contributions paid, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to take at retirement. As a result, actuarial risk (that pension will be lower than expected) and investment risk (that the assets invested in do not perform in line with expectations) are borne by the employee.

The Group's contributions are recognised as an employee benefit expense when they are due.

The Group operates three separate schemes: a stakeholder defined contribution plan, which is closed to new members; a self-invested personal pension plan, which is closed to new members; and a group personal pension (GPP) plan. Employer contributions are payable to each on a matched basis requiring employee contributions to be paid. Employees have the option to pay their share via a salary sacrifice arrangement. The scheme used to satisfy auto-enrolment compliance is a master trust, The People's Pension.

During the year, the Group made a total contribution to the defined contribution schemes of £13.7m (2016: £13.3m) and contributions to the auto-enrolment scheme of £4.3m (2016: £4.1m), which are included in the income statement charge. The Group expects to make contributions of a similar amount in the coming year.

Defined benefit schemes

Group scheme

The Group scheme provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their final pensionable pay.

The Group scheme closed to new members in 2006, with new employees able to join one of the defined contribution schemes. Pensions in payment are generally increased in line with RPI inflation, subject to certain caps and floors. Benefits are payable on death and other events such as withdrawal from active service.

The Group scheme is operated under the UK regulatory framework. Benefits are paid to members from the trust-administered fund, where the Trustee is responsible for ensuring that the scheme is sufficiently funded to meet current and future benefit payments. Plan assets are held in trust and are governed by pension legislation. If investment experience is worse than expected or the actuarial assessment of the scheme's liabilities increases, the Group's financial obligations to the scheme rise.

38. Retirement benefit schemes continued

The nature of the relationship between the Group and the Trustee is also governed by regulations and practice. The Trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (which are determined by the Trustee with advice from the scheme actuary). The most recent triennial valuation was carried out as at 31 March 2014.

The scheme Trustee's other duties include managing the investment of the scheme's assets, administration of plan benefits and exercising of discretionary powers. The Group works closely with the Trustee to manage the scheme.

Other defined benefit schemes
Grouped together under Other schemes are a number of schemes to which the Group makes contributions under Admitted Body status to clients' (generally local government or government entities) defined benefit schemes in respect of certain employees who transferred to Mitie under TUPE. The valuations of the Other schemes are updated by an actuary at each balance sheet date.

For the Admitted Body schemes, which are largely sections of the Local Government Pension Scheme, the Group will only participate for a finite period up to the end of the relevant contract. The Group is required to pay regular contributions as decided by the relevant scheme actuaries and detailed in each scheme's Contributions Certificate, which are calculated every three years as part of a triennial valuation. In a number of cases contributions payable by the employer are capped and any excess is recovered from the entity that the employees transferred from. In addition, in certain cases, at the end of the contract the Group will be required to pay any deficit (as determined by the scheme actuary) that is assessed for its notional section of the scheme.

Further information in respect of the Group scheme and Other schemes
The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2014.

The Group made a total contribution to the Group scheme of £2.0m during the year (2016: £2.5m). The Group expects to make contributions of around £2.0m to the Group scheme in the coming year. Employees' contribution to the cost of the scheme (9.1% of pensionable salaries) is generally paid through a salary sacrifice arrangement.

The Group made contributions to the Other schemes of £0.3m in the year (2016: £0.4m). The Group expects to make contributions of around £0.3m to the Other schemes in the coming year.

Details of latest funding valuation

	Group scheme
Date of last formal funding valuation	31 March 2014
Assets at valuation date	£143.6 million
Funding liabilities at valuation date	£149.6 million
Deficit at valuation date	£6.0 million
Contribution rate agreed to meet the cost of benefits accruing, including related expenses	23.0% of pensionable salary
Employer contribution rate (including expenses)	13.9% of pensionable salary
Employee contribution rate	9.1% of pensionable salary

To eliminate the funding deficit the Trustee and the Group have agreed that additional contributions (i.e. over and above those required to cover benefits being accrued) will be paid into the scheme of £11.1m by 31 March 2024 (or if less, the deficit at that time). The Group has provided security for this liability by a UK clearing bank letter of credit building up to that value to 2024.

Under this recovery plan, if the assumptions made are borne out in practice, the deficit would be eliminated by 31 March 2024.

38. Retirement benefit schemes continued

Group scheme details
The following table sets out details of the membership of the Group scheme:

Scheme details at last valuation date

	Group scheme
Active members – by number	349
Active members – by proportion of funding liability	34%
Total pensionable salary roll p.a.	£16.9m
Deferred members – by number	1,195
Deferred members – by proportion of funding liability	47%
Total deferred pensions p.a. (at date of leaving scheme)	£3.6m
Pensioner members – by number	515
Pensioner members – by proportion of funding liability	19%
Total pensions in payment p.a.	£1.9m

Accounting assumptions
The assumptions used in calculating the accounting costs and obligations of the group's defined benefit pension schemes, as detailed below, are set after consultation with independent, professionally qualified actuaries.

The discount rate used to determine the present value of the obligations is set by reference to market yields on high quality corporate bonds. The assumptions for price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds. The assumption for increases in pensionable pay takes into account expected salary inflation, the cap at CPI, and how often the cap is likely to be exceeded.

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations, with a lower 'best-estimate' allowance for future improvements to mortality.

Principal accounting assumptions at balance sheet dates

	Group scheme		Other schemes	
	2017 %	2016 %	**2017 %**	2016 %
Key assumptions used for IAS 19 valuation:				
Discount rate	**2.65**	3.60	**2.65**	3.60
Expected rate of pensionable pay increases	**2.00**	1.70	**3.40**	3.10
Retail price inflation	**3.40**	3.10	**3.40**	3.10
Consumer price inflation	**2.40**	2.10	**2.40**	2.10
Future pension increases	**3.40**	3.10	**3.40**	3.10

	Group scheme	
	2017 Years	2016 Years
Post retirement life expectancy:		
Current pensioners at 65 – male	**88.0**	88.0
Current pensioners at 65 – female	**90.0**	89.0
Future pensioners at 65 – male	**89.0**	89.0
Future pensioners at 65 – female	**91.0**	91.0

Life expectancy for the other schemes is that used by the relevant scheme actuary.

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

38. Retirement benefit schemes continued

Sensitivity of defined benefit obligations to key assumptions

	Change in assumption	Impact on defined benefit obligations Increase/(decrease) in obligations %	Increase/(decrease) in obligations £m
Increase in discount rate	0.1%	(2.1)%	(5.5)
Increase in RPI inflation*	0.1%	1.6%	4.2
Increase in CPI inflation (excluding pay)	0.1%	0.5%	1.3
Increase in salary growth	0.1%	0.4%	1.1
Increase in life expectancy	1 year	4.0%	10.5

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

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the Group scheme holds a proportion of its assets in UK corporate bonds. A fall in the discount rate as a result of lower UK corporate bond yields would lead to an increase in the value of these assets, thus mitigating the increase in the defined benefit obligation to some extent.

The duration, or average term to payment for the benefits due, weighted by liability, is around 22 years for the Group scheme.

Amounts recognised in financial statements

The table below outlines where the Group's post-employment amounts are included in the financial statements.

	2017 **Group scheme £m**	**Other schemes £m**	**Total £m**	2016 Group scheme £m	Other schemes £m	Total £m
Current service cost	**(3.2)**	**(0.3)**	**(3.5)**	(3.6)	(0.3)	(3.9)
Total administration expense	**(0.8)**	**–**	**(0.8)**	(0.5)	–	(0.5)
Amounts recognised in operating profit	**(4.0)**	**(0.3)**	**(4.3)**	(4.1)	(0.3)	(4.4)
Net interest cost	**(1.3)**	**–**	**(1.3)**	(1.2)	–	(1.2)
Amounts recognised in profit before tax	**(5.3)**	**(0.3)**	**(5.6)**	(5.3)	(0.3)	(5.6)

Amounts recognised in the consolidated statement of comprehensive income are as follows:

	2017 **Group scheme £m**	**Other schemes £m**	**Total £m**	2016 Group scheme £m	Other schemes £m	Total £m
Actuarial (losses)/gains due to changes in financial assumptions	**(52.5)**	**(3.7)**	**(56.2)**	6.3	0.4	6.7
Actuarial gains due to liability experience	**0.8**	**–**	**0.8**	3.1	–	3.1
Return on scheme assets, excluding interest income	**18.7**	**1.3**	**20.0**	(6.2)	(0.6)	(6.8)
	(33.0)	**(2.4)**	**(35.4)**	3.2	(0.2)	3.0

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes are as follows:

	2017 **Group scheme £m**	**Other schemes £m**	**Total £m**	2016 Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	**177.8**	**11.3**	**189.1**	156.9	9.5	166.4
Present value of defined benefit obligations	**(248.5)**	**(14.8)**	**(263.3)**	(191.3)	(10.6)	(201.9)
Net pension liability	**(70.7)**	**(3.5)**	**(74.2)**	(34.4)	(1.1)	(35.5)

All figures above are shown before deferred tax.

38. Retirement benefit schemes continued

Reconciliation of group balance sheet

Movements in the present value of defined benefit obligations in the year in respect of both the Group and other schemes were as follows:

	2017			2016		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	191.3	10.6	201.9	197.1	10.4	207.5
Current service cost	3.2	0.3	3.5	3.6	0.3	3.9
Interest cost	6.8	0.4	7.2	6.6	0.4	7.0
Contributions from scheme members	0.1	0.1	0.2	0.1	0.1	0.2
Actuarial losses /(gains) on liabilities arising from changes in financial assumptions	52.5	3.7	56.2	(6.3)	(0.4)	(6.7)
Actuarial (gains) on liabilities arising from experience	(0.8)	–	(0.8)	(3.1)	–	(3.1)
Benefits paid	(4.6)	(0.3)	(4.9)	(6.7)	(0.2)	(6.9)
At 31 March	248.5	14.8	263.3	191.3	10.6	201.9

The defined benefit obligation of the Group scheme is analysed by participant status below:

	2017 £m	2016 £m
Active	85.0	62.2
Deferred	103.1	78.4
Pensioners	60.4	50.7
At 31 March	248.5	191.3

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

	2017			2016		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	156.9	9.5	166.4	162.2	9.5	171.7
Interest income	5.5	0.4	5.9	5.4	0.3	5.7
Actuarial gains and losses	18.7	1.3	20.0	(6.2)	(0.6)	(6.8)
Contributions from the sponsoring companies	2.0	0.3	2.3	2.5	0.4	2.9
Contributions from scheme members	0.1	0.1	0.2	0.1	0.1	0.2
Expenses paid	(0.8)	–	(0.8)	(0.4)	–	(0.4)
Benefits paid	(4.6)	(0.3)	(4.9)	(6.7)	(0.2)	(6.9)
At 31 March	177.8	11.3	189.1	156.9	9.5	166.4

38. Retirement benefit schemes continued

The history of experience adjustments is as follows:

	Group scheme				
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Fair value of scheme assets	**177.8**	156.9	162.2	143.8	134.0
Present value of defined benefit obligations	**(248.5)**	(191.3)	(197.1)	(160.8)	(163.7)
Deficit in the scheme	**(70.7)**	(34.4)	(34.9)	(17.0)	(29.7)
Experience adjustments on scheme liabilities	**0.8**	3.1	1.2	0.1	0.1
Percentage of scheme liabilities	**(0.3)%**	(1.6)%	(0.6)%	(0.1)%	(0.1)%
Experience adjustments on scheme assets	**18.7**	(6.2)	13.0	3.6	3.9
Percentage of scheme assets	**10.5%**	(4.0)%	8.0%	2.5%	2.9%

	Other schemes				
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Fair value of scheme assets	**11.3**	9.5	9.5	16.2	7.9
Present value of defined benefit obligations	**(14.8)**	(10.6)	(10.4)	(18.3)	(8.1)
Deficit in the scheme	**(3.5)**	(1.1)	(0.9)	(2.1)	(0.2)
Experience adjustments on scheme liabilities	**–**	–	(0.1)	0.3	0.2
Percentage of scheme liabilities	**–**	–	0.9%	(1.8)%	(2.8)%
Experience adjustments on scheme assets	**1.3**	(0.6)	0.8	(0.3)	0.5
Percentage of scheme assets	**11.5%**	(6.1)%	8.4%	(1.9)%	6.1%

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

	2017			2016		
	Group Schemes £m	**Other Schemes £m**	**Total £m**	Group Schemes £m	Other Schemes £m	Total £m
Equities	**66.4**	**7.6**	**74.0**	56.9	6.0	62.9
Government bonds	**26.8**	**1.6**	**28.4**	22.3	1.4	23.7
Corporate bonds	**21.7**	**0.8**	**22.5**	19.2	0.7	19.9
Property	**16.2**	**0.8**	**17.0**	17.0	0.8	17.8
Diversified growth fund	**46.6**	**–**	**46.6**	40.2	–	40.2
Cash	**0.1**	**0.5**	**0.6**	1.3	0.6	1.9
Total fair value of assets	**177.8**	**11.3**	**189.1**	156.9	9.5	166.4

The investment portfolios are diversified, investing in a wide range of assets, in order to provide reasonable assurance that no single asset or type of asset could have a materially adverse impact on the total portfolio. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of government and corporate bonds, designed to mirror movements in corresponding liabilities.

Around 73% (2016: 73%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long term.

£7m (2016: £7m) of the property assets represent freehold property, the rest are quoted property investments.

38. Retirement benefit schemes continued

Risks and risk management

The Group scheme, in common with the majority of UK plans, has a number of risks. These areas of risk and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements:

Risk	Description
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation for accounting is calculated using a discount rate set with reference to corporate bond yields. The Group scheme holds a large proportion of its assets (73%) in equities and other return-seeking assets (principally diversified growth funds (DGFs) and property). The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level has the potential to be volatile in the short term, potentially resulting in short-term cash requirements or alternative security offers, which are acceptable to the Trustee and an increase in the net defined benefit liability recorded on the Group's balance sheet. Equities and DGFs are considered to offer the best returns over the long term with an acceptable level of risk and hence the scheme holds a significant proportion of these types of asset. However, the scheme's assets are well-diversified by investing in a range of asset classes, including property, government bonds and corporate bonds. The Group scheme holds 26% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting obligations. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting obligations. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the scheme's obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the obligations.

38. Retirement benefit schemes continued

Areas of risk management
Although investment decisions in the scheme are the responsibility of the Trustee, the Group takes an active interest to ensure that pension plan risks are managed efficiently. The Group and Trustee have agreed a long-term strategy for reducing investment risk where appropriate.

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. At present there is an inequality of benefits between male and female members who have GMP. The Government intends to implement legislation to equalise benefits, which could result in an increase in the value of GMP for males. This would increase the defined benefit obligations. At this stage, it is not possible to quantify the impact of this change, and therefore no provision has been made.

Certain benefits payable on death before retirement are insured.

39. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note.

During the year, the Group derived £0.2m (2016: £0.8m) of revenue from contracts with joint ventures and associated undertakings. At 31 March 2017 trade and other receivables of £nil (2016: £nil) were outstanding and loans to joint ventures and associates of £nil (2016: £nil) were included in financing assets.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company, as R McGregor-Smith and S C Baxter were Directors of the Company and were also two of the Trustees of the Foundation during the year. R McGregor-Smith resigned as a Director and Trustee of the Mitie Foundation on 12 December 2016 and S C Baxter resigned as a Director and Trustee of the Mitie Foundation on 16 March 2017. During the year, the Group made donations of £9,400 (2016: £79,000) and gifts in kind of £282,000 (2016: £267,000) to the Foundation. At the end of the year £nil (2016: £nil) was due to the Foundation and the Foundation had £nil (2016: £nil) held within creditors as an amount owed to Mitie Group plc.

No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest.

The Group's key management personnel are the Executive Directors and Non-Executive Directors whose remuneration is disclosed in the audited section of the Directors' remuneration report. The share-based payment charge for key management personnel was £1.3m (2016: £0.7m).

Details of transactions with Mitie Group plc Pension Scheme, and other smaller pension schemes, are given in Note 38.

40. Notes to the consolidated statement of cash flows

	2017 Continued operations £m	2017 Discontinued operations £m	2017 Total £m	2016 – Restated* Continued operations £m	2016 – Restated* Discontinued operations £m	2016 – Restated* Total £m
Cash conversion						
Operating profit	**(42.9)**	**(135.2)**	**(178.1)**	107.6	(42.0)	65.6
Depreciation	**13.6**	**0.5**	**14.1**	14.6	0.5	15.1
Amortisation	**22.4**	**1.4**	**23.8**	7.8	9.2	17.0
Impairment of goodwill and write-down of intangible	**18.0**	**91.2**	**109.2**	–	33.2	33.2
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**11.1**	**(42.1)**	**(31.0)**	130.0	0.9	130.9
Cash generated by operations	**159.9**	**(8.8)**	**151.1**	124.0	(9.3)	114.6
Cash conversion+	**+**		**+**	95.4%		87.6%
Free cash flow						
Cash generated by operations			**151.1**			114.6
Purchase of property, plant and equipment			**(14.5)**			(15.7)
Purchase of other intangible assets			**(12.4)**			(8.9)
Disposals of property, plant and equipment			**1.0**			2.2
Income taxes paid			**(15.3)**			(15.7)
Interest paid (including facility extension fees)			**(12.7)**			(13.4)
Free cash flow			**97.2**			63.1

+ Previously cash conversion has been calculated as cash generated by operations as a percentage of EBITDA, however this year's loss results in meaningless percentages.

* See Note 1(c) for an explanation and analysis of the prior year restatements included above in respect of the year ended 31 March 2016.

It should be noted that the Directors no longer consider that cash conversion is an appropriate measure of performance for the Group.

41. Subsidiaries

The companies set out below are those which were part of the Group at 31 March 2017.

Company	Country of incorporation	**2017 % voting rights and ownership interest**	**2017 % nominal value owned**
Care & Custody (Health) Limited	United Kingdom	**100%**	**100%**
Cole Motors Limited*	United Kingdom	**100%**	**100%**
Creativevents Limited	United Kingdom	**100%**	**100%**
Direct Enquiries Holdings Limited*	United Kingdom	**100%**	**100%**
Jabez Holdings Limited*	United Kingdom	**100%**	**100%**
Mitie Aviation Security Limited	United Kingdom	**100%**	**100%**
Mitie Belgium BVBA	Belgium	**100%**	**100%**
Mitie Belgium Security BVBA	Belgium	**100%**	**100%**
Mitie Built Environment Limited	United Kingdom	**100%**	**100%**
Mitie Business Services Limited	United Kingdom	**100%**	**100%**
Mitie Business Services UK Limited	United Kingdom	**100%**	**100%**
Mitie Care and Custody Limited	United Kingdom	**93.1%**	**99.9%**
Mitie Catering Services Limited	United Kingdom	**80.3%**	**99.3%**
Mitie Cleaning & Environmental Services Limited	United Kingdom	**100%**	**100%**
Mitie Cleaning Services Limited	United Kingdom	**100%**	**100%**
Mitie Client Services Limited	United Kingdom	**100%**	**100%**
Mitie Company Secretarial Services Limited*	United Kingdom	**100%**	**100%**
Mitie Compliance Ltd*	United Kingdom	**100%**	**100%**

41. Subsidiaries continued

Company	Country of incorporation	2017 % voting rights and ownership interest	2017 % nominal value owned
Mitie Deutschland GmbH 1	Germany	**100%**	**100%**
Mitie Document Solutions Limited*	United Kingdom	**100%**	**100%**
Mitie Engineering Limited*	United Kingdom	**100%**	**100%**
Mitie Engineering Services (Bristol) Limited*	United Kingdom	**100%**	**100%**
Mitie Engineering Services (Guernsey) Limited	Guernsey	**100%**	**100%**
Mitie Engineering Services (Jersey) Limited	Jersey	**100%**	**100%**
Mitie Engineering Services (Northern Region) Limited	United Kingdom	**100%**	**100%**
Mitie Engineering Services (Wales) Limited*	United Kingdom	**100%**	**100%**
Mitie Engineering Services Limited*	United Kingdom	**100%**	**100%**
Mitie Environmental Limited*	United Kingdom	**100%**	**100%**
Mitie España, S.L.	Spain	**100%**	**100%**
Mitie Events & Leisure Services Limited	United Kingdom	**74.8%**	**99.6%**
Mitie Facilities Management Limited	Ireland	**94.2%**	**99.4%**
Mitie Facilities Services Limited	United Kingdom	**100%**	**100%**
Mitie France SAS	France	**100%**	**100%**
Mitie Group Pension Scheme Trustee Company Limited*	United Kingdom	**100%**	**100%**
Mitie Holdings Limited	United Kingdom	**100%**	**100%**
Mitie Infrastructure Limited	United Kingdom	**100%**	**100%**
Mitie Integrated Facilities Management Limited*	United Kingdom	**100%**	**100%**
Mitie International Limited	United Kingdom	**100%**	**100%**
Mitie Investments Limited	United Kingdom	**100%**	**100%**
Mitie Justice Limited*	United Kingdom	**100%**	**100%**
Mitie Landscapes Limited	United Kingdom	**100%**	**100%**
Mitie Limited	United Kingdom	**100%**	**100%**
Mitie Local Services Limited	United Kingdom	**98.2%**	**100%**
Mitie Managed Services Limited	United Kingdom	**100%**	**100%**
Mitie Nederland B.V.	Netherlands	**100%**	**100%**
Mitie Norge Aksjeselskap	Norway	**100%**	**100%**
Mitie Pest Control (London) Limited*	United Kingdom	**100%**	**100%**
Mitie Pest Control Limited	United Kingdom	**100%**	**100%**
Mitie PFI Limited	United Kingdom	**100%**	**100%**
Mitie Polska Sp. z o.o.	Poland	**100%**	**100%**
Mitie Property Management Limited	United Kingdom	**100%**	**100%**
Mitie Property Services (UK) Limited	United Kingdom	**100%**	**100%**
Mitie Reinsurance Company Limited	Guernsey	**100%**	**100%**
Mitie Resources Limited	United Kingdom	**100%**	**100%**
Mitie Schweiz GmbH	Switzerland	**100%**	**100%**
Mitie Scotgate Limited*	United Kingdom	**100%**	**100%**
Mitie Security (London) Limited*	United Kingdom	**100%**	**100%**
Mitie Security Holdings Limited	United Kingdom	**100%**	**100%**
Mitie Security Limited	United Kingdom	**100%**	**100%**
Mitie Services (Retail) Limited	United Kingdom	**100%**	**100%**
Mitie Shared Services Limited	United Kingdom	**100%**	**100%**
Mitie Suomi Oy	Finland	**100%**	**100%**
Mitie Sverige AB	Sweden	**100%**	**100%**
Mitie T S 2 Limited	United Kingdom	**100%**	**100%**
Mitie Technical Facilities Management Holdings Limited	United Kingdom	**100%**	**100%**
Mitie Technical Facilities Management Limited	United Kingdom	**100%**	**100%**
Mitie Tilley Roofing Limited	United Kingdom	**100%**	**100%**

41. Subsidiaries continued

Company	Country of incorporation	2017 % voting rights and ownership interest	2017 % nominal value owned
Mitie Transport Services Limited*	United Kingdom	**100%**	**100%**
Mitie Treasury Management Limited	United Kingdom	**100%**	**100%**
Mitie Trustee Limited	United Kingdom	**100%**	**100%**
Mitie Waste & Environmental Services Limited	United Kingdom	**71%**	**99.6%**
Mitie Work Wise Limited	United Kingdom	**100%**	**100%**
Parkersell Limited*	United Kingdom	**100%**	**100%**
Procius Limited	United Kingdom	**100%**	**100%**
Robert Prettie & Co Limited*	United Kingdom	**100%**	**100%**
Service Management International Asia Pacific PTE. Ltd.	Singapore	**100%**	**100%**
Source Eight Limited	United Kingdom	**51%**	**51%**
Source8 Africa Limited	United Kingdom	**51%**	**51%**
Source8 Delivery (Nigeria) Limited	Nigeria	**51%**	**51%**
Source8 Services FZLLC	United Arab Emirates	**51%**	**51%**
UK CRBS Limited	United Kingdom	**100%**	**100%**
Utilyx Asset Management Limited	United Kingdom	**100%**	**100%**
Utilyx Asset Management Projects Limited	United Kingdom	**100%**	**100%**
Utilyx Broking Limited	United Kingdom	**100%**	**100%**
Utilyx Healthcare Energy Services Limited	United Kingdom	**100%**	**100%**
Utilyx Holdings Limited	United Kingdom	**100%**	**100%**
Utilyx Limited	United Kingdom	**100%**	**100%**
Utilyx Risk Management Limited	United Kingdom	**100%**	**100%**
Wealthy Thoughts Limited	United Kingdom	**100%**	**100%**

* These entities were dormant during the year ended 31 March 2017 and will take the exemption from preparing and filing financial statements for the year ended 31 March 2017 (by virtue of section 448A of the Companies Act 2006).

41. Subsidiaries continued

The registered office of all subsidiaries is 1 Harlequin Office Park, Fieldfare, Emersons Green, Bristol, South Gloucestershire, BS16 7FN, with the exception of the following:

Company	Registered Office address
Mitie Belgium BVBA	c/o Regus Brussels South Station, Place Broothaers 8 bt 5 1050 Brussels, Belgium
Mitie Belgium Security BVBA	c/o Regus Brussels South Station, Place Broothaers 8 bt 5 1050 Brussels, Belgium
Mitie Deutschland GmbH	Meßstetter Straße 8, , 70567, Stuttgart, Germany
Mitie Engineering Services (Guernsey) Limited	c/o MPR Private Clients Limited, PO Box 119, Martello Court, Admiral Park, St Peter Port, GY1 3HB, Guernsey
Mitie Engineering Services (Jersey) Limited	13 Castle Street, St Helier, JE4 5UT, Jersey
Mitie España, S.L.	Osborne Clarke, Avenida Diagonal, 477, Planta 20, 08036, Barcelona, Spain
Mitie Facilities Management Limited	108 Q House, Furze Road, Sandyford, Dublin 18, Ireland
Mitie France SAS	259 rue St Honore, 75001, Paris, France
Mitie Limited	Clara House , Office B5, Dunmurry Office Park, 37A Upper Dunmurry Lane, Belfast, Northern Ireland, BT17 0AA, United Kingdom
Mitie Nederland B.V.	Hoofdweg 52A, 3067 GH Rotterdam, P.O. Box 8540, 3009 AM Rotterdam, 3009 AM Rotterdam, Netherlands
Mitie Norge Aksjeselskap	Kongensgate 9, 0153, Oslo, Norway, Norway
Mitie Polska Sp. z o.o.	Solec 22, 00-410, Warsaw, Poland
Mitie Reinsurance Company Limited	Maison Trinity, Trinity Square, St. Peter Port, GY1 4AT, Guernsey
Mitie Schweiz GmbH	Brandschenkestrasse 90, CH-8027, Zurich, Switzerland
Mitie Suomi Oy	c/o Ov Visma Services Infocon Ab, Pormestarinrine 8, 00160 Helsinki, Finland
Mitie Sverige AB	Kungsgatan 55 , 111 22 Stockholm, Sweden, Sweden
Service Management International Asia Pacific PTE. Ltd.	1 Raffles Place, #18-01, One Raffles Place , Singapore , 048616, Singapore
Source8 Delivery (Nigeria) Limited	235 Ikorodu Road, Ilupeju, Lagos, Nigeria
Source8 Services FZLLC	17 The Iridium Building, Um Suqueim Road, Al Barsha, Dubai, PO BOX 391186, United Arab Emirates

No subsidiaries have non-controlling interests that are material to the Group.

The Group has a 30% interest in its associate, Pyramid Plus South LLP, a limited liability partnership registered in the United Kingdom with its registered office at The Point, 37 North Wharf Road, London, W2 1BD.

42. Events after the reporting period

As at 31 March 2017, the Group had £527m of committed funding arrangements. Subsequent to the reporting period, on 7 June 2017, the Group's lenders agreed an amendment to the covenant calculation definitions. In accordance with the requirements of IAS 1, it has been necessary to classify the drawn amounts on the funding arrangements as current rather than non-current liabilities. The final maturity dates of all facilities remain unchanged.

Company balance sheet

At 31 March 2017

	Notes	2017 £m	2016 Restated+ £m	2015 Restated+ £m
Non-current assets				
Investments in subsidiary undertakings	45	**589.5**	691.2	703.7
Deferred tax asset	47	**0.3**	0.5	0.6
Total non-current assets		**589.8**	691.7	704.3
Current assets				
Debtors	46	**36.9**	30.8	29.8
Total current assets		**36.9**	30.8	29.8
Total assets		**626.7**	722.5	734.1
Creditors: amounts falling due within one year	48	**(44.6)**	(58.7)	(97.3)
Total current liabilities		**(44.6)**	(58.7)	(97.3)
Net current liabilities		**(7.7)**	(27.9)	(67.5)
Net assets		**582.1**	663.8	636.8
Capital and reserves				
Share capital	32	**9.2**	9.3	9.4
Share premium account	33	**130.6**	127.7	122.6
Merger reserve	33	**91.8**	80.1	80.1
Own shares reserve	33	**(42.2)**	(48.8)	(47.5)
Other reserves		**25.3**	21.1	17.2
Profit and loss account		**367.4**	474.4	455.0
Equity shareholders' funds		**582.1**	663.8	636.8

+ See Note 43(c) for an explanation and analysis of the prior year restatements included in respect of 31 March 2016 and 31 March 2015.

The Company reported a loss for the financial year ended 31 March 2017 of £42.6m (2016 restated: profit £78.1m)

The financial statements of Mitie Group plc, company registration number SC019230, were approved by the Board of Directors and authorised for issue on 12 June 2017. They were signed on its behalf by:

Phil Bentley
Chief Executive Officer

Sandip Mahajan
Chief Financial Officer

Company statement of changes in equity
For the year ended 31 March 2017

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves £m	Profit and loss account £m	**Total £m**
At 1 April 2015 – previously reported	9.4	122.6	80.1	(47.5)	17.2	454.5	**636.3**
Restatements +	–	–	–	–	–	0.5	**0.5**
At 1 April 2016 – restated +	9.4	122.6	80.1	(47.5)	17.2	455.0	**636.8**
Profit for the year	–	–	–	–	–	78.1	**78.1**
Shares issued	–	5.1	–	3.8	–	–	**8.9**
Purchase of own shares	–	–	–	(6.6)	–	(0.7)	**(7.3)**
Share-based payments	–	–	–	1.4	3.9	(0.3)	**5.0**
Share buybacks	(0.1)	–	–	0.1	–	(15.3)	**(15.3)**
Dividends paid	–	–	–	–	–	(42.4)	**(42.4)**
At 31 March 2016	9.3	127.7	80.1	(48.8)	21.1	474.4	**663.8**
Profit for the year	–	–	–	–	–	(42.6)	**(42.6)**
Shares issued	0.1	2.9	11.7	–	–	–	**14.7**
Share-based payments	–	–	–	6.8	3.8	(2.5)	**8.1**
Share buybacks	(0.2)	–	–	(0.2)	0.4	(24.4)	**(24.4)**
Dividends paid	–	–	–	–	–	(37.5)	**(37.5)**
At 31 March 2017	9.2	130.6	91.8	(42.2)	25.3	367.4	**582.1**

+ See Note 43(c) for an explanation and analysis of the prior year restatements included in respect of the profit for the year ended 31 March 2016 and of retained earnings at 31 March 2015.

As at 31 March 2017, the Company had distributable reserves of £137.3m (2016: restated £237.6m).

Details of dividends paid to shareholders are given in Note 12 of the consolidated financial statements.

43. Significant accounting policies

(a) Basis of accounting

The separate financial statements of the Company are presented as required by company law. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law. The financial statements have also been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, impairment of assets, standards not yet effective, and related party transactions.

Where relevant, equivalent disclosures have been given in the Group accounts.

As more fully detailed in the Directors' report, the Company's financial statements have been prepared on a going concern basis.

(b) Principal accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiaries are shown at cost less any provision for impairment.

Investments in subsidiaries are reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the investments' recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying value of an asset exceeds its recoverable amount.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to the profit and loss account, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Financial instruments

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account where there is objective evidence that the asset is impaired.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are measured at amortised cost.

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

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

43. Significant accounting policies continued

Share-based payments

The Company operates a number of executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For all grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes or Monte Carlo models and the corresponding expense is recognised on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Options over the Company's shares awarded to employees of the Company's subsidiaries are accounted for as a capital contribution within the carrying value of investments in subsidiary undertakings.

Pensions

The Company participates in the Mitie Group plc defined benefit Pension Scheme. All group companies account for the contributions to the defined benefit scheme in respect of their employees and as part of a group arrangement one of the Company's subsidiaries accounts for the other costs, income, assets and liabilities of the scheme. Note 38 to the consolidated financial statements sets out details of the IAS 19 'Employee Benefits' net pension liability of the scheme amounting to £70.7m (2016: £34.4m).

(c) Prior year restatements

During the year there was an apparent significant shortfall in the expected profitability of the Group for the year ended 31 March 2017. New executive directors were appointed in December and January and they immediately launched an accounting review process to provide confidence that all relevant accounting standards were appropriately reflected in the Group's financial reporting.

Following additional information becoming available, the review work identified a number of prior year errors that, due to their materiality, require the restatement of the results for the year ended 31 March 2016, as well as the consolidated balance sheet positions as at 31 March 2016 and at 31 March 2015.

In respect of the Company, these prior year restatements relate to the under accrual of costs. For the year ended 31 March 2016 the adjustment related to the under accrual of bonus payments totalling £2.1m. For the year ended 31 March 2015 the increase in profit after tax of £0.5m was due to the correction of bonus accrual recognition of £0.6m and an under provision of insurance liabilities of £0.1m.

44. Profit for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own statement of comprehensive income (including the profit and loss account) for the year. Mitie Group plc reported a loss after taxation for the financial year ended 31 March 2017 of £42.6m (2016 restated: £78.1m).

The auditor's remuneration for audit services to the Company was £40,000 (2016: £35,000).

Detailed disclosures of Directors' remuneration and share options are given in the audited section of the Directors' remuneration report contained in the consolidated financial statements.

45. Investments in subsidiary undertakings

	£m
Shares at cost	
At 1 April 2016	723.8
Additions	16.3
Capital contribution re share-based payments	3.8
Disposals	(53.0)
At 31 March 2017	**690.9**
Provision for impairment	
At 1 April 2016	32.6
Charged to income statement	121.8
Disposals	(53.0)
At 31 March 2017	**101.4**
Net book value	
At 31 March 2017	**589.5**
At 31 March 2016	691.2

A listing of subsidiaries is given in Note 41.

Disposals in the period relate to the voluntary striking-off of dormant subsidiaries within the Group.

The provision for impairment relates primarily to the sale of the Company's Healthcare interests and the reduction in value of its investment in Property Management.

46. Debtors

	2017 £m	2016 Restated £m
Amounts owed by subsidiary undertakings	**31.2**	27.5
Other debtors	**0.7**	2.3
Prepayments and accrued income	**0.2**	0.8
Corporation tax	**4.8**	0.2
	36.9	30.8

The Directors consider that the carrying amount of debtors approximates their fair value.

47. Deferred tax

	Share-based payment timing difference £m
Deferred tax asset at 1 April 2016	0.5
Charge to equity and the statement of comprehensive income	(0.2)
Deferred tax asset at 31 March 2017	**0.3**

The deferred tax balance has been presented as a non-current asset in the current year whereas it was a current asset in the prior year.

48. Creditors: amounts falling due within one year

	2017 £m	2016 Restated £m
Overdrafts	**5.4**	35.3
Trade creditors	**2.2**	1.1
Amounts owed to subsidiary undertakings	**5.2**	9.3
Other taxes and social security	**0.2**	1.1
Accruals and deferred income	**19.0**	11.8
Provisions	**12.6**	0.1
	44.6	58.7

Amounts owed to subsidiary undertakings are repayable on demand. The Directors consider that the carrying amount of creditors approximates their fair value.

The Company's bank overdrafts are part of the Group's banking arrangements and are offset against credit balances within the Group. The Company has adequate liquidity to discharge all current obligations.

For details of Group borrowings, see Note 27.

49. Contingent liabilities

Details of contingent liabilities have been given in Note 35 of the consolidated financial statements.

50. Share-based payments

The Company has six equity-settled share schemes as described in Note 37 of the consolidated financial statements.

The Company recognised an expense of £2.4m (2016: £1.2m) related to the share-based payment charge for discretionary share option schemes.

The fair value of options is measured by use of the Black-Scholes and Monte Carlo models. The inputs into the Black-Scholes and Monte Carlo models are as described in Note 37 of the consolidated financial statements.

51. Related parties

The Company makes management charges to all of its subsidiaries, whether they are wholly-owned or otherwise, and receives dividends from its subsidiaries, according to their ability to remit them. Other details of related party transactions have been given in Note 39 of the consolidated financial statements.

Under FRS 101 the Company is exempt from disclosing key management personnel compensation and transactions with other companies wholly owned by Mitie Group plc. Other related party transactions are disclosed below:

	Sales to		Purchases from	
	2017 £m	2016 £m	2017 £m	2016 £m
Subsidiaries	**–**	0.4	**–**	–

	Receivables outstanding		Creditors outstanding	
	2017 £m	2016 £m	2017 £m	2016 £m
Subsidiaries	**–**	–	**(0.1)**	–

All inter-company balances are unsecured; trading balances are payable within 30 days unless both parties agree an extension; funding balances are repayable on demand.

Appendix – Alternative Performance Measures (APMs)

The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. These APMs are measures which disclose the adjusted performance of the Group excluding specific items which are regarded as non-recurring. The Group separately reports acquisition costs, the amortisation of acquisition related intangible assets, exceptional items and other specific items in the income statement which, in the Directors' judgement, need to be disclosed separately (see Notes 5, 6 and 7) by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

APMs presented	2017 £m	2016 Restated £m
Revenue		
Adjusted revenue	**2,140.0**	2,133.4
One offs:		
Adjustment to accrued income on long-term complex contracts	**(20.4)**	6.4
Accrued income, debtors, prepayments included in trade & other receivables	**(4.5)**	8.3
Effects of foreign currency	**11.3**	–
Other one off items	**–**	(1.2)
Before other items	**2,126.3**	2,146.9
Other items	**–**	–
Total revenue as reported	**2,126.3**	2,146..9
Operating profit		
Adjusted operating profit	**82.0**	95.2
Impairment and amortisation of intangible assets (Note 15)	**(10.5)**	–
Adjustment to accrued income on long-term complex contracts	**(20.4)**	6.4
Accrued income, debtors, prepayments included in trade & other receivables	**(36.4)**	0.1
Impairment of mobilisation asset	**(5.7)**	–
Other provisions & accruals	**(4.6)**	7.6
Other one off items	**(10.7)**	4.7
Before other items	**(6.3)**	113.9
Other items	**(36.6)**	(6.3)
Total operating profit as reported	**(42.9)**	107.6

The total adjustments presented above impact business segments as follows:

Adjustments to revenue	2017 £m	2016 Restated £m
Cleaning and Environmental Services	**3.6**	(1.7)
Security	**–**	–
Catering	**(1.6)**	–
Engineering Services	**11.7**	(11.8)
Professional Services & Connected Workspace	**–**	–
Public Services	**–**	–
Total adjustments	**13.7**	(13.5)

Adjustments to operating profit	2017 £m	2016 Restated £m
Cleaning and Environmental Services	**14.4**	(1.9)
Security	**3.8**	(1.0)
Catering	**0.7**	–
Engineering Services	**37.5**	(11.6)
Professional Services & Connected Workspace	**2.5**	–
Public Services	**17.4**	–
Corporate Centre	**12.0**	(4.2)
Total adjustments	**88.3**	(18.7)

Glossary

BIFM	British Institute of Facilities Management
BME	Black & Minority Ethnic
CPI	Consumer Price Index
CRM	Client Relationship Management
FM	Facilities Management
FME	Forensic Medical Examiner
GDP	Gross Domestic Product
KPI	Key Performance Indicator
NPS	Net Promoter Score
Riddor AFR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013, Accident Frequency Rate
SMART	Security Manager & Resilience Tool
SLA	Service Level Agreement

Shareholder information

Results	
2018 Half-yearly results	20 November 2017

Dividends	
2017 interim dividend 4.0p paid	1 February 2017

2017 Annual General Meeting	
2017 Annual General Meeting	26 July 2017

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Telephone: 0871 664 0300*
Website: www.mitie-shares.com

* calls cost 12p a minute plus network extras, lines are open 9.00am – 5.30pm Mon – Fri.

Mitie online share portal
Mitie has launched a shareholder portal where shareholders can register and can:

- access information on shareholdings and movements;
- update address details;
- view dividend payments received and register bank mandate instructions;
- sell Mitie shares;
- complete an online proxy voting form; and
- register for e-communications allowing Mitie to notify shareholders by email that certain documents are available to view on its website. This will further reduce Mitie's carbon footprint as well as reduce costs.

If you wish to register, please sign up at **www.mitie-shares.com**

Corporate website
This report can be downloaded in PDF from the Mitie website, which also contains additional general information about Mitie. Please visit **www.mitie.com**

Cautionary statement

Certain statements contained in this document constitute or may constitute 'forward-looking statements'. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'projects', 'aims', 'plans', 'predicts', 'prepares', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this document. Except as required by applicable law, rule or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. Mitie's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document including, but not limited to, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, currency changes, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Group and its affiliates operate. In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. The forward-looking statements contained in this document speak only as of the date of this document.

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