06 June 2019

Mitie Group plc

Full-year results for the year ended 31 March 2019

Strengthening the business, in a challenging market

Mitie Group plc ("Mitie" or "the Group") (LSE: MTO), the UK's leading facilities management and professional services company, today announces its financial and operational results for the year ended 31 March 2019 ("FY 18/19"). All numbers in this announcement are reported on an IFRS 15 basis.

Financial highlights (continuing operations)

- **Revenue up 9.4%** to £2.2bn (FY 17/18: £2.0bn) with organic growth at 5.5% reflecting strong performance from top strategic accounts
- **Operating profit** before other items **up 6.0%** to £88.2m (FY 17/18: £83.2m)
- **Operating profit** up to £50.2m (FY 17/18: £1.1m)
- **Final dividend recommendation of 2.67p**, making the total full-year dividend of 4.0p per share (FY 17/18: 4.0p)
- **Leverage** multiple **reduced to 1.33x net debt/EBITDA** (FY 17/18: 1.98x, covenant <3x) with period-end net debt further improved to £140.7m (FY 17/18: £193.5m)

Operational highlights

- **Core businesses** performing strongly
- **Project Helix** largely complete with exit run-rate savings of c.£45m; **Project Forte** (Phase II of Mitie transformation) now launched with primary focus on Engineering Services
- **Order book** from continuing operations stable at £4.1bn with **pipeline growing** to £10.2bn on the back of inclusion onto the **Crown Commercial Services Framework**
- **Net Promoter Score up 22 points** to +12 (FY 17/18: -10)
- **Employee engagement up 12 ppts** to 45%
- **Paying our suppliers faster** (50 supplier payment days down from 58 days in FY 17/18)

Phil Bentley, Chief Executive, Mitie Group plc, commented:

"Our strategy of focusing on our larger businesses and strategic accounts where our technology offer is a true differentiator is beginning to deliver value for shareholders. Over FY 18/19 we sharpened our focus by continuing to invest in customer service and technology and by exiting non-core businesses.

"Project Helix has provided solid foundations for Mitie's future growth, enabling investments in our people, customers and technology. With the foundations now built, we are now moving to Project Forte focused primarily on driving simplicity and efficiency in Engineering Services. Together with our focus on strategic accounts and larger businesses, we should see continued improvement in the Group's profits. At the same time, we are making good progress in strengthening our balance sheet."

Financial summary

£m unless otherwise specified	FY 18/19 Before other items[2]	FY 18/19 Total	FY 17/18 Before other items[2]	FY 17/18 Total
Revenue[1]	**2,221.4**	**2,221.4**	2,030.6	2,030.6
Operating profit[1]	**88.2**	**50.2**	83.2	1.1
Operating profit margin[1]	***4.0%***	***2.3%***	*4.1%*	*0.1%*
Profit/(loss) before tax[1]	**74.4**	**36.4**	66.7	(15.4)
Profit/(loss) for the year	**63.7**	**30.9**	61.2	(26.0)
Basic earnings/(loss) per share	**16.8p[1]**	**8.6p**	15.2p[1]	(7.6)p
Full-year total dividend per share		**4.0p**		4.0p
		FY 18/19		FY 17/18
Cash generated from/(used in) operations		**47.5**		(7.9)
Period end net debt		**140.7**		193.5
Order book[1]		**4,147.3**		4,186.0

Notes:

1. From continuing operations.
2. Other items are as described in Note 4.

[A reconciliation of the Group's performance measures to its statutory results is provided in the Appendix – Alternative Performance Measures.]

Mitie will be holding an analyst presentation today with Phil Bentley, CEO, and Paul Woolf, CFO, at 09:30am BST. A live video webcast of the presentation will be available to view online at www.mitie.com/investors at 09:30am BST. A recorded webcast of the presentation and a copy of the accompanying slides will also be available on the website later in the day.

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About Mitie

Founded in 1987, Mitie is the UK's leading facilities management and professional services company. It offers a range of specialist services, including Engineering Services, Security, Professional Services, Cleaning and Environmental Services, Care and Custody, and Catering.

Mitie employs 52,500 people across the country, looking after a large, diverse, blue-chip customer base, from banks and retailers, to hospitals, schools and government offices. It takes care of its customers' people and buildings, by delivering the basics brilliantly and by deploying advanced technology. It is pioneering the Connected Workspace, using smart analytics to provide valuable insight and deliver efficiencies to create outstanding work environments for customers.

Find out more at www.mitie.com.

Legal disclaimer

This announcement may contain certain forward-looking statements, beliefs or opinions, including statements with respect to Mitie's business, financial condition and results of operations. These forward-looking statements can be identified by the use of words such as 'anticipate', 'expect', 'estimate', 'intend', 'will', 'may', 'project', 'plan', 'target' and 'believe' and other words of similar meaning in connection with any discussion of future events. These statements are made by the Directors of Mitie in good faith, based on the information available to them as at 5 June 2019 and reflect the Group plc Directors' beliefs and expectations. These statements, by their nature, involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements in this announcement and accordingly all such statements should be treated with caution. Nothing in this announcement should be construed as a profit forecast.

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

This announcement contains inside information.

STRATEGIC OVERVIEW

Two years into our transformation journey we are already seeing the benefits of our strategy to focus on our larger businesses and strategic accounts where our technology offer is a true differentiator to ensure long-term sustainable growth, delivery of our vision of 'The Exceptional, Every Day' and creation of value for all our stakeholders through our four strategic pillars of customer, people, cost and technology.

Over FY 18/19 we sharpened the focus by continuing to invest in customer service and technology and by changes to our portfolio of businesses. This has enabled us to grow revenue and profits.

We see our larger businesses and strategic clients as offering the best opportunities for growth and margin expansion as we deepen our capabilities and relationships. These are also areas where we are best able to deploy technology.

Project Helix has provided solid foundations for Mitie's future growth, enabling investments in our people, customer and technology. With the foundations now built, we are now moving to Project Forte focused primarily on driving simplicity and efficiency in Engineering Services. Together with our focus on strategic accounts and larger businesses, we should see improvement in the Group's profits. At the same time, we are making good progress in strengthening our balance sheet.

Business performance

It has been another challenging year with the FM sector remaining firmly in the spotlight. Despite this, we grew our revenues and top strategic accounts, reduced our period-end net debt and qualified for Phases I and II of the Crown Commercial Services (CCS) FM Marketplace Framework thereby positioning ourselves to win more government work.

Revenue from continuing operations was 9.4% up on the previous year, at £2.2bn, with organic growth at 5.5%. Operating profit before other items from continuing operations increased to £88.2m from £83.2m in FY 17/18. Operating profit for FY 18/19 was up to £50.2m from £1.1m a year earlier and basic earnings per share were 8.6p, from a loss of 7.6p in FY 17/18. Basic earnings per share before other items from continuing operations were 16.8p (FY 17/18: 15.2p).

The fixed-term order book from continuing operations was broadly flat at £4.1bn, benefiting from VSG's order book and significant contract wins towards the end of the year. Following the successful reorganisation of our sales team and the introduction of strategic account managers, we have seen a steady flow of wins and retentions. The pipeline of £10.2bn includes significant opportunities on the CCS Framework.

Our balance sheet health remains a key focus. We are committed to further reducing customer invoice discounting, normalising creditor days, asking clients for fairer payment terms, streamlining our billing processes and delivering faster cash collection. Our efforts have seen a decline in average daily net debt in H2 18/19 to £286.5m from £317.4m in H1 18/19 as we resolved working capital impacts following the outsourcing of transactional processing to India in early FY 18/19. Overall, average daily net debt for FY 18/19 was £15.9m higher than prior year at £302.0m. Our medium-term objective is to continue to reduce the average daily net debt. The period end net debt was £140.7m versus £193.5m a year earlier as we make continuing improvements to the cash collection cycle; the net debt position also includes proceeds from two disposal transactions effected during FY 18/19. We are operating comfortably within debt covenants with period-end net debt to EBITDA of 1.33x.

Focusing our business

In FY 18/19, we also focused our business by selling our Pest Control and Social Housing businesses and acquiring the Vision Security Group (VSG). The first two transactions simplified our operations; they also provided funds to strengthen the balance sheet and accelerate partial repayment of the deficit under the Group's defined benefit pension scheme. The VSG acquisition strengthens our position as one of the UK's largest providers of security services to businesses.

Customer focus

Listening to clients is essential as we focus on delivering services that our customers need. By taking on board feedback from last year's customer survey and continuing to invest in customer service, we have secured an impressive improvement in our NPS score, which increased from -10 to +12 in FY 18/19. A follow-up programme for account directors will ensure we improve our score further still, helping us to win and retain more business.

Mitie's success rests on growing our largest strategic accounts and deepening our relationship with them. It was pleasing to see that these accounts grew revenues by 8% in FY 18/19, which demonstrates that our biggest clients are trusting us with more of their business.

We have recently secured a place on several key government frameworks, giving us an opportunity to become a strategic partner for the UK government in outsourced FM, defence, security and custody.

A great place to work

Supporting our people to be the best they can be is one of our core objectives. We do more than just provide the tools required for the job; we are making Mitie a great place to work through various initiatives.

Our online People Hub, supported by SAP SuccessFactors, is a single point of access for anything HR-related. The recently launched Learning Hub offers a cloud-based pool of 2,500 instructor-led courses.

Mitie Exceptionals is a diverse employee consulting group which liaises with our Non-Executive Director, Jennifer Duvalier, on the interests of the wider workforce. In April 2018, we launched Upload, a people survey providing the opportunity to feedback on working with Mitie. We launched a 'You Said, We Did' campaign to address employees' feedback throughout the year. It was therefore very encouraging to see that the employee engagement score went up to 45% from 33% in the prior year.

In addition, we were the only FM company to be recognised by two prestigious awarding bodies. We were certified a 2019 Top Employer by the Top Employer Institute Certification Programme. And we came 17th on the Inclusive Top 50 UK Employers list for promoting diversity and inclusion.

Cost discipline

In June 2017 our cost programme, Project Helix, was launched to kickstart Mitie's transformation. Two years on, we have largely achieved our aims, exiting FY 18/19 with run-rate cost savings of c.£45m. We started by delayering and removing central management heads both at Group level and within the divisions. We standardised and centralised our IT, HR and Finance functions. For IT and Finance we also offshored the majority of back-office processes. In HR, we introduced SAP SuccessFactors to manage all people-related matters, as well as temporary and permanent hiring solutions.

The final elements of this project will continue throughout FY 19/20, with expected run-rate cost benefits – these are annual cost savings to the cost base following the finalisation of currently running programmes at the end of Project Helix – of c.£50m by March 2020.

The next phase of transformation is Project Forte, aimed at changing the processes and technology underpinning our largest division, Engineering Services.

Project Forte will include a full roll-out of the 'Click' dynamic scheduling and deployment system and implementing a new case management and billing application. It will result in improved engineer productivity and back office efficiencies. Project Forte will also include further Group-wide organisational consolidation and additional cost reductions by automating manual and paper-based processes and migration of our accounting system to a Mitie-wide SAP solution.

It is a two-year programme with estimated gross run-rate cost benefits of c.£30m by March 2021 and associated one-off cost of change of c.£30m.

Technology at our core

Mitie's use of technology sets us apart from the competition and is at the core of customer satisfaction and retention success. Our clients need and expect high-performance facilities that not only provide the right work environment but operate efficiently and support their sustainability agenda. Our skilled resources, nationwide reach and experience of managing different types of facilities give us unparalleled capabilities to help clients achieve these objectives.

For example, our Connected Workspace solutions include a sophisticated service operations centre (SOC) that provides remote monitoring of buildings and facilities. SOC uses advanced algorithms to detect anomalies and trigger corrective actions prior to an asset failing. We are also able to reduce energy consumption for buildings, plant and equipment. We call this 'Monitoring as a Service' and it is the core of our predictive maintenance offering.

Other fast-growing technology applications include our MiTec centre, Fire & Security systems and our security operations centre. Our approach isn't just transforming clients' organisations, it is transforming Mitie and consolidating our position as the UK's leader in FM.

Outlook

We expect to continue to grow revenue organically at 3%-4% in the medium term. For FY 19/20 we expect operating profit to grow at mid-single digits – with revenue growth and cost savings partially offset by the dilutive effect of the FY 18/19 contract renewals and continued reinvestment in our business. Project Forte and focus on strategic accounts and larger businesses should drive operating profit margin in the medium term to our target of 4.5%-5.5%.

Looking ahead

Mitie's transformation continues at pace. Our strength is supported by great customers and loyal staff. Through our use of technology and expertise, we are leading the field, transforming our operations and how we interact with our clients. Change has been challenging at times, but our progress and performance to date are encouraging. Revenue is growing, Project Helix has allowed us to lay solid foundations for the business and in addition to wins across the business, the CCS Framework presents a considerable opportunity. Mitie is in a strong position for future growth and we look forward to the year ahead.

Phil Bentley

Chief Executive Officer

Dividend

The Board has recommended a final dividend of 2.67p in respect of FY 18/19, making the total full-year dividend 4.0p per share (FY 17/18: 4.0p per share). We expect to hold the dividend flat at least until the completion of the transformation programme when we will review the policy.

The following is the dividend timetable for shareholders' information:

Ex-dividend date: 27 June 2019

Record date: 28 June 2019

Drip election date: 15 July 2019

AGM: 30 July 2019

Payment date: 9 August 2019

Reporting schedule

We will be providing updates for Q1 at the AGM and Q3 in January in lieu of pre-close statements. We will be reporting H1 results in November and full-year results in June.

FINANCE REVIEW

Whilst we have accomplished a great deal during this second year of our transformation, there remains more to do as we continue our journey towards a One Mitie way of delivering our products and services. Following the centralisation of our core support functions last year, the majority of the transactional activity for IT and Finance is now being undertaken offshore by global process experts and we have introduced new systems across the business, including recruitment platforms for temporary and permanent staff.

Our revenues and profits are growing, both at a headline level, and also on an organic basis excluding the impact of M&A. We have started to focus our business through the acquisition of the VSG Security business and the sale of our Pest Control and Social Housing businesses.

We have again made progress in reducing our leverage and strengthening our balance sheet with further reductions in off-balance sheet finance, improved supplier payment performance and proceeds from our disposals programme. Going forward, we expect to continue to reduce leverage.

Following the transfer of our finance transactional processing to Genpact (a business process outsourcing provider, operating out of Kolkata, India) in April/May 2018 we have now initiated a broader finance modernisation programme. The initial Genpact move entailed a lift-and-shift approach which caused issues in the first few months due to the multiplicity of processes used across Mitie. These issues have now been largely resolved and we have turned our attention to ongoing improvement in the function through our finance modernisation programme. This is focused on finance process simplification and standardisation, cleansing our master data and upgrading finance systems and tools across the business with a view to paying our suppliers quicker, reducing our processing costs through automation and further accelerating our order-to-cash cycle.

Reported financial performance

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

£m	FY 18/19	FY 17/18	*Change, %*
Revenue	**2,221.4**	2,030.6	*9.4*
Operating profit before other items	**88.2**	83.2	*6.0*
Other items	**(38.0)**	(82.1)	*nm*
Operating profit	**50.2**	1.1	*nm*

Reported revenue from continuing operations was £2,221.4m compared with £2,030.6m in FY17/18. The Group reported an operating profit before other items from continuing operations of £88.2m (FY 17/18: £83.2m).

Reported balance sheet

£m	FY 18/19	FY 17/18	*Change, £m*
Goodwill and intangible assets	**344.5**	347.9	*(3.4)*
Property, plant and equipment	**29.0**	33.6	*(4.6)*
Working capital balances	**(216.9)**	(198.2)	*(18.7)*
Net debt	**(140.7)**	(193.5)	*52.8*
Retirement benefit liabilities	**(63.8)**	(56.8)	*(7.0)*
Deferred tax	**35.8**	35.9	*(0.1)*
Other net (liabilities)/assets	**(0.3)**	7.1	*(7.4)*
Total net (liabilities)/assets	**(12.4)**	(24.0)	*11.6*

The Group is reporting net liabilities at 31 March 2019 of £12.4m (FY 17/18: £24.0m), with an improvement in net debt, offset by a larger negative working capital balance and an increase in retirement benefit liabilities.

New accounting standards

The Group adopted IFRS 15, 'Revenue from Contracts with Customers' in FY 17/18, as previously described in the Annual Report and Accounts 2018.

IFRS 9

IFRS 9 'Financial instruments' became effective for the Group starting 1 April 2018 and replaced the requirements of IAS 39 'Financial instruments: recognition and measurement'. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new Expected Credit Loss (ECL) model for the impairment of financial assets, revisions to the hedge accounting model, and amendments to disclosures. The Group elected, from 1 April 2018, to continue to apply the hedge accounting guidance in IAS 39.

With respect to loss allowances for trade receivables, IFRS 9 replaced the 'incurred loss' model in IAS 39 with an ECL model. The Group, from 1 April 2018, measures loss allowances for trade receivables and accrued income at an amount equal to lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience and forward-looking information. The Group has determined that the transition to IFRS 9 resulted in an additional loss allowance for trade receivables and accrued income as at 1 April 2018 of £2.5m and gave rise to a tax credit of £0.4m. The additional loss allowance has been applied as an adjustment to opening retained earnings at 1 April 2018 and therefore, the prior year comparative information is not restated.

Future accounting standards – IFRS 16

IFRS 16 'Leases' became effective for the Group from 1 April 2019 and replaces the requirement of IAS 17 'Leases'. An asset representing the Group's right as a lessee to use a leased item, and a liability for future lease payments, will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in the consolidated income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the accounting for finance leases under IAS 17, but substantively different to the accounting for operating leases (under which no lease asset or lease liability was recognised, and rentals payable were charged to the consolidated income statement on a straight-line basis).

As a result of adopting the new rules, for the year ending 31 March 2020, the Group expects net profit before tax to increase by between £nil and £3m. Operating profit is expected to increase by between £24m and £29m as the operating lease rentals payable which were previously included in operating profit are excluded from this measure. In addition, operating cash flows are expected to increase by between £24m and £29m as repayment of the lease liabilities is reclassified as cash used in financing activities and net debt will increase by between £81m and £86m.

Alternative Performance Measures (APM)

The Group presents its key financial analysis as the results of continuing operations before other items as the Directors believe this is most useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. Accordingly, the Group separately reports the impairment of goodwill, the cost of restructuring programmes, acquisition and disposal costs (including the write-off and amortisation of acquisition related intangible assets) as 'other items'.

Divisional breakdown of financial performance

Revenue, £m	**FY 18/19**	**FY 17/18**	***Change, %***
Engineering Services	**905.7**	886.3	*2.2*
Security	**536.5**	432.0	*24.2*
Professional Services	**131.4**	131.2	*0.2*
Cleaning & Environmental Services	**404.4**	384.1	*5.3*
Care & Custody	**107.3**	59.9	*79.1*
Catering	**136.1**	137.1	*(0.7)*
Total	**2,221.4**	2,030.6	*9.4*

The Group's revenue increased in the year, from £2,030.6m to £2,221.4m. This was principally due to a significant contract win in Care & Custody, the acquisition of VSG in Security and good underlying growth in our Engineering Services strategic accounts and in Security and Cleaning. Organic revenue growth was 5.5%.

Operating profit before other items, £m	**FY 18/19**	**FY 17/18**	***Change, %***
Engineering Services	**58.7**	54.1	*8.5*
Security	**30.7**	27.5	*11.6*
Professional Services	**5.6**	5.6	*0.0*
Cleaning & Environmental Services	**17.5**	19.6	*(10.7)*
Care & Custody	**3.9**	1.9	*105.3*
Catering	**5.2**	5.6	*(7.1)*
Corporate centre	**(33.4)**	(31.1)	*7.4*
Total	**88.2**	83.2	*6.0*

Operating profit before other items increased by 6.0% in the year from £83.2m to £88.2m, reflecting good growth in strategic accounts and projects in Engineering, the significant contract win in Care & Custody, strong underlying growth in Security in addition to the impact of the acquisition of VSG, partly offset by ongoing investment in customer service and the reinstatement of staff incentives.

Other items

Other items, £m	**FY 18/19**	**FY 17/18**
Restructure costs	**(15.1)**	(47.0)
Acquisition and disposal related costs	**(8.7)**	(8.4)
Gain on bargain purchase of VSG	8.8	-
Pension scheme Section 75 debt	**(20.0)**	-
Impairment of goodwill	**-**	(22.7)
Other	**(3.0)**	(4.0)
Total other items before tax	**(38.0)**	(82.1)
Tax credit on other items	**7.4**	10.0
Other items after tax	**(30.6)**	(72.1)

Disappointingly, other items before tax remain high at a charge of £38.0m, albeit significantly lower than last year (FY 17/18: £82.1m). The main components are restructure costs and a provision for the Section 75 debt on the plumbers' pension scheme. The tax credit on these other items was £7.4m (FY 17/18: £10.0m).

Tax contribution

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

Mitie is a significant contributor of revenues to the UK Exchequer, paying £529.3m in the year ended 31 March 2019 (FY 17/18: £481.2m). This comprised £534.3m (FY 17/18: £492.8m) of indirect taxes including business rates, VAT and payroll taxes paid and collected less a £4.7m (FY 17/18: £11.6m) refund of UK corporation tax. The tax refund was due to the utilisation of losses resulting from the accounting adjustments in earlier years' accounts. As Mitie's business is primarily based in the UK, the effective tax rate should track the UK statutory tax rate.

There was a tax charge of £6.4m (FY 17/18: £1.1m) on the profit before tax of £36.4m (FY 17/18: loss before tax £15.4m).

Discontinued operations

During the year, Mitie sold its Social Housing business to Mears, with the sale completing on 30 November 2018. As a result, the business is classified as a discontinued operation as at 31 March 2019. This business formed part of the Property Management division. Following this sale, the roofing and painting businesses of the former Property Management division were integrated into the Projects business of Engineering Services.

In addition, Mitie disposed of its Pest Control business (previously included in the Cleaning & Environmental Services division) to Rentokil Group plc, with the sale completing on 30 September 2018. This is also consequently classified as a discontinued operation as at 31 March 2019.

Discontinued operations contributed a profit after tax before other items of £3.1m (FY 17/18: £5.6m). Other items before tax were a charge of £6.0m (FY 17/18: £15.8m) and included a gain on disposal of Pest Control of £27.6m, a loss on disposal of the Social Housing business of £11.7m and a £20.5m charge for various remediation and rectification liabilities associated with the Social Housing business. The tax credit on other items was £3.8m (FY 17/18: £0.7m).

Dividends

The full-year dividend is 4.0p per share (FY 17/18: 4.0p per share), comprising an interim dividend of 1.33p per share and a final dividend recommended by the Board of 2.67p per share.

Goodwill and intangible assets

Goodwill and intangible assets of £344.5m (FY 17/18: £347.9m) were held on the balance sheet at 31 March 2019. The small reduction can be explained by a reduction in goodwill due to disposals of the Social Housing and Pest Control businesses during the year, largely offset by an increase in intangible assets from the recognition of a customer relationships intangible asset on the acquisition of VSG and additional internally generated intangible assets from software development to enhance customer experience.

Cash flow

The Group continued to strengthen its balance sheet during the year, assisted by two business disposals. Utilisation of non-recourse invoice discounting was reduced slightly during the year, while supplier payment performance was improved.

Overall operating cash inflow, before movements in working capital was £39.5m (FY 17/18: £67.2m). This includes defined benefit pension contributions of £11.6m (FY 17/18: £4.7m). Cash generated from operations during the year was £47.5m (FY 17/18: £7.9m used in operations) including a working capital inflow of £8.0m (FY 17/18: outflow of £75.1m). The working capital movement is explained in more detail below.

After paying interest of £12.4m (FY 17/18: £13.5m) and receiving corporation tax refunds of £4.7m (FY 17/18: £11.6m), net cash inflow from operating activities was £39.8m (FY 17/18: outflow of £9.8m). Capital expenditure reduced by £1.5m compared to the prior year to £23.3m (FY 17/18: £24.8m), while the business generated £43.5m from the proceeds of disposals net of acquisitions. Dividends of £14.4m were paid in the year (FY 17/18: £4.8m).

Overall this resulted in a reduction of the Group's net debt of £52.8m (FY 17/18: £46.3m increase) to £140.7m (FY 17/18: £193.5m).

Working capital

Working capital movements resulted in an inflow for the year of £8.0m. The complex process of outsourcing transactional processing activities in April 2018 caused trade and other receivable balances to increase, resulting in a working capital outflow of £34.0m in the first half. The situation has now been addressed. Working capital reduced by £42.0m in the second half of the year.

Whilst the Group has been focused on improving its working capital cycle it has also considered its responsibilities to the supply chain by being fair in respect of payment performance. Supplier payment terms were reduced by eight days over the full year, with the improvement taking place skewed to the second half. This was partially achieved by unilaterally reducing payment terms for a number of our suppliers meaning that they have now reduced their need for supply chain finance. Consequently, the use of the supply chain finance facility reduced by £25.1m. The working capital outflow associated with this reduction in payment terms was offset by an increase in provisions of £25.5m. These provisions predominantly relate to the now disposed Social Housing business. Along with other M&A

related working capital balances, they are expected to result in a cash outflow of c. £40m over the next two years.

The Group also marginally reduced its utilisation of non-recourse customer invoice discounting by £3.1m to £73.2m (FY 17/18: £76.3m). The invoice discounting facilities are non-recourse and are therefore netted off against trade and other receivables within the balance sheet.

Net debt

Net debt is the aggregation of the Group's borrowings net of cash in hand. The Group's net debt reduced by £52.8m to £140.7m as at 31 March 2019 (FY 17/18: £193.5m). After a poor start to the year following the outsourcing of finance transactional processing, Q4 showed positive progress on our journey to reduce the volatility of working capital. Average daily net debt in Q4 was £31m lower than the same period last year with average daily borrowings of £278m (Q4 17/18: £309m). This improved position was largely achieved through a combination of business disposal proceeds and improved customer cash collection performance, at the same time as paying our suppliers more quickly. The net debt position benefited from disposal proceeds, net of acquisitions and acquisition and disposal related costs, of £40.9m.

Liquidity and covenants

As at 31 March 2019, the Group had £466.5m of committed funding arrangements (FY 17/18: £466.5m). The £275m multi-currency Revolving Credit Facility (RCF) matures in July 2021. The £191.5m of US Private Placement notes are spread over three maturities: December 2019 £40.0m; December 2022 £121.5m; and December 2024 £30.0m.

Mitie's two key covenant ratios are leverage (ratio of net debt to covenant EBITDA to be no more than 3 times) and interest cover (ratio of covenant EBITDA to net finance costs to be no less than 4 times). As at 31 March 2019, we were operating comfortably within these ratios at 1.33x for leverage and 8.8x for interest cover.

The principal financial covenant ratios (leverage and interest cover) for our committed funding arrangements are tested every six months. Following an amendment agreed on 29 March 2019, all future covenant calculations will be on an IFRS 15 basis. The covenants continue to exclude the future impact of IFRS 16.

As is usual for corporate facilities, the definition of key metrics in Mitie's finance agreements is somewhat different to its reported numbers and this is outlined in the table below. This table shows that Mitie remains comfortably within its covenant requirements. In this instance, the prior year comparatives are not provided, as while Mitie had adopted IFRS 15 in FY 17/18, its covenant reporting at that time remained on a pre-IFRS 15 basis, making comparison unhelpful.

Banking covenant calculations

£m		FY 18/19
Continuing operations		88.2
Discontinued operations		4.0
Operating profit before other items		**92.2**
Add: depreciation & amortisation		20.8
Headline EBITDA		**113.0**
Deduct: covenant adjustments		(7.1)
Consolidated EBITDA	**(a)**	**105.9**
Full-year effect of acquisitions & disposals		(2.3)
Adjusted consolidated EBITDA	**(b)**	**103.6**
Net finance costs		(13.8)
Less: covenant adjustments		1.7
Consolidated net finance costs	**(c)**	**(12.1)**
Interest cover (ratio of (a) to (c) must exceed 4.0x)		**8.8x**
Net debt		(140.7)
Impact of hedge accounting & upfront fees		3.0
Consolidated total net borrowings	**(d)**	**(137.7)**
Leverage (ratio of (d) to (b) must not exceed 3.0x)		**1.33x**

Mitie's intention is to consistently maintain adequate headroom within its committed facilities. In addition to its committed funding, the Group utilises ancillary facilities, including invoice discounting of £73.2m (FY 17/18: £76.3m). The Group's trade creditors include amounts due to UK suppliers which make use of supply chain finance arranged by Mitie of £20.0m (FY 17/18: £45.1m).

Retirement benefit schemes

The net defined benefit pension liability at 31 March 2019 for the Mitie Group scheme was £61.4m (FY 17/18: £54.8m). The increase in the deficit is principally due to a 20bps decrease in the discount rate driven by reductions in corporate bond rates since 31 March 2018. The latest valuation of the Mitie Group scheme as at 31 March 2017, indicated an actuarial deficit of £74.0m (31 March 2014: £6.0m), largely due to a fall in discount rates since 2014. The Group has agreed a deficit recovery plan with the Trustee for further payments totalling £64.8m in instalments until 31 March 2025.

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. As at 31 March 2019, Mitie's net defined pension liability in respect of these schemes, which it is committed to funding, amounted to £2.4m (FY 17/18: £2.0m).

In addition, the Group also participates in four industry multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme. These schemes are accounted for as defined contribution schemes, either because the assets and liabilities cannot be apportioned among employers or the amounts involved are not significant. Contributions to these schemes for FY 19/20 are expected to be approximately £0.1m. The Group is exposed to Section 75 employer debts in respect of two of these schemes. These liabilities crystallise when the Group ceases to have any active employees in the schemes. In the last few months, the Group received a Section 75 demand in respect of the plumbers' pension scheme for £20.0m. This has been provided for in full.

OPERATING REVIEW

Engineering Services

£m	**FY 18/19**	**FY 17/18**	***Change, %***
Revenue	**905.7**	886.3	*2.2*
Operating profit before other items	**58.7**	54.1	*8.5*
Operating margin before other items, %	***6.5***	*6.1*	*0.4 ppt*
Order book	**1,802.7**	2,039.2	*(11.6)*

Performance highlights

- Good growth of operating profit before other items driven by a strong performance in the major accounts
- Encouraging improvements in engineer productivity
- Phase I of Engineering Services transformation under Project Helix completed
- Engineering Services transformation is moving into Project Forte

Operational performance

Engineering Services had another year of good operating profit growth driven by a strong performance in the major accounts. The business focused on reducing layers and increasing spans of control, whilst continuing to invest in customer service and technology to enhance the quality and efficiency of the service we provide. We have also listened to and acted upon customer feedback. We are clearly seeing the impact of our investment into service with our divisional NPS up 30 points year-on-year.

Another area of focus was the productivity of our engineers where we have seen encouraging improvements in utilisation with a 7% increase in productivity, a 3% (c.£3m) reduction in core subcontractor spend and a subsequent increase in profitability. This increased productivity has been partly driven by a 20% reduction in travel time which has in turn allowed us to reduce the backlog in jobs by 20% and therefore provide a better service to our customers. Additional year-on-year indirect cost reductions included a 12% (c.£2m) decrease in vehicle costs and a 4% (c.£0.1m) drop in staff travel expenses. We have created a data hub which allows benchmarking, best practice and standardisation to enable these improvements.

We also took steps to reduce complexity in our business. On the customer front we actively focused on revenue quality by serving our top clients better. We made a decision to no longer pursue smaller and less profitable opportunities and to proactively exit low-margin contracts. With regard to the supply chain, we reduced our supplier base by 25% by migrating to fewer strategic partners, enabling meaningful economies of scale. There is further opportunity in these areas.

Under Project Helix, we have now completed Phase 1 of the Engineering Services transformation. This included the roll-out of PDAs to our engineers and related training; the introduction of a dashboard enabling better performance management of all organisational levels including engineers; and launching our Click pilot (automated engineer scheduling and deployment tool). We also introduced incentive schemes for engineers to aim for first-time-fix and greater efficiencies.

The next phase of transformation for Engineering Services is grouped under Project Forte and will include changes to the culture, processes and technology underpinning the business. This will include the scheduling and deployment system roll-out and a new case management and billing application. The objective is to drive further improvements for our customers and our staff by using technology to improve productivity and service delivery.

The programme will also include Group-wide initiatives aimed at organisational consolidation and further cost reductions by automating manual and paper-based processes. Project Forte is expected to run for approximately two years with associated cost of implementation of c.£30m and estimated exit gross run-rate benefits of c.£30m by March 2021.

In FY 18/19 Mitie Property Management's roofing and painting businesses were integrated into Engineering Services following the sale of the Social Housing business in November 2018. Incorporating these two business units into the ES projects business broadened the overall offering under the projects umbrella and boosted cross-selling opportunities across Mitie. It also allowed the sales teams to share leads and be proactive in capturing opportunities with customers. Overall, this combination is starting to gain traction in the market and is helping to make Mitie known as a one-stop projects business.

From the start of FY 19/20 several business units of the current Professional Services division will be incorporated into an enlarged Engineering Services division. These include Connected Workspace, International Services, Occupier Services and Sustainability. The logic behind the move is that these services are closely aligned to our largest integrated accounts where engineering services are central to our offer. We will therefore be able to improve and broaden our customer product offering in a manner that more closely aligns with our customers' needs. To facilitate these changes we have strengthened the Engineering Services leadership team with senior appointments in mobile engineering, strategic accounts and critical infrastructure.

Engineering Services revenue comprises fixed contract work and variable work. During the year we broadened the capability of our commercial team by setting up a new dedicated sales team focused on winning more variable and project-based work with our existing and potential clients. The order book declined 11.6% to £1,802.7m in the year as the unwinding of existing contracts exceeded new wins and renewals underpinned by more disciplined bidding.

We extended a number of contracts, including a five-year contract worth £17m with Gatwick Airport and a two-year extension with Vodafone. We won new business as part of integrated FM contracts with a major UK retailer, a major infrastructure company, Connect Group and Yorkshire Building Society. We also won several single service contracts, including a contract with construction firm Willmott Dixon to provide mechanical and electrical services for Bournemouth University.

We also enhanced our focus on the government sector enabling us to qualify as a supplier of M&E services on the CCS FM Marketplace Framework which offers UK-wide facilities management opportunities across numerous public sector entities.

Financial performance

Revenue from continuing operations in the Engineering Services division was up 2.2% to £905.7m (FY 17/18: £886.3m), with growth in top accounts and related project work offsetting the impact of contracts lost during the prior year and a slower year in terms of contract wins. The top 50 Engineering Services contracts continued to deliver good growth in both volumes and profitability on the back of project and variable work volumes with revenue growth of 8% and 70 basis points improvement in gross profit margin. Our projects business, which includes fire protection, painting and roofing, as well as project work within top accounts, grew its revenue by 4% and saw operating profit margin expansion of 80 basis points.

Operating profit for continuing operations before other items increased 8.5% to £58.7m (FY 17/18: £54.1m). This was due to a combination of strong performance in our largest accounts, exit from low-margin contracts and cost savings from the transformation programme, partly offset by the impact of contracts lost in the prior year and incremental investments into improving service levels.

Outlook

As we deepen our relationships with our largest customers we are increasingly seeing the demand for a broader service offering which includes the use of predictive maintenance technology, improved facilities performance management information and more energy efficiency from assets and buildings. By combining several existing Mitie businesses from the Professional Services division into one enlarged Engineering Services division, we will be able to meet these demands better. The market for Engineering Services remains fragmented but is still showing modest growth. We are optimistic about our future performance as we broaden our offering, particularly focusing on technology, and as we embark on a transformation of the business through Project Forte that will improve the customer experience whilst reducing our cost-to-serve.

Security

£m	FY 18/19	FY 17/18	*Change, %*
Revenue	**536.5**	432.0	*24.2*
Operating profit before other items	**30.7**	27.5	*11.6*
Operating margin before other items, %	**5.7**	*6.4*	*(0.7) ppt*
Order book	**971.5**	640.8	*51.6*

Performance highlights

- Strong year with a good performance across all business units together with a positive contribution from the acquisition of VSG
- Significant progress made in integrating VSG following its acquisition in October 2018
- Technology solutions playing a greater role in contributing to the overall profit growth

Operational performance

Security enjoyed another strong year with a good performance across all its major business units, together with a positive contribution from the acquisition of Vision Security Group Limited (VSG) in October 2018. The largest part of our security business is manned guarding where we saw good growth across all regions as we continue to develop our presence in the retail, logistics and critical security environment sectors.

The VSG acquisition strengthened the position of Mitie's Security business as one of the leading providers of integrated and risk-based security services in the UK. The combination offers opportunities to accelerate the growth of Mitie's premium systems and technology-enabled and intelligence-led security solutions.

Significant progress has already been made in integrating VSG, aligning both operations and technology capabilities. We have consolidated operations into our new global security operations centre (GSOC), a single hub, located in Northampton. It will serve as a centre for intelligence and security industry experts with cutting-edge software tools to capture, translate, geolocate and alert to any major global incidents. This will become a hub for development of our intelligence cell and house our interactive customer control centre where we undertake live CCTV monitoring. In addition, we are employing innovative and unique methods of collating actual incidents and crime reports overlaid with national crime statistics to dynamically risk-rate individual locations to drive the efficient deployment of security resources for our customer sites.

Our industry-leading 24/7 communications and technology centre MiTec will be retained as our primary alarm receiving centre (ARC) responsible for delivering a wide range of remote services including CCTV, intruder, fire, access control and lone worker monitoring and dedicated client helpdesks. We are also creating a secondary ARC location at our Northampton GSOC to provide MiTec with added resilience. We will continue to focus on the growth of our Fire & Security Systems business as one of the leading providers of life safety solutions and innovative security systems in the UK. Through the integration of VSG's systems team, we have expanded our geographical footprint, increased our technical expertise levels and strengthened our operational model which is enabling us to deliver larger-scale projects and contracts for clients.

Mitie is a significant Front of House service provider through our Signature business. There are opportunities for growth, especially in major city conurbations and in particular the premium and London-centric corporate market.

Mitie's employee vetting business, Procius, continues to hold a strong position in the aviation industry whilst we are also seeing traction within commercial sectors. The focus here is on developing further technology-led solutions to automate, facilitate and speed up vetting processes.

In Document Management we continue to grow our customer base, attracting high-end law firms and corporate clients by offering technology-enabled document management and document processing outsourcing among other services. Through recent wins, we are expanding to include the delivery of our services to clients' regional offices.

The divisional NPS score improved by 15 points as we expand and enhance our offer and embed more technology solutions in our services. The secured order book before the impact from the VSG acquisition was up by 19%, with the unwinding of contracts more than offset by significant contract wins and successful retenders. We won a three-year contract with a multinational retail group and extended a contract with Springfields for a further three years. We also had a strong year for retaining clients, including two contract extensions for travel clients, Strathclyde Partnership for Transport (a further five years) and Eurostar (for two years). We successfully extended a contract with Belfast City Airport and won a high-profile contract from the CCS Framework. The total secured order book benefited from the acquisition of VSG and grew overall by 51.6% to £971.5m.

Financial performance

The Security division delivered a strong financial performance, with good organic growth together with a positive contribution from the VSG acquisition. Organic revenue grew by 5.8%, and overall revenue, including VSG, grew 24.2% to £536.5m (FY 17/18: £432.0m). Manned guarding, technology solutions including vetting services, and Document Management all delivered good growth following new sales wins and higher volumes of project and variable work. Front of House performance was impacted by loss of key contracts in the prior year.

Operating profit before other items increased 11.6% to £30.7m (FY 17/18: £27.5m) driven by contract wins and operational efficiency initiatives as well as a positive contribution from VSG's performance.

VSG enjoyed a very encouraging start under Mitie's ownership. After taking over a business which was trading at close to break-even, we are seeing a faster improvement in margins than originally planned at the initial integration stage. VSG's gross margin increased from 5% pre-takeover to 8% over its first trading period under Mitie's ownership.

Technology solutions are increasingly contributing to the overall revenue growth of the division and now account for 13% (FY 17/18: 12%) of the revenue (excluding VSG), driven by growth in Fire & Security systems, MiTec and vetting. MiTec is benefiting from the Detention & Escorting Services contract, won by the Care & Custody division in December 2017, while vetting is moving into the corporate space on top of its strong position in aviation.

The division finished the year with good momentum following successful contract wins towards the end of FY 18/19.

Outlook

The overall security market remains fragmented and manned guarding remains competitive and highly commoditised. In this context, Mitie's ability to provide a broader range of services gives a competitive advantage when bidding for and winning business. Retention is then enhanced through application of technology. We will continue to derive benefits from the VSG acquisition where the performance of major contracts will continue to benefit from ongoing price renegotiations, reducing revenue leakage, walking away from substandard arrangements and re-aligning the cost base.

Professional Services

£m	FY 18/19	FY 17/18	*Change, %*
Revenue	**131.4**	131.2	*0.2*
Operating profit before other items	**5.6**	5.6	*0.0*
Operating margin before other items, %	***4.3***	*4.3*	*0.0 ppt*
Order book	**86.9**	144.9	*(40.0)*

Performance highlights

- Divisional revenue performance was impacted by the exit from two loss-making international contracts and renewed focus on internal projects to support Mitie key accounts
- The Waste Management business retained two significant contracts and won the first phase of a significant contract with NHS Improvement
- Sustainability delivered a stable performance for the year
- The International business focused on re-balancing its portfolio towards higher-margin work

Operational performance

Whilst the Professional Services division showed a flat trading performance year-on-year, it recorded a high-profile win with NHS Improvement for Waste Management and it repositioned several of the other operating units to focus on driving overall Mitie performance by supporting key accounts. The benefits of these activities fall outside the division.

The Waste Management business retained two significant contracts during the year with a pharmaceuticals company and the UK branch of a global consumer goods company, both for a further two years. Contract wins during FY 18/19 included Bidfood, a commercial real estate services company and the first phase of a significant contract with NHS Improvement won from the CCS Framework, which was mobilised in October 2018.

The Sustainability business, including Energy, had a slow start to the year but gained momentum on the back of project work. The Water business was fully integrated during the year into the Sustainability business, which now encompasses all key utilities, enabling it to build a broader proposition for our customers.

The International business focused on re-balancing its portfolio towards higher-margin work and, as a consequence, we proactively exited two loss-making international contracts. At the same time, Mitie secured a facilities management and property services contract with Ahlsell – a hardware retailer – to manage and maintain all its stores in Norway. The order book declined 40% as contract wins and renewals only partly offset the delivery of contracts.

Financial performance

Professional Services, excluding the International business, delivered revenue growth in FY 18/19. However, the overall divisional performance was impacted by the reduction in revenue as we exited loss-making contracts in the International business. Overall revenue for the division was flat at £131.4m (FY 17/18: £131.2m). Waste grew strongly by 14%, including the new NHS Improvement contract. Sustainability delivered a stable performance for the year.

At the operating profit level, we benefited from exiting the loss-making international contracts, good cost discipline across the division and re-balancing our activities to target higher-margin work. Profitability was partly held back by a renewed focus on projects to support key Mitie strategic accounts and investments into Connected Workspace. Operating profit before other items was £5.6m (FY 17/18: £5.6m).

Outlook

Our Connected Workspace solutions are increasingly being focused on monitoring the critical environments of our largest clients, where we provide maintenance and engineering solutions. Given the close link between the client solutions required within our Engineering business, and several elements of the Professional Services division, we are embedding Connected Workspace, Occupier Services, International and Sustainability under Engineering Services from April 2019. We see this as an opportunity to enhance and improve our core engineering offering by using technology to monitor critical assets, thereby allowing us to deliver a proactive service. We also see the opportunity to improve the quality of information that customers receive to manage their facilities and their assets.

As part of these changes, Waste Management is moving to Cleaning & Environmental Services, and Risk Advisory Services is transferring into the Security division.

Cleaning & Environmental Services

£m	FY 18/19	FY 17/18	*Change, %*
Revenue	**404.4**	384.1	*5.3*
Operating profit before other items	**17.5**	19.6	*(10.7)*
Operating margin before other items, %	***4.3***	*5.1*	*(0.8) ppt*
Order book	**663.1**	656.3	*1.0*

Performance highlights

- The division delivered good revenue growth in a highly-competitive market environment; however, profits were negatively impacted by the dilutive effect of contracts won in prior years
- On 30 September 2018, we sold the Mitie Pest Control business unit to Rentokil Initial plc and entered into a preferred supplier partnership covering a range of services

Operational performance

On 30 September 2018, we sold the Mitie Pest Control business unit to Rentokil Initial plc and entered into a preferred supplier partnership covering a range of services. These services will be provided as part of an integrated facilities management offering to Mitie's wide range of customers. The transaction enables us to continue to provide specialist services to our clients whilst focusing on our core competencies.

Cleaning & Environmental Services (CES) delivered good revenue growth from continuing operations in a highly-competitive market environment where outsourcing remains a compelling option for clients. Margins still remain low. However, the division was negatively impacted by historical contracts with low margin. Offsetting this were cost savings arising from various delayering exercises to remove managerial roles.

In addition to our core Cleaning business, there are two significant stand-alone business units within the CES division. Our Landscape business is a specialist service where we enjoy a balanced mix of fixed and pay-as-you-go work throughout the year. This ensures a broadly stable performance with further upside during harsh winters. Mitie Healthcare provides a multi-service offering looking after a broad portfolio of NHS clients and has recently introduced a range of technology features to its offer, including dynamic performance dashboards, electronic meal ordering and the trialling of an intelligent automated portering system.

The division was successful in retaining a number of large clients as well as winning new clients partly as a consequence of a much improved NPS score, up 26 points year-on-year. The CES order book for continuing operations was up 1% to £663.1m. We extended our services with Epsom & St Helier University Hospital NHS Trust for cleaning and with Whitbread for landscaping. We also won a five-year landscaping contract with NHS/South Western Ambulance. Towards the end of FY 18/19, the division was successful in securing an extension to its 10-year partnership with St George's University Hospitals NHS Foundation Trust until 2030, which is worth £150 million and covers a range of services including cleaning, patient catering and facilities helpdesk services; the extension will also include waste management duties at one of the sites. At the same time, we have also taken steps to reduce the margin drag of new contracts by introducing tighter bidding discipline. As a consequence, growth in the near term will be slower.

Financial performance

CES revenues for continuing operations grew by 5.3% to £404.4m (FY 17/18: £384.1m) driven by the impact of prior year contract wins. However, operating profit for continuing operations before other items was down 10.7% to £17.5m (FY 17/18: £19.6m) due to unfavourable contract mix versus last year, only partly offset by savings from Project Helix. Within the division, Healthcare grew strongly on the back of the prior year wins, however, first-year mobilisation factors impacted profitability; this has now been addressed. Landscapes delivered a strong performance despite a particularly mild winter, with operating profit protected by a well-balanced portfolio of work, which hedges pay-as-you-go with fixed-price contracts.

Outlook

Over the next couple of years we expect steady growth in our Healthcare and Landscapes businesses. Cleaning is not expected to grow as we work on improving margins through disciplined bidding and re-balancing of the contract base.

Care & Custody

£m	**FY 18/19**	**FY 17/18**	***Change, %***
Revenue	**107.3**	59.9	*79.1*
Operating profit before other items	**3.9**	1.9	*105.3*
Operating margin before other items, %	**3.6**	*3.2*	*0.4 ppt*
Order book	**596.6**	670.1	*(11.0)*

Performance highlights

- Excellent year following the successful mobilisation and commencement of operations for the Detention & Escorting Services (D&E) Home Office contract and a strong delivery from existing contracts
- The division continues to expand its offering as it diversifies into adjacent areas to complement its core capabilities

Operational performance

The Care & Custody division had an excellent year, having almost doubled in size on the back of the successful mobilisation and commencement of operations for the sizeable D&E contract won in December 2017. In addition, the division benefited from strong delivery of existing contracts with police forces, custody support and Forensic Medical Examiner (FME) services. The D&E contract, the largest ever contract for the division, reinforces our role as the largest supplier of immigration detention services to the UK Government.

It is also allowing us to expand and gain expertise in areas adjacent to the core immigration detention and movement services. During the year, we won an electronic tagging of offenders contract in Northern Ireland. This opportunity is an entry point into electronic monitoring within the criminal justice system in other parts of the UK, where we are able to leverage Mitie Security's MiTec facility. Other wins included the Nottinghamshire FME services contract.

The order book declined 11% to £596.6m as the unwinding of long-term contracts was only partially offset by contract wins and renewals.

Following an announcement in November 2018 the Home Office unexpectedly closed Campsfield IRC, which was managed by Mitie. The contract expired in early 2019.

Financial performance

Care & Custody's revenues grew by 79.1% to £107.3m (FY 17/18: £59.9m) following the win and successful mobilisation of the D&E contract and good growth from existing contracts. Operating profit before other items increased by 105.3% to £3.9m (FY 17/18: £1.9m) driven by performance of the D&E contract and other contracts won in the prior year and includes the expensing of a net £3.3m of mobilisation costs for the D&E contract. Amounts related to these mobilisation activities were paid by the customer and will be released from deferred income over the term of the contract.

Outlook

As the division grows its core competencies and expands into adjacent services, the pipeline has expanded to include large opportunities such as the latest cycle of Prisoner Escort and Court Services contracts (PECS4). These are long-term cyclical opportunities with lengthy bidding lead times. Our clients are UK Government departments which are increasingly evaluating bids against surety of delivery, sustainability and quality of outcomes, all of which play well to Care & Custody's proposition. In a competitive market place, Care & Custody is well positioned to win contracts because we are growing in scale, enjoy a solid reputation with our public sector commissioners and clients, and continue to expand our offering as we diversify into adjacent areas (such as custodial movements) to complement our core capabilities.

Catering

£m	**FY 18/19**	**FY 17/18**	***Change, %***
Revenue	**136.1**	137.1	*(0.7)*
Operating profit before other items	**5.2**	5.6	*(7.1)*
Operating margin before other items, %	***3.8***	*4.1*	*(0.3) ppt*
Order book	**26.5**	34.7	*(23.6)*

Performance highlights

- The division delivered broadly flat performance at the revenue level and a decline at the operating profit level
- Growth in Gather & Gather was offset by weaker results in external events and venues through Creativevents
- Gather & Gather's differentiated wellbeing and sustainability-focused offer continues to gain traction in the market

Operational performance

Our Gather & Gather brand is a niche player in the catering sector with a well-articulated and differentiated offer which continues to gain traction. During FY 18/19, we saw further increases in the adoption of our wellbeing-led food concepts and consumer technology solutions. We also launched The Gathered Table – a unique collaboration between culinary, technology and sustainability experts to help fuel the continued development of Gather & Gather's innovative offer. The Gathered Table delivers pop-ups, menu content, training and client appearances to amplify Gather & Gather's influence on the health, productivity and engagement of the customers we serve every day.

During the year, Gather & Gather also qualified onto the London University Purchasing Consortium (LUPC), the largest higher education purchasing consortium in the UK. As a consequence, we won a significant £10-million 3+2-year contract with Edinburgh College – our first on the framework and our first in the further and higher education sector. This provides an opportunity to transform the catering experience for students and staff by bringing a contemporary approach to food, service and consumer technology.

Gather & Gather also secured other significant new wins in the year, including Dropbox. We were also successful in securing the opportunity to roll out a new café concept across some of Primark's UK and Ireland retail estate. The division also won work for Yorkshire Building Society and a major UK retailer as part of new or expanded integrated FM contracts.

The secured order book for the division declined 23.6% to £26.5m. The secured order book only includes fixed contract work, while c.96% of the divisional revenue in FY 18/19 came from point-of-sale contracts and variable work.

Financial performance

In FY 18/19, the Catering division delivered broadly flat revenue at £136.1m (FY 17/18: £137.1m) with improved momentum in H2 largely offsetting the contraction in H1. The core Gather & Gather workplace offering grew revenue and operating profit whilst the overall divisional performance was held back by weaker results in external events and venues through Creativevents. Against an inflationary backdrop, gross profit was stable as we partially mitigated food price inflation, reduced the use of consumables and disposables – reducing the overall cost to the business and improving our environmental footprint – and improved labour management discipline. Overall, operating profit before other items declined by 7.1% to £5.2m (FY 17/18: £5.6m) due to weaker performance in Creativevents.

Outlook

Whilst the catering sector remains under pressure from food price and labour inflation, the market offers opportunity for a well-respected brand such as Gather & Gather. Clients increasingly seek to enhance their catering facilities as key contributors to their talent attraction and retention strategies, by improving the customer experience, improving wellbeing and increasing sustainability. Gather & Gather has continued to demonstrate its ability to anticipate and satisfy these demands as the industry changes.

In this context, we expect a good year from Catering in FY 19/20 on the back of the annualisation of significant recent wins with 90% of revenue already secured. The Gather & Gather brand continues to offer a distinctive quality alternative to the large corporate caterers who dominate the mass market.

Discontinued operations

Below are the results of discontinued operations up to the date of disposal.

Pest Control

£m	**FY 18/19**	**FY 17/18**	***Change, %***
Revenue	**11.9**	22.3	*nm*
Operating profit before other items	**2.4**	2.6	*nm*
Operating margin before other items, %	***20.2***	*11.7*	*8.5 ppt*

On 30 September 2018, Mitie completed the sale of the entire issued share capital of Mitie Pest Control Limited to Rentokil Initial plc. Mitie separately entered into a preferred supplier partnership with Rentokil Initial plc, covering a range of services (including pest services) to be provided as part of integrated facilities management offerings to Mitie's wide range of customers.

Pest Control reported revenues of £11.9m (FY 17/18: £22.3m) and its operating profit before other items was £2.4m (FY 17/18: £2.6m). Pest Control was previously part of the Cleaning & Environmental Services division.

Social Housing

£m	FY 18/19	FY 17/18	*Change %*
Revenue	**89.1**	150.8	*nm*
Operating profit before other items	**1.6**	3.8	*nm*
Operating margin before other items, %	***1.8***	*2.5*	*(0.7) ppt*

In November 2018, the Group sold the Social Housing business to Mears Group plc. The Social Housing business was previously part of the Property Management division, together with the roofing and painting business units which have been integrated into the Engineering Services division.

The consideration comprised an initial payment of £22.5m, which was paid in cash at completion. No fair value was recognised on the further contingent consideration of up to £12.5m, payable in cash after two years post completion which is subject to the achievement of certain performance milestones. The Group has retained liabilities for a number of legacy contracts in the Social Housing business.

In FY 18/19 the Social Housing business reported revenues of £89.1m (FY 17/18: £150.8m) and operating profit before other items of £1.6m (FY 17/18: £3.8m).

Corporate overheads

Corporate overheads represent the costs of running the Group function and include costs for the commercial, financial, marketing, legal and HR teams. Corporate overheads have increased as we continue to invest in the foundations to deliver 'The Exceptional, Every Day'; leadership in the Connected Workspace; and accelerated growth. We also reinstated certain staff incentive schemes in FY 18/19 after suspending them for two years during the early stages of the Mitie turnaround. The main investments were into our commercial capability, upweighting our marketing, and strengthening our technology underpin. Corporate overheads increased by 7.4% to £33.4m (FY 17/18: £31.1m).

Public sector

Given the significant opportunities available in the public sector, we have recently set up a new public sector centre of excellence. This team will be responsible for assisting in any public sector work across Mitie as well as owning the overall relationship with the UK Government. During the year, we qualified as a supplier on Phase I of the Crown Commercial Service (CCS) FM Marketplace Framework, which will allow us to bid for facilities management contracts for UK Government departments, as well as Phase II, which will allow us to bid for defence facilities management as well as for security services and technical security contracts. Qualification as a supplier on the CCS Framework has added large opportunities to our pipeline. We have established a new public sector sales team who will coordinate bids from across the divisions into these key public sector accounts.

Consolidated income statement
For the year ended 31 March 2019

	Notes	2019 Before other items £m	2019 Other items[3] £m	2019 Total £m	2018[1,2] Before other items £m	2018[1,2] Other items[3] £m	2018[1,2] Total £m
Continuing operations							
Revenue	3	**2,221.4**	**–**	**2,221.4**	2,030.6	–	2,030.6
Cost of sales		**(1,923.9)**	**–**	**(1,923.9)**	(1,762.8)	–	(1,762.8)
Gross profit		**297.5**	**–**	**297.5**	267.8	–	267.8
Administrative expenses		**(209.3)**	**(38.0)**	**(247.3)**	(184.6)	(82.1)	(266.7)
Operating profit/(loss)	3	**88.2**	**(38.0)**	**50.2**	83.2	(82.1)	1.1
Finance income		**0.2**	**–**	**0.2**	0.1	–	0.1
Finance costs		**(14.0)**	**–**	**(14.0)**	(16.6)	–	(16.6)
Net finance costs		**(13.8)**	**–**	**(13.8)**	(16.5)	–	(16.5)
Profit/(loss) before tax	3	**74.4**	**(38.0)**	**36.4**	66.7	(82.1)	(15.4)
Tax	6	**(13.8)**	**7.4**	**(6.4)**	(11.1)	10.0	(1.1)
Profit/(loss) from continuing operations after tax		**60.6**	**(30.6)**	**30.0**	55.6	(72.1)	(16.5)
Discontinued operations							
Profit/(loss) from discontinued operations	5	**3.1**	**(2.2)**	**0.9**	5.6	(15.1)	(9.5)
Profit/(loss) for the year		**63.7**	**(32.8)**	**30.9**	61.2	(87.2)	(26.0)
Attributable to:							
Equity holders of the parent		**63.7**	**(32.8)**	**30.9**	60.1	(87.2)	(27.1)
Non-controlling interests		**–**	**–**	**–**	1.1	–	1.1
		63.7	**(32.8)**	**30.9**	61.2	(87.2)	(26.0)
Earnings/(loss) per share (EPS) attributable to equity holders of the parent							
From continuing operations:							
Basic	8	**16.8p**		**8.3p**	15.2p		(4.9)p
Diluted	8	**16.7p**		**8.3p**	15.1p		(4.9)p
From continuing and discontinued operations:							
Basic	8	**17.7p**		**8.6p**	16.8p		(7.6)p
Diluted	8	**17.5p**		**8.5p**	16.7p		(7.6)p

Notes:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Re-presented to classify the Pest Control and Social Housing businesses as discontinued operations. See Note 1.
3. Other items are as described in Note 4.

Consolidated statement of comprehensive income
For the year ended 31 March 2019

	Notes	2019 £m	2018[1] £m
Profit/(loss) for the year		**30.9**	(26.0)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of net defined benefit pension liability	21	**(13.9)**	19.7
Income tax credit/(charge) relating to items not reclassified	6	**2.4**	(3.4)
		(11.5)	16.3
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(0.3)**	0.1
Gains on hedge of a net investment taken to equity		**0.1**	0.4
Net gains on cash flow hedges arising during the year		**2.2**	0.1
Income tax (charge)/credit relating to items that may be reclassified	6	**(0.3)**	0.1
		1.7	0.7
Other comprehensive (expense)/income for the financial year		**(9.8)**	17.0
Total comprehensive income/(expense) for the financial year		**21.1**	(9.0)
Attributable to:			
Equity holders of the parent		**21.1**	(10.1)
Non-controlling interests		**–**	1.1

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

Consolidated balance sheet
As at 31 March 2019

	Notes	2019 £m	2018[1] £m
Non-current assets			
Goodwill	9	**293.8**	309.6
Other intangible assets	10	**50.7**	38.3
Property, plant and equipment		**29.0**	33.6
Interest in joint ventures and associates		**–**	0.8
Derivative financial instruments	18	**16.4**	6.1
Contract assets	12	**4.5**	1.8
Deferred tax assets	16	**38.7**	36.7
Total non-current assets		**433.1**	426.9
Current assets			
Inventories		**5.6**	6.9
Trade and other receivables	11	**435.2**	386.0
Contract assets	12	**1.6**	0.4
Current tax assets		**–**	6.3
Cash and cash equivalents		**108.4**	59.8
Total current assets		**550.8**	459.4
Total assets		**983.9**	886.3
Current liabilities			
Trade and other payables	13	**(533.9)**	(496.8)
Deferred income	14	**(54.9)**	(46.2)
Current tax liabilities		**(0.3)**	–
Financing liabilities	17	**(40.7)**	(0.8)
Provisions	15	**(50.6)**	(25.2)
Total current liabilities		**(680.4)**	(569.0)
Net current liabilities		**(129.6)**	(109.6)
Non-current liabilities			
Deferred income	14	**(18.4)**	(18.8)
Financing liabilities	17	**(224.8)**	(258.6)
Provisions	15	**(6.0)**	(6.3)
Retirement benefit liabilities	21	**(63.8)**	(56.8)
Deferred tax liabilities	16	**(2.9)**	(0.8)
Total non-current liabilities		**(315.9)**	(341.3)
Total liabilities		**(996.3)**	(910.3)
Net liabilities		**(12.4)**	(24.0)

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

Consolidated balance sheet
As at 31 March 2019

	2019 £m	2018[1] £m
Equity		
Share capital	**9.3**	9.3
Share premium account	**130.6**	130.6
Merger reserve	**104.2**	104.2
Own shares reserve	**(38.1)**	(43.4)
Other reserves	**10.3**	11.3
Hedging and translation reserve	**(5.6)**	(7.3)
Retained losses	**(223.1)**	(228.7)
Equity attributable to equity holders of the parent	**(12.4)**	(24.0)

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

Consolidated statement of changes in equity
As at 31 March 2019

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves[1] £m	Hedging and translation reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Adjusted balance at 1 April 2017	9.2	130.6	91.8	(42.2)	10.3	(8.0)	(212.4)	**(20.7)**	2.3	**(18.4)**
Loss for the year	–	–	–	–	–	–	(27.1)	**(27.1)**	1.1	**(26.0)**
Other comprehensive income	–	–	–	–	–	0.7	16.3	**17.0**	–	**17.0**
Total comprehensive expense	–	–	–	–	–	0.7	(10.8)	**(10.1)**	1.1	**(9.0)**
Dividends paid	–	–	–	–	–	–	(4.8)	**(4.8)**	–	**(4.8)**
Share-based payments	–	–	–	6.9	1.0	–	0.3	**8.2**	–	**8.2**
Acquisitions and other movements in non-controlling interests	0.1	–	12.4	(8.1)	–	–	(1.0)	**3.4**	(3.4)	**–**
At 31 March 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(228.7)	**(24.0)**	–	**(24.0)**
At 1 April 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(228.7)	**(24.0)**	–	**(24.0)**
Impact of change in accounting policy[2]	–	–	–	–	–	–	(2.1)	**(2.1)**	–	**(2.1)**
Adjusted balance at 1 April 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(230.8)	**(26.1)**	–	**(26.1)**
Profit for the year	–	–	–	–	–	–	30.9	**30.9**	–	**30.9**
Other comprehensive (expense)/income	–	–	–	–	–	1.7	(11.5)	**(9.8)**	–	**(9.8)**
Total comprehensive income	–	–	–	–	–	1.7	19.4	**21.1**	–	**21.1**
Dividends paid	–	–	–	–	–	–	(14.4)	**(14.4)**	–	**(14.4)**
Share-based payments	–	–	–	5.3	(1.0)	–	0.9	**5.4**	–	**5.4**
Other movements	–	–	–	–	–	–	1.8	**1.8**	–	**1.8**
At 31 March 2019	9.3	130.6	104.2	(38.1)	10.3	(5.6)	(223.1)	**(12.4)**	–	**(12.4)**

Notes:

1. Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve.
2. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impacts as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

Consolidated statement of cash flows
For the year ended 31 March 2019

	Notes	2019 £m	2018 £m
Continuing operations – operating profit before other items[1]		**88.2**	83.2
Continuing operations – other items[1]	4	**(38.0)**	(82.1)
Discontinued operations – operating loss after other items[1]		**(2.0)**	(9.4)
Adjustments for:			
Share-based payments expense		**5.0**	4.6
Defined benefit pension costs	21	**1.8**	3.1
Past service costs and curtailments	21	**1.6**	1.9
Defined benefit pension contributions	21	**(11.6)**	(4.7)
Depreciation of property, plant and equipment		**11.6**	12.8
Amortisation of intangible assets	10	**9.0**	13.5
Amortisation of contract assets	12	**0.8**	0.1
Share of profit of joint ventures and associates	5	**(0.5)**	(0.8)
Impairment of goodwill	9	**–**	34.6
Impairment of intangible assets	10	**1.1**	10.4
Gain on bargain purchase	20	**(8.8)**	–
Gain on disposal of property, plant and equipment		**(0.8)**	(0.1)
(Gain)/loss on disposal of subsidiaries	5	**(17.9)**	0.2
Other		**–**	(0.1)
Operating cash flows before movements in working capital		**39.5**	67.2
Decrease/(increase) in inventories		**0.4**	(0.1)
Increase in receivables		**(51.7)**	(43.2)
Increase in contract assets		**(4.7)**	(2.3)
Increase/(decrease) in deferred income		**5.1**	(12.8)
Increase/(decrease) in payables		**33.4**	(21.2)
Increase in provisions		**25.5**	4.5
Cash generated from/(used in) operations		**47.5**	(7.9)
Income taxes received		**4.7**	11.6
Interest paid		**(12.4)**	(13.5)
Net cash generated from/(used in) operating activities		**39.8**	(9.8)
Investing activities			
Acquisition of subsidiaries, net of cash acquired[2]	20	**(9.3)**	–
Disposal of subsidiaries, net of cash disposed[2]	5	**52.8**	(9.7)
Dividends received from joint ventures and associates		**–**	0.6
Interest received		**0.2**	0.2
Purchase of property, plant and equipment		**(12.1)**	(15.8)
Purchase of other intangible assets	10	**(11.2)**	(9.0)
Disposal of property, plant and equipment		**4.7**	1.6
Net cash generated from/(used in) investing activities		**25.1**	(32.1)

Notes:

1. Re-presented to classify the Pest Control and Social Housing businesses as discontinued operations. See Note 1.
2. Disposal of subsidiaries, net of cash disposed of £52.8m is stated net of £5.3m of transaction costs (see Note 5). The net cash inflow from acquisition and disposal of subsidiaries was £40.9m (2018: £9.7m outflow) including costs of £2.6m related to the VSG acquisition (see Note 4).

Consolidated statement of cash flows
For the year ended 31 March 2019

	Notes	2019 £m	2018 £m
Financing activities			
Increase/(repayments) of obligations under finance leases		**0.2**	(1.5)
Private placement notes repaid and associated hedges settled		**–**	(60.2)
(Repayments of)/proceeds from bank loans		**(2.1)**	38.3
Proceeds from re-issue of treasury shares		**–**	3.4
Purchase of non-controlling interests		**–**	(3.0)
Equity dividends paid	7	**(14.4)**	(4.8)
Net cash used in financing activities		**(16.3)**	(27.8)
Net increase/(decrease) in cash and cash equivalents		**48.6**	(69.7)
Net cash and cash equivalents at beginning of the year		**59.8**	129.1
Effect of foreign exchange rate changes		**–**	0.4
Net cash and cash equivalents at end of the year		**108.4**	59.8

The above statement of consolidated cash flows includes cash flows from both continuing and discontinued operations. Further details of the cash flows relating to discontinued operations are shown in Note 5.

Reconciliation of net cash flow to movements in net debt	Notes	2019 £m	2018 £m
Cash drivers			
Net increase/(decrease) in cash and cash equivalents		**48.6**	(69.7)
Decrease/(increase) in bank loans		**2.1**	(38.3)
Private placement notes repaid and associated hedges settled		**–**	60.2
(Increase)/repayments of obligations under finance leases		**(0.2)**	1.5
Non-cash drivers			
Non-cash movement in bank loans		**(0.2)**	(0.7)
Non-cash movement in private placement notes and associated hedges		**2.2**	0.3
Effect of foreign exchange rate changes		**0.3**	0.4
Decrease/(increase) in net debt during the year		**52.8**	(46.3)
Opening net debt		**(193.5)**	(147.2)
Closing net debt	19	**(140.7)**	(193.5)

1. Basis of preparation and significant accounting policies

The financial information presented in this preliminary announcement has been extracted from the Group's Annual Report and Accounts for the year ended 31 March 2019 and is prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the EU and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. With the exception of IFRS 9 Financial Instruments, the principal accounting policies adopted in the preparation of the financial information in this preliminary announcement are unchanged from those used in the Company's financial statements for the year ended 31 March 2018 and are consistent with those that the Company has applied in its financial statements for the year ended 31 March 2019. The Group adopted IFRS 9 Financial Instruments with effect from 1 January 2019 and has taken the transitional option not to restate comparative information, which is presented under the formerly adopted IAS 39 accounting policies. Details of the Group's transition to IFRS 9 are presented in Note 1.

The financial information set out above does not constitute the Company's statutory accounts for the current or prior year. Statutory accounts for the years ended 31 March 2019 and 31 March 2018 have been reported on by the Independent Auditor. The independent auditor's report for the year ended 31 March 2019 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

The independent auditor's report for the year ended 31 March 2018 was qualified on the basis that the Financial Statements did not agree with the requirement contained in IAS 1 to present a third balance sheet for the year ended 31 March 2016. Subsequently, the auditors were unable to determine the financial impact of any line item reclassification adjustment that may have arisen from this re-presentation to the income statement for the year ended 31 March 2017. Notwithstanding the foregoing, had these adjustments been presented in accordance with IAS 1, they would have had no impact on the reported net assets for the year ended 31 March 2016 or the reported loss for the year ended 31 March 2017. The independent auditor's report for the year ended 31 March 2018 did not draw attention to any matters by way of emphasis and, other than in relation to the matter identified above, did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 March 2018 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 March 2019 will be delivered to the Registrar following the Company's AGM.

(a) Basis of preparation

The Group's financial statements for the year ended 31 March 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore the Group's financial statements comply with Article 4 of the EU IAS Regulation.

The Group's financial statements have been prepared on the historical cost basis, except for certain financial instruments which are required to be measured at fair value.

Going concern

The Directors acknowledge the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014. The Directors have considered principal risks and uncertainties affecting the Group which are described in the Annual Report and Accounts for the year ended 31 March 2019.

The Group currently operates well within the financial covenants associated with its committed funding lines. These include £191.5m (being the repayment amount based on the original dollar exchange rates when issued) of US Private Placement debt maturing in December 2019, December 2022 and December 2024 and a committed multi-currency revolving credit facility of £275.0m which will expire in July 2021. These facilities give the Group total committed funding of £466.5m, of which £221.9m was undrawn at 31 March 2019.

The key ratios in these financial covenants are net debt to covenant EBITDA and covenant EBITDA to net finance costs. These covenants are tested on a rolling 12-month basis as at the September and March reporting dates. At 31 March 2019, both covenant tests were passed. The Group is forecasting to remain within its banking covenants over the next twelve months and has stress-tested these calculations for reasonable possible adverse variances in trading and cash performance.

Supported by the liquidity provided by committed banking facilities, notwithstanding the Group is in a net current liability position, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements.

Discontinued operations

On 30 September 2018, the Group completed the sale of Mitie Pest Control Limited (Pest Control) which previously formed a separate major line of business of the Group as part of the Cleaning & Environmental Services division. As a result of the disposal, the results of the Pest Control business have been classified as discontinued operations and comparative information has been restated.

On 19 November 2018, the Group entered into an agreement to sell Mitie Property Management Limited and MPS Housing Limited, together the Social Housing business, which previously formed a separate major line of business of the Group as part of the Property Management division. As a result of the disposal which was completed on 30 November 2018, the results of the Social Housing business have been classified as discontinued operations and comparative information has been restated. The remaining roofing and painting activities of the former Property Management division have been integrated into the Engineering Services division.

Accounting standards that are newly effective in the current year

With the exception of the adoption of IFRS 9 which is discussed below, none of the new standards and amendments that are effective for the first time this year have had a material effect on the Group.

IFRS 9 'Financial instruments' became effective for the Group starting 1 April 2018 and replaces the requirements of IAS 39 'Financial instruments: recognition and measurement'. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new Expected Credit Loss (ECL) model for the impairment of financial assets, revisions to the hedge accounting model, and amendments to disclosures. The Group elected, from 1 April 2018, to continue to apply the hedge accounting guidance in IAS 39 'Financial instruments: recognition and measurement'.

With respect to loss allowances for trade receivables, IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model. The Group, from 1 April 2018, measures loss allowances for trade receivables and accrued income at an amount equal to lifetime expected credit losses using both quantitative and qualitative information and analysis based on the Group's historical experience and forward-looking information. The Group has determined that the transition to IFRS 9 resulted in an additional loss allowance for trade receivables and accrued income as at 1 April 2018 of £2.5m and gave rise to a deferred tax credit of £0.4m. The additional loss allowance has been applied as an adjustment to opening retained earnings at 1 April 2018 and therefore, the prior year comparative information is not restated.

Other than as stated above, the accounting policies and methods of calculation adopted in the preparation of these Group consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 March 2018, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board and as adopted by the EU.

Accounting standards that are not yet mandatory and have not been applied by the Group

With the exception of IFRS 16 which is discussed below, none of the new standards and amendments that are not yet effective are expected to have a material effect on the Group.

IFRS 16 'Leases' became effective for the Group from 1 April 2019 and replaces the requirements of IAS 17 'Leases'. An asset representing the Group's right as a lessee to use a leased item, and a liability for future lease payments, will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in the consolidated income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the accounting for finance leases under IAS 17, but substantively different to the accounting for operating leases (under which no lease asset or lease liability was recognised and rentals payable were charged to the consolidated income statement on a straight-line basis).

During the year, management set up a project team to review the Group's leasing arrangements in light of the new lease accounting rules in IFRS 16. At 31 March 2019, the Group has non-cancellable operating lease commitments of £72.0m. Of these commitments, £1.4m relates to short-term leases and £0.1m to low-value leases which will be recognised on a straight-line basis as an expense in the consolidated income statement. For the remaining lease commitments, the Group expects to recognise, at 1 April 2019, right-of-use assets in the range of £82.0m to £87.0m, and lease liabilities in the range of £81.0m to £86.0m (after adjustments for prepayments and accrued lease payments recognised as at 31 March 2019). Overall net assets will be in the range of £4.0m lower to £6.0m higher and net current liabilities will be higher by between £21.0m and £26.0m due to the presentation of a portion of lease liabilities as a current liability.

As a result of adopting the new rules, for the year ending 31 March 2020, the Group expects net profit before tax to increase by between £nil and £3.0m. Operating profit is expected to increase by between £24.0m and £29.0m as the operating lease rentals payable which were previously included in operating profit are excluded. In addition, operating cash flows are expected to increase by between £24.0m and £29.0m as repayment of the lease liabilities is reclassified as cash used in financing activities.

The Group's activities as a lessor are not material and therefore, there is no significant impact from these activities on the consolidated financial statements as a result of adopting IFRS 16. However, certain additional disclosure may be required in the notes to the consolidated financial statements.

(b) Significant accounting policies

The significant accounting policies adopted in the preparation of the Group's IFRS financial information are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Mitie Group plc and all its subsidiaries. The Parent Company has applied FRS 101 'Reduced disclosure framework' in the preparation of its individual financial statements. FRS 101 applies IFRS as adopted by the European Union with certain disclosure exemptions.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The results, assets and liabilities of joint ventures and associates are accounted for under the equity method of accounting. Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring the accounting policies used into line with those used by the Group.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full.

Interests of non-controlling interest shareholders are measured at the non-controlling interest's proportion of the net fair value of the assets and liabilities recognised. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

Statutory and non-statutory measures of performance

In the financial statements, the Group has elected to provide some further disclosures and performance measures, reported as 'before other items', in order to present its financial results in a way that demonstrates the performance of continuing operations.

Other items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. The Group separately reports the impairment of goodwill, the cost of restructuring programmes, acquisition and disposal costs including the write-off and amortisation of acquisition related intangible assets, the results of and costs associated with disposals, and other exceptional items and their related tax effect as Other Items. Should these items be reversed, disclosure of this would also be as other items.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the period and the extent to which results are influenced by material unusual and/or non-recurring items. Further detail of other items is set out in Note 4.

In addition, following the guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authorities (ESMA), the Group has included an APM appendix to the financial statements.

Revenue recognition policy

The Group operates contracts with a varying degree of complexity across its service lines, so a range of methods is used for the recognition of revenue based on the principles set out in IFRS 15. Revenue represents income recognised in respect of services provided during the period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts

Step 1 – Identify the contract(s) with a customer

For all contracts with customers, the Group determines if the arrangement creates enforceable rights and obligations. This assessment results in certain Framework arrangements or Master Service Agreements (MSAs) not meeting the definition of contracts under IFRS 15 unless they specify the minimum quantities to be ordered. Usually the work order and any change orders together with the Framework or MSA will constitute the IFRS 15 contract.

Duration of contract

The Group frequently enters into contracts with customers which contain extension periods at the end of the initial term, automatic annual renewals, and/or termination for convenience and break clauses that could impact the actual duration of the contract. As the term of the contract impacts the period over which amortisation of contract assets and revenue from performance obligations may be recognised, the Group applies judgement to assess the impact that such clauses have in determining the relevant contract term. In forming this judgement, management considers certain influencing factors including the amount of discount provided, the presence of significant termination penalties in the contract, and the relationship, experience and performance of contract delivery with the customer and/or the wider industry, in understanding the likelihood of extension or termination of the contract.

Contract modifications

The Group's contracts are frequently amended for changes to customer requirements such as change orders and variations. A contract modification takes place when the amendment creates new enforceable rights and obligations or changes the existing price or scope (or both) of the contract, and the modification has been approved. Contract modifications can be approved in writing, by oral agreement, or implied by customary business practices.

If the parties to the contract have not approved a contract modification, revenue is recognised in accordance with the existing contractual terms. If a change in scope has been approved but the corresponding change in price is still being negotiated, the Group estimates the change to the total transaction price.

Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct goods or services. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Step 2 – Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Group to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers such as in the Group's integrated facilities management contracts, the Group applies judgement to consider whether those promised goods or services are:

i. distinct and accounted for as separate performance obligations;
ii. combined with other promised goods or services until a bundle is identified that is distinct; or
iii. part of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Group treats the series as a single performance obligation.

Step 3 – Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which the Group expects to be entitled and has rights under the contract. This includes the fixed price stated in the contract and an assessment of any variable consideration, up or down, resulting from e.g. discounts, rebates, service penalties. Variable consideration is typically estimated based on the expected value method and is only recognised to the extent it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal.

Step 4 – Allocate the transaction price to the performance obligations in the contract

The Group allocates the total transaction price to the identified performance obligations based on their relative stand-alone selling prices. This is predominantly based on an observable price or a cost plus margin arrangement.

Step 5 – Recognise revenue when or as the entity satisfies its performance obligations

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Group applies the relevant output or input revenue recognition method for measuring progress that depicts the Group's performance in transferring control of the goods or services to the customer.

Certain long-term contracts use output methods based upon surveys of performance completed, appraisals of results achieved, or milestones reached which allow the Group to recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services under the contract.

Under the input method, measured progress and revenue are recognised in direct proportion to costs incurred where the transfer of control is most closely aligned to the Group's efforts in delivering the service.

Where deemed appropriate, the Group will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Group has the right to invoice, where that amount corresponds directly with the value to the customer of the Group's performance obligations completed to date.

If performance obligations do not meet the criteria to recognise revenue over time, revenue is recognised at the point in time when control of the goods or services passes to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria. Sales of goods are recognised when goods are delivered and control has passed to the customer.

Long-term complex contracts

The Group has a number of long-term complex contracts which are predominantly integrated facilities management arrangements. Typically, these contracts involve the provision of multiple service lines, with a single management team providing an integrated service. Such contracts tend to be transformational in nature where the business works with the customer to identify and implement cost saving initiatives across the life of the contract.

The Group considers the majority of services provided within integrated facilities management contracts meet the definition of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time. The series constitutes services provided in distinct time increments (e.g. monthly or quarterly) and therefore the Group treats the series of such services as one performance obligation.

The Group also delivers major project-based services under long-term complex contracts that include performance obligations under which revenue is recognised over time as value from the service is transferred to the customer. This may be where the Group has a legally enforceable right to remuneration for the work completed to date, and therefore revenue will be recognised in line with the associated transfer of control.

Repeat service-based contracts (single and bundled contracts)

The Group operates a number of single or joint-service line arrangements where repeat services meet the definition of a series of distinct services that are substantially the same (e.g. the provision of cleaning, security, catering, waste, and landscaping services). They have the same pattern of transfer of value to the customer as the series constitutes core services provided in distinct time increments (e.g. monthly or quarterly). The Group therefore treats the series of such services as one performance obligation.

Short-term service-based arrangements

The Group delivers a range of other short-term service based performance obligations and professional services work across certain reporting segments for which revenue is recognised at the point in time when control of the service has transferred to the customer. This may be at the point when the customer obtains control of the service in a contract with customer-specified acceptance criteria e.g. the delivery of a strategic operating model or report.

Other revenue

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Contract costs

The Group incurs pre-contract expenses (e.g. legal costs) when it is expected to enter into a new contract. The incremental costs to obtain a contract with a customer are recognised within contract assets if it is expected that those costs will be recoverable. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense in the period.

Contract fulfilment costs

Costs incurred to ensure that the project or programme has appropriate organisational, operational and technical infrastructures, and mechanisms in place to enable the delivery of full services under the contract target operating model, are defined as contract fulfilment costs. Only costs which meet all three of the criteria below are included within contract assets on the balance sheet:

i. the costs directly relate to the contract (e.g. direct labour, materials, subcontractors);
ii. the Group is building an asset that will subsequently be used to deliver contract outcomes; and
iii. the costs are expected to be recoverable i.e. the contract is expected to be profitable after amortising the capitalised costs.

Contract fulfilment costs covered within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment are not capitalised as contract fulfilment assets but are treated in accordance with the other standard.

Amortisation and impairment of contract assets

The Group amortises contract assets (pre-contract costs and contract fulfilment costs) on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. The expense is recognised in the income statement in the period.

A capitalised pre-contract cost or contract fulfilment cost is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use.

The Group is required to determine the recoverability of contract related assets at each reporting date. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price which includes estimates around variable consideration. An impairment is recognised immediately where such losses are forecast.

Accrued income and deferred income

The Group's customer contracts include a diverse range of payment schedules which are often agreed at the inception of long-term contracts under which it receives payments throughout the term of the arrangement. Payments for goods and services transferred at a point in time may be at the delivery date, in arrears or part payment in advance.

Where revenue recognised at the period end date is more than amounts invoiced, the Group records accrued income for the difference. Where revenue recognised at the period end date is less than amounts invoiced, the Group recognises deferred income for the difference.

Certain arrangements with customers include a contractual obligation to make redundancies for which the Group is reimbursed for the costs incurred. Revenue is not recognised on these transactions. Instead, the Group expenses all redundancy costs in the period they are incurred and any reimbursement credit is matched against the associated cost included in the income statement up to the value of the redundancy cost incurred. Any cash payments received from the customer in excess of the associated cost of redundancy are deferred over the contract term and unwound in line with the other services being delivered.

Where price step-downs are required in a contract and output is not decreasing, revenue is deferred from initial periods to subsequent periods in order for revenue to be recognised on a consistent basis.

Providing the option for a customer to obtain extension periods or other services at a significant discount may lead to a separate performance obligation where a material right exists. Where this is the case, the Group allocates part of the transaction price from the original contract to deferred income which is then amortised over the discounted extension period or recognised immediately when the extension right expires.

Foreign currency

The financial statements of each of the Group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

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 recognised directly in equity.

On consolidation, the assets and liabilities of the Group's foreign operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing at the balance sheet date. Income and expenses are translated into sterling at average exchange rates for the period. Exchange differences arising are recognised directly in equity in the Group's hedging and translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs are recognised in the income statement in the period in which they are incurred, with the finance charges relating to the direct cost of debt issue spread over the period to redemption using the effective interest method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities; or when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed. The acquiree identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Negative goodwill representing a gain from a bargain purchase, is recognised directly in the income statement.

Where applicable, the consideration for an acquisition includes any assets or liabilities resulting from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information, obtained within one year from the acquisition date, about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in the income statement, in accordance with IFRS 9. Changes in the fair value of contingent consideration classified as equity are not recognised.

Any business combinations prior to 1 April 2010 were accounted for using the standards in place prior to the adoption of IFRS 3 (revised 2008) which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, of an investment in an associate or a joint venture.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. It is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement for the period and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets

Other intangible assets identified in a business acquisition are capitalised at fair value as at the date of acquisition.

Customer relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives.

Software and development expenditure is capitalised as an intangible asset if the asset created can be identified, if it is probable that the asset created will generate future economic benefits and if the development cost of the asset can be measured reliably. Software and development expenditure includes internally generated intangible assets and is amortised over its useful life once it has been brought into use.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are reviewed for impairment annually, or more frequently when there is an indication that they may be impaired. Amortisation expense is charged to administrative expenses in the income statement on a straight-line basis over its useful life.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost less expected residual value of the assets over their estimated useful lives and is calculated on a straight-line basis as follows:

Freehold buildings and long leasehold property	50 years
Leasehold improvements	period of the lease
Plant and vehicles	3–10 years

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

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.

Financial assets comprise trade and other receivables and cash and cash equivalents. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. All of the Group's cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Group's revenue streams are therefore initially measured at their transaction price (as defined in IFRS 15) and are subsequently remeasured at amortised cost. Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The assessment of impairment of trade receivables and accrued income from 1 April 2018 is in accordance with IFRS 9. The Group recognises a loss allowance for expected credit losses (ECL) on all receivable balances from customers subsequently measured at amortised cost, using the 'simplified approach' permitted under IFRS 9. In the prior year under IAS 39, appropriate allowances for estimated irrecoverable amounts were recognised including where there was objective evidence that the asset was impaired.

The Group uses a non-recourse customer invoice discounting facility (CID facility) under which certain trade receivable balances are sold to the Group's relationship banks. The arrangement with the banks is such that the customers remit cash directly to the Group and the Group transfers the collected amounts to the banks. The trade receivables are sold without recourse to the Group, and therefore the trade receivable balance is derecognised.

Financial liabilities comprise trade payables, financing liabilities, bank and other borrowings, deferred consideration and contingent consideration. These are measured at initial recognition at fair value and subsequently at amortised cost with the exception of contingent consideration which is measured at fair value through profit or loss. 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.

Included within the Group's trade creditors balance are amounts relating to payments due to UK suppliers which make use of bank provided supply chain finance arrangements to allow supplier early payment by the bank. Amounts are settled by the Group in accordance with each supplier's normal payment terms and payments continue to be classified within cash generated by operations. The Group does not receive any additional guarantees and does not pay any interest in relation to these amounts.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, including cross-currency interest rate swaps and forward foreign exchange contracts, to manage the Group's exposure to financial risks associated with interest rates and foreign exchange. Derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value, determined by reference to market rates, at each balance sheet date and included as financial assets or liabilities as appropriate. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

The Group may designate certain hedging instruments including derivatives as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

Hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

Cash flow hedges
Hedges are classified as cash flow hedges when they hedge the exposure to changes in cash flows that are attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity within the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

Hedges of net investments in foreign operations
Hedges are classified as net investment hedges when they hedge the foreign currency exposure to changes in the Group's share in the net assets of a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the Group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in equity are reclassified to the income statement in the same way as exchange differences relating to the foreign operation as described above.

Leasing
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Any lease incentives are amortised on a straight-line basis over the non-cancellable period for which the Group has contracted to lease the asset, together with any further terms for which the Group has the option to continue to lease the asset if, at the inception of the lease, it is judged to be reasonably certain that the Group will exercise the option.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers, except where this is impracticable and contract revenue is used as a proxy for activity. The provision is calculated as the lower of the termination costs payable for an early exit and the expected net cost to fulfil the Group's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms.

Share-based payments
The Group operates a number of executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes model, Monte Carlo model or the share price at grant date, and the corresponding expense is recognised on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Restricted shares are issued as part of the consideration for acquisitions made by the Company attached with a condition that the relevant recipient continues their employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares. The fair value of the restricted shares is the share price at the date the acquisition agreement was signed.

The credits in respect of the amounts charged are included within the share-based payment reserve in equity until such time as the vesting periods or share restrictions expire.

The own shares reserve in equity includes the shares owned by the Employee Trust, treasury shares and restricted shares issued as part of the consideration for acquisitions. When shares are transferred to employees upon exercise of options and awards or when restricted shares held by employees are released from their restrictions, the own shares reserve is reduced by the relevant cost or value.

Retirement benefit costs
The Group operates a number of defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

In addition, the Group operates and participates in a number of defined benefit schemes. In respect of the schemes in which the Group makes contributions under Admitted Body status to clients' defined benefit schemes in respect of certain employees who transferred to the Group under TUPE, the Group accounts for its legal and constructive obligations over the period of its participation which is for a fixed period only.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses on obligations, the return on scheme assets (excluding interest) and the effect of the asset ceiling (if applicable) are recognised in full in the period in which they occur. They are recognised in the statement of comprehensive income.

Defined benefit pension costs (including curtailments) are recognised in the income statement, in either administrative expenses or other items, whilst the net interest cost is recognised in finance costs.

The retirement benefit liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

The Group participates in four multi-employer defined benefit pension schemes. For three of these schemes the Group's share of the assets and liabilities is minimal. The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme), a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. Historically, the size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. The Group has recently received a Section 75 employer debt notice in respect of the participation of Robert Prettie & Co Limited in the Plumbing Scheme (refer to Note 15 and Note 21). One Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme, however no apportionment of the assets and liabilities attributable to this company is available and consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

For schemes where sufficient information is not available to use defined benefit accounting, no liability is recognised on the balance sheet, however, the obligations are disclosed as contingent liabilities in Note 22.

2. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

The preparation of consolidated financial statements under IFRS requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

The judgements and estimates which have the most significant effect on the reported result for the year ended 31 March 2019 and upon the carrying value of assets and liabilities of the Group as at 31 March 2019 are described below.

Revenue recognition
The Group's revenue recognition policies, which are set out under Revenue recognition in Note 1, are central to how the Group measures the work it has performed in each financial year.

For certain contracts, key judgements were made concerning contract extensions and amendments which, for example, directly impact the timing of revenue recognition in addition to the phasing of upfront payments to, or from customers which are deferred to the balance sheet and unwound over the expected contract term. The Group has deferred pre-contract costs of £2.2m to the balance sheet within contract assets following its assessment of contract modifications during the year (refer to Note 12). Management considers this to be an area of judgement due to the determination of whether a modification represents a separate contract based on its assessment of the stand-alone selling price, rather than a termination of the existing contract and establishment of a new contract for which the revised contract price would be recognised from the date of modification.

Profit before other items
'Other items' are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item should be classified within other items requires judgement as to whether an item is or is not part of the underlying performance of the Group.

Other items after tax of £32.8m (2018: £87.2m) were charged to the income statement for the year ended 31 March 2019. An analysis of the amounts included in other items is detailed in Note 4.

Recoverability of aged debtors and accrued income
The Group has material amounts of billed and unbilled work outstanding at year end as outlined in Note 18. Where balances become subject to dispute, the risk of recoverability increases. As a consequence, there is significant management judgement involved in assessing whether these balances have been earned and in assessing the recoverability of these balances which involves consideration of the Group's contractual rights and work performed as well as the status of ongoing commercial negotiations. The judgement as to whether an amount has become

irrecoverable is an assessment made by the Directors in the determination of the total expected credit loss recognised by the Group under IFRS 9. The Group has recognised a total loss allowance of £19.2m (2018: £17.3m) in respect of both aged and disputed trade and other receivable balances at 31 March 2019.

Key sources of estimation uncertainty

Revenue recognition, contract assets and contract liabilities
Due to the size and complexity of the Group's contracts, management is required to form a number of key judgements and estimates in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise (refer to Note 1). This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts. The Directors do not consider that any reasonable foreseeable change in this source of estimation would have a material impact on the Group's financial statements.

Provisions and contingent assets and liabilities
The Company and various of its subsidiaries are, from time to time, party to legal proceedings and claims that are in the ordinary course of business. Judgements are required in order to assess whether these legal proceedings and claims are probable and the liability can be reasonably estimated, resulting in a provision or, alternatively, whether the items meet the definition of contingent liabilities.

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 March 2019 of £56.6m (2018: £31.5m). Further details are included in Note 15.

The Directors are working to ensure that, through a combination of insurance claims and recourse to suppliers a proportion of the £16.1m costs (refer to Note 4) incurred in respect of rectification works for the Social Housing property maintenance contracts, including the £12.1m recorded in provisions (refer to Note 15), are recovered. The amount and timing of any recoveries is yet to be determined.

Measurement of defined benefit pension obligations
The net pension liability at 31 March 2019 was £63.8m (2018: £56.8m).

The measurement of defined benefit obligations requires judgement. It is dependent on material key assumptions including discount rates, life expectancy rates, and future contribution rates. See Note 21 for further details and a sensitivity analysis for the key assumptions.

The Group also participates in four multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme). A provision of £20.0m has been made for Section 75 employer debts in respect of the participation of Robert Prettie & Co. Limited in the Plumbing Scheme. The Group has a further potential exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, which has been disclosed as a contingent liability due to the inherent uncertainty regarding the amount of any liability.

Gain on bargain purchase
The Group has recognised an £8.8m gain on the purchase of Vision Security Group Limited. The value of this gain is subject to the assessment of the fair value of the acquired assets and liabilities and the finalisation of the consideration to be paid through agreement of the completion accounts with the seller of the business. See Note 20 for further details.

The fair value of the acquired assets includes £14.9m representing the value of intangible assets associated with customer relationships acquired. This valuation is based upon forecast cash flows which are subject to significant management judgement and estimation.

Allocation of goodwill to discontinued operations
The Directors have made a judgement to determine the allocation of goodwill to the discontinued operations to arrive at the gain/loss on disposal. This allocation was carried out with reference to the forecast performance of those activities compared to the forecast performance of the cash-generating units the activities were previously part of.

Gain/(loss) on disposal of discontinued operations
The Group has recognised a gain of £26.7m on the disposal of Mitie Pest Control Limited and a loss of £11.7m on the disposal of the Social Housing business, refer to Note 5.

The value of these gains and losses is subject to finalisation of the consideration to be paid through agreement of the completion accounts with the purchasers of these businesses. The Directors have made a judgement as to the likely outcome of each completion accounts settlement.

Deferred tax assets
The Group has recognised deferred tax assets of £38.7m (2018: £36.7m), refer to Note 16. The Directors have assessed recovery of these assets with reference to the Group's medium-term forecasts. Recovery of these assets is subject to the Group generating taxable profits in future years.

Impairment of goodwill
In assessing the key sources of estimation uncertainty, the Directors no longer consider impairment of goodwill as a key source of estimation. The Directors do not consider that any reasonable foreseeable change in this source of estimation would have a material impact on the Group's financial statements.

3. Business segment information

The Group manages its business on a service division basis. At 31 March 2019, the Group has six strategic divisions which are its reportable segments and the information, as reported, is consistent with information presented to the Board. Revenue, operating profit before other items and operating profit margin before other items are the primary measures of performance that are reported to and reviewed by the Board, which is the Group's chief operating decision maker.

The information presented for the year ended 31 March 2018 has been restated to reflect the changes in management reporting, implemented in the year ended 31 March 2019, of certain business unit activities transferring between Engineering Services, Professional Services and Corporate centre, the integration into Engineering Services of the roofing and painting activities which previously formed part of Property Management, and the classification of Pest Control and Social Housing as discontinued operations.

	2019			2018[1]		
	Revenue £m	**Operating profit/(loss) before other items[2] £m**	**Operating margin before other items[2] %**	Revenue £m	Operating profit/(loss) before other items[2] £m	Operating margin before other items[2] %
Engineering Services	**905.7**	**58.7**	**6.5**	886.3	54.1	6.1
Security	**536.5**	**30.7**	**5.7**	432.0	27.5	6.4
Professional Services	**131.4**	**5.6**	**4.3**	131.2	5.6	4.3
Cleaning & Environmental Services	**404.4**	**17.5**	**4.3**	384.1	19.6	5.1
Care & Custody	**107.3**	**3.9**	**3.6**	59.9	1.9	3.2
Catering	**136.1**	**5.2**	**3.8**	137.1	5.6	4.1
Corporate centre	**–**	**(33.4)**	**–**	–	(31.1)	–
Total from continuing operations	**2,221.4**	**88.2**	**4.0**	2,030.6	83.2	4.1
Pest Control	**11.9**	**2.4**	**20.2**	22.3	2.6	11.7
Social Housing	**89.1**	**1.6**	**1.8**	150.8	3.8	2.5
Total from discontinued operations	**101.0**	**4.0**	**4.0**	173.1	6.4	3.7
Total	**2,322.4**	**92.2**	**4.0**	2,203.7	89.6	4.1

Notes:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Other items are as described in Note 4.
3. No single customer accounted for more than 10% of external revenue in 2019 or 2018.

A reconciliation of segment operating profit/(loss) before other items to total profit/(loss) before tax is provided below:

	2019 £m	2018[1] £m
Operating profit before other items	**88.2**	83.2
Other items[2]	**(38.0)**	(82.1)
Net finance costs	**(13.8)**	(16.5)
Total from continuing operations	**36.4**	(15.4)
Operating profit before other items	**4.0**	6.4
Other items[2]	**(6.0)**	(15.8)
Net finance income	**0.1**	0.1
Total from discontinued operations	**(1.9)**	(9.3)
Profit/(loss) before tax	**34.5**	(24.7)

Notes:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Other items are as described in Note 4.

IFRS 8 requires that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker and consequently no segment assets are disclosed.

Geographical segments

	2019			2018[1]		
	Revenue £m	**Operating profit/(loss) before other items[2] £m**	**Operating margin before other items[2] %**	Revenue £m	Operating profit/(loss) before other items[2] £m	Operating margin before other items[2] %
United Kingdom	**2,122.2**	**85.6**	**4.0**	1,920.6	82.9	4.3
Other countries	**99.2**	**2.6**	**2.6**	110.0	0.3	0.3
Continuing operations	**2,221.4**	**88.2**	**4.0**	2,030.6	83.2	4.1
United Kingdom	**101.0**	**4.0**	**4.0**	173.1	6.4	3.7
Other countries	**–**	**–**	**–**	–	–	–
Discontinued operations	**101.0**	**4.0**	**4.0**	173.1	6.4	3.7
Total	**2,322.4**	**92.2**	**4.0**	2,203.7	89.6	4.1

Notes:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Other items are as described in Note 4.

Supplementary information

	2019				2018			
	Depreciation of property, plant and equipment £m	**Amortisation of intangible assets £m**	**Amortisation of contract assets £m**	**Other items[1] £m**	Depreciation of property, plant and equipment £m	Amortisation of intangible assets £m	Amortisation of contract assets £m	Other items[1] £m
Engineering Services	**0.9**	**0.5**	**–**	**6.2**	1.2	2.5	–	3.7
Security	**1.5**	**0.2**	**–**	**1.6**	1.8	0.9	–	0.4
Professional Services	**0.2**	**0.1**	**0.2**	**0.8**	0.3	0.7	–	0.6
Cleaning & Environmental Services	**4.1**	**1.0**	**–**	**2.0**	4.0	0.3	–	1.1
Care & Custody	**0.4**	**–**	**0.6**	**0.1**	0.3	–	0.1	0.1
Catering	**1.0**	**0.1**	**–**	**0.1**	1.5	0.2	–	–
Corporate centre	**3.2**	**7.0**	**–**	**27.2**	3.2	8.6	–	76.2
Continuing operations	**11.3**	**8.9**	**0.8**	**38.0**	12.3	13.2	0.1	82.1
Healthcare	**–**	**–**	**–**	**(2.0)**	–	–	–	–
Pest Control	**0.1**	**–**	**–**	**(27.6)**	0.2	0.1	–	–
Social Housing	**0.2**	**0.1**	**–**	**35.6**	0.3	0.2	–	15.8
Discontinued operations	**0.3**	**0.1**	**–**	**6.0**	0.5	0.3	–	15.8
Total	**11.6**	**9.0**	**0.8**	**44.0**	12.8	13.5	0.1	97.9

Note:

1. Other items are as described in Note 4.

Disaggregated revenue

The Group disaggregates revenue from contracts with customers by sector (government and non-government) and by contract duration (contracts with a duration from inception of less than two years, and contracts with a duration from inception of more than two years). The Group believes this best depicts how the nature, timing and amount of revenue and cash flows are affected by economic factors. The following table includes a reconciliation of disaggregated revenue with the Group's reportable segments.

			2019			
			Sector[1]	Contract duration for timing of revenue recognition		
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Engineering Services	**368.3**	**537.4**	**905.7**	**122.4**	**783.3**	**905.7**
Security	**88.3**	**448.2**	**536.5**	**80.1**	**456.4**	**536.5**
Professional Services	**21.5**	**109.9**	**131.4**	**5.4**	**126.0**	**131.4**
Cleaning & Environmental Services	**109.2**	**295.2**	**404.4**	**–**	**404.4**	**404.4**
Care & Custody	**107.3**	**–**	**107.3**	**–**	**107.3**	**107.3**
Catering	**5.7**	**130.4**	**136.1**	**17.4**	**118.7**	**136.1**
Continuing operations	**700.3**	**1,521.1**	**2,221.4**	**225.3**	**1,996.1**	**2,221.4**
Pest Control	**–**	**11.9**	**11.9**	**–**	**11.9**	**11.9**
Social Housing	**89.1**	**–**	**89.1**	**54.1**	**35.0**	**89.1**
Discontinued operations	**89.1**	**11.9**	**101.0**	**54.1**	**46.9**	**101.0**
Total	**789.4**	**1,533.0**	**2,322.4**	**279.4**	**2,043.0**	**2,322.4**

Note:

1. Sector is defined by the end customer on any contract e.g. if the Group is a sub-contractor to a construction company for the building of a public hospital, then the contract would be classified as government.

			2018			
			Sector[1]	Contract duration for timing of revenue recognition		
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Engineering Services	368.4	517.9	886.3	137.4	748.9	886.3
Security	83.9	348.1	432.0	55.7	376.3	432.0
Professional Services	13.8	117.4	131.2	8.9	122.3	131.2
Cleaning & Environmental Services	89.8	294.3	384.1	–	384.1	384.1
Care & Custody	59.9	–	59.9	–	59.9	59.9
Catering	4.6	132.5	137.1	1.6	135.5	137.1
Continuing operations	620.4	1,410.2	2,030.6	203.6	1,827.0	2,030.6
Pest Control	–	22.3	22.3	–	22.3	22.3
Social Housing	150.8	–	150.8	91.6	59.2	150.8
Discontinued operations	150.8	22.3	173.1	91.6	81.5	173.1
Total	771.2	1,432.5	2,203.7	295.2	1,908.5	2,203.7

Note:

1. Sector is defined by the end customer on any contract e.g. if the Group is a sub-contractor to a construction company for the building of a public hospital, then the contract would be classified as government.

Transaction price allocated to the remaining performance obligations

The table below shows the forward order book for each segment at the reporting date with the time bands of when the Group expects to recognise secured revenue on its contracts with customers. Secured revenue corresponds to fixed work contracted with customers and excludes the impact of any anticipated contract extensions, and new contracts with customers.

	2019			2018		
	Less than 1 year £m	**More than 1 year £m**	**Total secured revenue £m**	Less than 1 year £m	More than 1 year £m	Total secured revenue £m
Engineering Services	**360.4**	**1,442.3**	**1,802.7**	390.7	1,648.5	2,039.2
Security	**478.3**	**493.2**	**971.5**	300.1	340.7	640.8
Professional Services	**29.7**	**57.2**	**86.9**	45.8	99.1	144.9
Cleaning & Environmental Services	**275.5**	**387.6**	**663.1**	276.0	380.3	656.3
Care & Custody	**100.8**	**495.8**	**596.6**	100.8	569.3	670.1
Catering	**7.2**	**19.3**	**26.5**	8.2	26.5	34.7
Continuing operations	**1,251.9**	**2,895.4**	**4,147.3**	1,121.6	3,064.4	4,186.0
Pest Control	-	-	-	3.0	2.0	5.0
Social Housing	-	-	-	76.3	228.0	304.3
Discontinued operations	-	-	-	79.3	230.0	309.3
Total	**1,251.9**	**2,895.4**	**4,147.3**	1,200.9	3,294.4	4,495.3

4. Other items

Other items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group.

The Group separately reports the impairment of goodwill, the cost of restructuring programmes, acquisition and disposal costs including the write-off and amortisation of acquisition related intangible assets, the results of and costs associated with disposals, and other exceptional items and their related tax effect as Other Items:

							2019
Continuing operations	**Impairment of goodwill £m**	**Restructure costs £m**	**Acquisition & disposal related costs £m**	**Gain on bargain purchase**	**Gain/(loss) on disposal £m**	**Other exceptional items £m**	**Total £m**
Administrative expenses	**–**	**(15.1)**	**(8.7)**	**8.8**	**–**	**(23.0)**	**(38.0)**
Other items before tax	**–**	**(15.1)**	**(8.7)**	**8.8**	**–**	**(23.0)**	**(38.0)**
Tax	**–**	**2.8**	**0.6**	**–**	**–**	**4.0**	**7.4**
Other items after tax	**–**	**(12.3)**	**(8.1)**	**8.8**	**–**	**(19.0)**	**(30.6)**
Discontinued operations							
Other items before tax	**–**	**(0.8)**	**–**	**–**	**17.9**	**(23.1)**	**(6.0)**
Tax	**–**	**0.2**	**–**	**–**	**(0.9)**	**4.5**	**3.8**
Other items after tax	**–**	**(0.6)**	**–**	**–**	**17.0**	**(18.6)**	**(2.2)**
Total	**–**	**(12.9)**	**(8.1)**	**8.8**	**17.0**	**(37.6)**	**(32.8)**

Continuing operations	Impairment of goodwill £m	Restructure costs £m	Acquisition & disposal related costs £m	Gain on disposal £m	Other exceptional items £m	2018 Total £m
Administrative expenses	(22.7)	(47.0)	(8.4)	–	(4.0)	(82.1)
Other items before tax	(22.7)	(47.0)	(8.4)	—	(4.0)	(82.1)
Tax	–	8.7	0.4	–	0.9	10.0
Other items after tax	(22.7)	(38.3)	(8.0)	–	(3.1)	(72.1)
Discontinued operations						
Other items before tax	(11.9)	(0.3)	–	–	(3.6)	(15.8)
Tax	–	0.1	–	–	0.6	0.7
Other items after tax	(11.9)	(0.2)	–	–	(3.0)	(15.1)
Total	(34.6)	(38.5)	(8.0)	–	(6.1)	(87.2)

Impairment of goodwill

No charges In respect of the impairment of goodwill have been made In the year ended 31 March 2019.

During the year ended 31 March 2018, the Directors assessed the recoverability of the goodwill allocated to the former Property Management CGU and recorded an impairment charge of £34.6m. Following the disposal of the Social Housing business, the remaining goodwill of the roofing and painting activities previously reported in Property Management, has been integrated into the Engineering Services CGU. See Note 9.

Restructure costs

The restructure costs relate to costs of organisational change associated with the Group's Project Helix transformation programme including the transition costs associated with the outsourcing of certain back-office transactional processes.

These costs are analysed below:

	2019			2018		
	Continuing operations £m	**Discontinued operations £m**	**Total[1] £m**	Continuing operations £m	Discontinued operations £m	Total[1] £m
Redundancy payments[2]	**(4.2)**	**(0.5)**	**(4.7)**	(4.5)	(0.3)	(4.8)
Cost of change team[3]	**(0.7)**	**–**	**(0.7)**	(0.7)	–	(0.7)
Expenditure and provisions in respect of property closure[4]	**(0.2)**	**–**	**(0.2)**	(4.8)	–	(4.8)
Expenditure in respect of Project Helix transformation activities[5]	**(10.0)**	**–**	**(10.0)**	(26.6)	–	(26.6)
Expenditure in respect of other transformation projects	**–**	**(0.3)**	**(0.3)**	–	–	–
Impairment of intangible assets[6]	**–**	**–**	**–**	(10.4)	–	(10.4)
Restructuring costs	**(15.1)**	**(0.8)**	**(15.9)**	(47.0)	(0.3)	(47.3)
Taxation	**2.8**	**0.2**	**3.0**	8.7	0.1	8.8
Restructuring costs net of taxation	**(12.3)**	**(0.6)**	**(12.9)**	(38.3)	(0.2)	(38.5)

Notes:

1. Includes £13.5m (2018: £34.8m) in respect of the Project Helix transformation activities.
2. Costs in respect of roles made redundant as a result of the Project Helix transformation and other projects to restructure the Group's activities.
3. Incremental costs of teams involved in the management of Project Helix transformation activities.
4. Costs in respect of property dilapidations, lease termination, and asset impairments crystalised following decisions to vacate certain of the Group's properties as part of the overall Project Helix transformation.
5. Expenditure in respect of Project Helix transformation projects includes £0.3m (2018: £0.6m) of recruitment costs in respect of achieving the new target operating model, £1.6m (2018: £8.2m) related to dual running and knowledge transfer costs as part of the transfer of the transactional back-office activities to a third-party provider, £6.3m (2018: £4.8m) of transformation project delivery costs, £1.8m in respect of Genpact mobilisation (2018: £nil) and £nil (2018: £13.0m) of professional fees in respect of advice and consultancy activities associated with the design and execution of the Project Helix transformation activities.
6. Impairment of intangible assets relates to systems and processes which are redundant due to the changes to the Group's strategy including the outsourcing of certain back-office transactional processes. See Note 10.

Gain/(loss) on disposal

During the year ended 31 March 2019, the Group completed the sale of the Pest Control and Social Housing businesses. See Note 5 for further details.

Acquisition and disposal related costs

Acquisition and disposal related costs from continuing operations include the impairment and amortisation charge for acquisition related intangibles £1.5m (2018: £2.6m), the charge for restricted shares issued of £3.9m (2018: £3.4m), costs of £2.6m (2018: £nil) related to the VSG acquisition, costs of £0.4m (2018: £nil) related to the settlement of claims associated with previous acquisitions, costs of £0.3m (2018: £2.2m) relating to the aborted disposal of the former Property Management division, and £nil (2018: £0.2m) related to the disposal of the Healthcare division.

Gain on bargain purchase

A credit of £8.8m (2018: £nil) representing a gain on bargain purchase in respect of the acquisition of Vision Security Group Limited (VSG) has been recognised from continuing operations. See Note 20.

Other exceptional items

Other exceptional items are analysed below:

			2019			2018
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Continuing operations £m	Discontinued operations £m	Total £m
Regulatory investigation[1]	**(1.1)**	**–**	**(1.1)**	(2.3)	–	(2.3)
IFRS 9/15/16 adoption project[2]	**(0.7)**	**–**	**(0.7)**	(0.8)	–	(0.8)
Costs incurred and provision for settlement of contractual disputes[3]	**–**	**(20.5)**	**(20.5)**	–	(3.3)	(3.3)
Provision for indemnified costs[4]	**–**	**(2.6)**	**(2.6)**	–	–	–
Contract termination receipt[5]	**–**	**–**	**–**	2.0	–	2.0
Pension scheme past service costs (including curtailments)[6]	**–**	**–**	**–**	(1.9)	–	(1.9)
Cost of equalising Guaranteed Minimum Pensions[7]	**(1.6)**	**–**	**(1.6)**	–	–	–
Pension scheme Section 75 debt[8]	**(20.0)**	**–**	**(20.0)**	–	–	–
Gain on closure of Mitie Reinsurance[9]	**0.4**	**–**	**0.4**	–	–	–
Property dilapidations[10]	**–**	**–**	**–**	(1.0)	(0.3)	(1.3)
Other exceptional items	**(23.0)**	**(23.1)**	**(46.1)**	(4.0)	(3.6)	(7.6)
Taxation	**4.0**	**4.5**	**8.5**	0.9	0.6	1.5
Other exceptional items net of taxation	**(19.0)**	**(18.6)**	**(37.6)**	(3.1)	(3.0)	(6.1)

Notes:

1. Legal and professional costs of £1.1m (2018: £2.3m) have been incurred in respect of the closed FRC investigation into the Company's treatment of healthcare goodwill and accrued income in the Company's audited accounts for the year ended 31 March 2016, the closed FCA investigation in connection with the timeliness of a profit warning announced by the Company on 19 September 2016, the manner of preparation and content of the Company's financial information, position and results for the period ended 31 March 2016, and regarding the Company's own investigation into the same matters, facts and circumstances which were subject to FCA and FRC investigation.
2. Professional fees and interim staff costs of £0.7m (2018: £0.8m) have been incurred in respect of the projects to adopt IFRS 9 'Financial Instruments', IFRS 15 'Revenue from contracts with customers', and IFRS 16 'Leases',
3. The £20.5m charge for the year ended 31 March 2019 (2018: £3.3m) relates to the Social Housing business and includes £3.4m in respect of the settlement of a contract dispute, £16.1m for the estimated costs of rectification works and legal advice associated with certain of the Group's property maintenance contracts, of which £12.1m is included in provisions at 31 March 2019, and £1.0m for other contractual disputes. This amount is disclosed separately due to the size of the potential cost and the fact that they arise from closed contracts.
4. The £2.6m charge for the year ended 31 March 2019 represents the estimated costs arising from certain indemnities provided in relation to the disposal of the Social Housing business. This amount is included in provisions at 31 March 2019.
5. The loss of two major contracts in the year ended 31 March 2018 resulted in a one-off termination receipt amounting to £2.0m. These amounts are disclosed separately due to the size of the payments received and the fact that the loss of contracts of this size is an unusual event for the Group.
6. As a result of the closure of the Mitie Group Plc Pension Scheme to future accrual from October 2017, a past service cost (including curtailments) of £1.9m was incurred in the year ended 31 March 2018. See Note 21 for further details.
7. Following judgment Issued by the High Court on 26 October 2018 in the case involving Lloyds Banking Group relating to the equalisation of Guaranteed Minimum Pensions (GMP) the Group has recognised additional retirement benefit liabilities for the estimated financial impact of this ruling on the Group scheme. The effect of GMP equalisation has been recognised in the income statement as a plan amendment; the charge has been includeed within other items due to the size and non-recurring nature of the amount. See Note 21 for further details.
8. Estimated Section 75 debt in relation to the participation of Robert Prettie & Co Limited in the Plumbing & Mechanical Services (UK) Industry Pension Scheme. See Note 21 for further details.
9. During the year ended 31 March 2019 the Group liquidated its captive insurance company Mitie Reinsurance Company Limited resulting in a net income of £0.4m after settling all outstanding liabilities.
10. As part of the rationalisation of the Group's property portfolio a review of the potential liabilities for leasehold property dilapidation costs was carried out and resulted in a one-off £1.3m charge in the year ended 31 March 2018.

5. Discontinued operations and disposal of subsidiaries

On 30 September 2018, the Group completed the sale of Mitie Pest Control Limited (Pest Control) for cash consideration of £40.0m before tax and transaction costs. The results of the Pest Control business have been classified as discontinued operations and comparative information has been restated. The Group recognised a net gain on disposal of £26.7m, reported in profit from discontinued operations and recognised in Other Items (see Note 4).

On 19 November 2018, the Company signed an agreement for the sale of Mitie Property Management Limited and MPS Housing Limited (together the Social Housing business) and this transaction was subsequently completed on 30 November 2018. The results of the Social Housing business have been classified as discontinued operations and comparative information has been restated. The Group has retained liability, and made provisions where appropriate, for certain legacy contracts of the Social Housing business so these are not included within liabilities held for sale. The Group recognised a net loss on disposal of £11.7m, reported in profit from discontinued operations and recognised in other items (see Note 4).

The Group has determined that the Healthcare Indemnity provision should be partly released by £2.0m. This has been recorded as a gain on disposal.

The results of these discontinued operations are detailed below.

There were no disposals in the financial year ended 31 March 2018.

Income statement of discontinued operations

			2019
	Pest Control £m	**Social Housing £m**	**Total £m**
Revenue	**11.9**	**89.1**	**101.0**
Cost of sales	**(6.7)**	**(72.9)**	**(79.6)**
Gross profit	**5.2**	**16.2**	**21.4**
Administrative expenses	**(2.8)**	**(15.1)**	**(17.9)**
Share of profit of joint ventures and associates	**–**	**0.5**	**0.5**
Operating profit before other items[1]	**2.4**	**1.6**	**4.0**
Other items[3]	**–**	**(23.9)**	**(23.9)**
Net finance income	**0.1**	**–**	**0.1**
Profit/(loss) before tax	**2.5**	**(22.3)**	**(19.8)**
Tax	**(0.3)**	**4.0**	**3.7**
Profit/(loss) from discontinued operations	**2.2**	**(18.3)**	**(16.1)**

			2018
	Pest Control £m	Social Housing £m	Total £m
Revenue	22.3	150.8	173.1
Cost of sales	(16.2)	(115.8)	(132.0)
Gross profit	6.1	35.0	41.1
Administrative expenses	(3.5)	(32.0)	(35.5)
Share of profit of joint ventures and associates	–	0.8	0.8
Operating profit before other items[2]	2.6	3.8	6.4
Other items[3]	(0.1)	(15.7)	(15.8)
Net finance income	0.1	–	0.1
Profit/(loss) before tax	2.6	(11.9)	(9.3)
Tax	(0.5)	0.3	(0.2)
Profit/(loss) from discontinued operations	2.1	(11.6)	(9.5)

Note:

1. The £1.6m operating profit before other items in Social Housing for the year ended 31 March 2019 includes a £1.4m loss in respect of a contract which has been terminated and £2.6m of recharges in respect of Group central services.
2. The £3.8m operating profit before other items in Social Housing for the year ended 31 March 2018 includes an increased debt provision of £1.2m in addition to £2.3m of recharges in respect of Group central services.
3. Other items are as described in Note 4.

Gain/(loss) on disposal of discontinued operations

	2019				2018
	Healthcare £m	Pest Control[1] £m	Social Housing £m	Total £m	Healthcare[2] £m
Total consideration	–	38.4	22.5	60.9	(0.2)
Net assets disposed	–	(8.6)	(31.1)	(39.7)	–
Release of indemnity provision	2.0	–	–	2.0	–
Transaction costs	–	(2.2)	(3.1)	(5.3)	–
Total gain/(loss) on disposal before tax	2.0	27.6	(11.7)	17.9	(0.2)
Taxation	–	(0.9)	–	(0.9)	–
Net gain/(loss) on disposal of discontinued operations	2.0	26.7	(11.7)	17.0	(0.2)

Notes:

1. Total consideration of £39.2m has been received in cash, but £0.8m is expected to be returned through agreement of the completion accounts with the purchaser of the business.
2. Deferred contribution of £0.2m in the year to 31 March 2018 was payable to to the purchaser.
3. Includes goodwill of £3.3m relating to Pest Control and £12.5m relating to Social Housing and cash balances of £3.6m.

Profit for the year from discontinued operations

	2019 £m	2018 £m
Loss for the year from discontinued operations	(16.1)	(9.5)
Gain on disposal of discontinued operations	17.0	–
Profit/(loss) for the year from discontinued operations	0.9	(9.5)

Total comprehensive income/(expense) for the year from discontinued operations

	2019 £m	2018 £m
Equity holders income/(expense)	0.9	(9.5)

Cash flows from discontinued operations

	2019 £m	2018 £m
Net cash used in operating activities	(9.4)	(9.0)
Net cash generated from investing activities	52.6	0.2
Net cash generated from financing activities	–	1.3
Increase/(decrease) in cash and cash equivalents	43.2	(7.5)

Earnings/(loss) per share from discontinued operations

	2019 p	2018 p
Basic earnings before other items per share[1]	0.9	1.6
Basic earnings/(loss) per share	0.2	(2.7)
Diluted earnings before other items per share[1]	0.9	1.6
Diluted earnings/(loss) per share	0.2	(2.7)

Note:

1. Other items are as described in Note 4.

Joint ventures and associates of discontinued operations

The Social Housing disposal group included a 30% interest in an associate, Pyramid Plus South LLP, a limited liability partnership registered in the United Kingdom. The Group's interest in the associate was accounted for in the consolidated financial statements using the equity method.

The summarised financial information set out below for the year ended 31 March 2019 has been taken from unaudited management accounts of the associate.

	2019 £m	2018 £m
Revenue	**9.3**	12.2
Operating profit	**1.8**	2.6
Group's share of profit of associate in discontinued operations	**0.5**	0.8

	2019 £m	2018 £m
Current assets	**–**	3.8
Current liabilities	**–**	(1.2)
Net assets	**–**	2.6
Group's share of interest in associate	**–**	0.8

During the 2019 financial year the Group received dividends from Pyramid Plus South LLP of £nil (2018: £0.6m).

6. Tax

Continuing and discontinued operations	2019 £m	2018[1] £m
Current tax[1]	**3.4**	(5.6)
Deferred tax (Note 16)	**0.2**	6.9
Tax charge for the year	**3.6**	1.3
Continuing operations	**6.4**	1.1
Discontinued operations	**(2.8)**	0.2
Tax charge for the year	**3.6**	1.3

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated. The Group recognised a current tax asset of £0.4m on transition to IFRS 9.

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year. A reconciliation of the tax charge to the elements of profit before tax per the consolidated income statement elements is as follows:

	2019			2018[1]		
Continuing and discontinued operations	**Before other items £m**	**Other items[2] £m**	**Total £m**	Before other items £m	Other items[2] £m	Total £m
Profit/(loss) before tax	**78.5**	**(44.0)**	**34.5**	73.2	(97.9)	(24.7)
Tax at UK rate of 19% (2018: 19%)	**14.9**	**(8.4)**	**6.5**	13.9	(18.6)	(4.7)
Reconciling tax charges for:						
Non-tax deductible charges	**0.9**	**–**	**0.9**	0.5	1.1	1.6
Share-based payments	**0.3**	**0.7**	**1.0**	(0.1)	–	(0.1)
Gain on disposal of businesses	**–**	**(4.0)**	**(4.0)**	–	–	–
Impairment of goodwill	**–**	**–**	**–**	–	6.6	6.6
Overseas tax rates	**(0.2)**	**–**	**(0.2)**	(0.3)	–	(0.3)
Impact of change in statutory tax rates	**(0.4)**	**0.5**	**0.1**	0.1	0.2	0.3
Prior year adjustments	**(0.7)**	**–**	**(0.7)**	(2.1)	–	(2.1)
Tax charge/(credit) for the year	**14.8**	**(11.2)**	**3.6**	12.0	(10.7)	1.3
Effective tax rate for the year	**18.9%**	**25.5%**	**10.4%**	16.4%	10.9%	(5.3)%

Notes:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Other items are as described in Note 4.

In addition to the amounts charged to the consolidated income statement, tax relating to retirement benefit costs amounting to a £2.4m credit (2018: £3.4m charge) has been taken directly to the statement of comprehensive income together with a £0.3m charge relating to share-based payments and hedged items (2018: £0.1m credit).

The UK corporation tax rate will reduce from 19% 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 2019 reflect this change. A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation.

7. Dividends

	2019 £m	2018 £m
Amounts recognised as distributions in the year:		
Second interim dividend for the year ended 31 March 2018 of 2.67p (2017 final dividend: nil) per share[1]	9.6	–
Interim dividend for the year ended 31 March 2019 of 1.33p (2018: 1.33p) per share	4.8	4.8
Amounts paid in 2019 and 2018	14.4	4.8
Proposed final dividend for the year ended 31 March 2019 of 2.67p (2018: 2.67p) per share	9.6	9.6

Note:

1. On 7 June 2018, the Company announced its Final Results for the year ended 31 March 2018. The announcement included a recommendation by the Board of a final dividend of 2.67p per share payable on 6 August 2018. On 28 June 2018 the Company circulated its Notice of 2018 Annual General Meeting (the Notice). The Notice omitted a resolution seeking shareholder approval of the final dividend. In order for the dividend to be paid to shareholders on 6 August 2018 in accordance with the previously published timetable, on 31 July 2018 the Board declared a second interim dividend of 2.67p per share in place of the proposed final dividend.

8. 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	2019 £m	2018[1] £m
Net profit before other items attributable to equity holders of the parent	60.6	54.5
Other items net of tax[2]	(30.6)	(72.1)
Net profit/(loss) attributable to equity holders of the parent	30.0	(17.6)

From continuing and discontinued operations	2019 £m	2018[1] £m
Net profit before other items attributable to equity holders of the parent	63.7	60.1
Other items net of tax[2]	(32.8)	(87.2)
Net profit/(loss) attributable to equity holders of the parent	30.9	(27.1)

Number of shares	2019 million	2018 million
Weighted average number of ordinary shares for the purpose of basic EPS	360.8	357.9
Effect of dilutive potential ordinary shares: share options	2.2	1.9
Weighted average number of ordinary shares for the purpose of diluted EPS	363.0	359.8

	2019 p	2018[1] p
From continuing operations:		
Basic earnings before other items per share[2]	16.8	15.2
Basic earnings/(loss) per share	8.3	(4.9)
Diluted earnings before other items per share[2]	16.7	15.1
Diluted earnings/(loss) per share	8.3	(4.9)
From continuing and discontinued operations:		
Basic earnings before other items per share[2]	17.7	16.8
Basic earnings/(loss) per share	8.6	(7.6)
Diluted earnings before other items per share[2]	17.5	16.7
Diluted earnings/(loss) per share	8.5	(7.6)

Notes:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Other items are as described in Note 4.

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

The dilutive potential ordinary shares relate to instruments that could potentially dilute basic earnings per share in the future, such as share options. The loss for the year ended 31 March 2018 means that the identified potentially dilutive shares are anti-dilutive for the purposes of calculating diluted earnings per share.

9. Goodwill

	£m
Cost	
At 1 April 2017	358.9
Impact of foreign exchange	0.3
At 31 March 2018	359.2
Disposal of subsidiaries	(32.9)
At 31 March 2019	**326.3**
Accumulated impairment losses	
At 1 April 2017	15.0
Impairment of property goodwill	34.6
At 31 March 2018	49.6
Disposal of subsidiaries	(17.1)
At 31 March 2019	**32.5**
Carrying amount	
At 31 March 2019	**293.8**
At 31 March 2018	309.6
At 1 April 2017	343.9

Acquisition of Vision Security Group

On 26 October 2018 the Group acquired Vision Security Group Limited (VSG). There is no goodwill recognised on acquisition as the consideration paid was less than VSG's net assets at the acquisition date, giving rise to a gain on bargain purchase, see Note 20.

Disposal of Social Housing

On 19 November 2018, the Company signed an agreement for the sale of Mitie Property Management Limited and MPS Housing Limited (together, the Social Housing business). This transaction completed on 30 November 2018 and the associated carrying amount of goodwill of £12.5m has been included in net assets disposed. See Note 5.

Disposal of Pest Control

On 30 September 2018, the Group completed the sale of Mitie Pest Control Limited (Pest Control) and the associated goodwill of £3.3m has been included in net assets disposed. See Note 5.

Goodwill impairment testing

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination.

Goodwill has been allocated to CGUs, which align with the business segments, as this is how goodwill is monitored by the Group internally. The £23.1m net carrying value of goodwill associated with the roofing and painting activities which previously formed part of Property Management has been transferred into the Engineering Services CGU.

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

A summary of the goodwill balances and the discount rates used to assess the forecast cash flows from each CGU are as follows:

	Pre-tax discount rate %	Post-tax discount rate %	Goodwill 2019 £m	Goodwill 2018 £m
Engineering Services[1]	**10.1**	**9.3**	**130.9**	130.9
Security	**10.1**	**9.3**	**101.7**	101.7
Professional Services	**13.3**	**10.3**	**15.7**	15.7
Cleaning & Environmental Services	**11.9**	**9.3**	**29.8**	33.1
Catering	**12.1**	**9.8**	**15.7**	15.7
Social Housing			**–**	12.5
Total			**293.8**	309.6

Note:

1. The information presented for the year ended 31 March 2018 has been restated to reflect the integration into Engineering Services of the roofing and painting activities previously reported in Property Management.

Key assumptions

The recoverable amounts for each CGU are determined by the value in use which is derived from discounted cash flow calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the forecast period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The long-term growth rates are based on forecast inflation. Changes in revenue and direct costs are based on past performance and expectations of future changes in the market, operating model, and cost base.

Growth rates and terminal values

For all CGUs the Group prepares cash flow forecasts derived from the most recent budgets for the year ending 31 March 2020 and the Group medium term plan to 31 March 2024 which have been approved by the Board and a terminal value using a long-term growth assumption of 1.5%.

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 8.8% at 31 March 2019 (2018: 7.7%), 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 Group's CGUs.

10. 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 2017	88.4	10.9	**99.3**	97.3	**196.6**
Additions	–	–	**–**	9.0	**9.0**
At 31 March 2018	88.4	10.9	**99.3**	106.3	**205.6**
Additions	–	–	**–**	11.2	**11.2**
Acquisition of subsidiaries	14.9	–	**14.9**	–	**14.9**
Disposals	–	–	**–**	(31.3)	**(31.3)**
Disposal of subsidiaries	–	–	**–**	(6.0)	**(6.0)**
At 31 March 2019	103.3	10.9	**114.2**	80.2	**194.4**
Amortisation					
At 1 April 2017	83.4	9.6	**93.0**	50.4	**143.4**
Charge for the year	2.2	0.4	**2.6**	10.9	**13.5**
Impairment of software and development expenditure	–	–	**–**	10.4	**10.4**
At 31 March 2018	85.6	10.0	**95.6**	71.7	**167.3**
Charge for the year	1.2	0.3	**1.5**	7.5	**9.0**
Impairment of software and development expenditure	–	–	**–**	1.1	**1.1**
Disposals	–	–	**–**	(31.3)	**(31.3)**
Disposal of subsidiaries	–	–	**–**	(2.4)	**(2.4)**
At 31 March 2019	86.8	10.3	**97.1**	46.6	**143.7**
Carrying amount					
At 31 March 2019	16.5	0.6	**17.1**	33.6	**50.7**
At 31 March 2018	2.8	0.9	**3.7**	34.6	**38.3**
At 1 April 2017	5.0	1.3	**6.3**	46.9	**53.2**

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 ended 31 March 2018, the Group impaired £10.4m of software and development expenditure related to intangible assets with the impairment recognised within restructuring costs in other items (see Note 4).

11. Trade and other receivables

	2019 £m	2018[1] £m
Trade receivables	**233.6**	205.0
Accrued income	**132.6**	131.4
Prepayments	**27.1**	21.3
Other receivables[2]	**41.9**	28.3
Total	**435.2**	386.0
Included in current assets	**435.2**	386.0
Included in non-current assets	**–**	–
Total	**435.2**	386.0

Notes:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.
2. Within other receivables for the year ended 31 March 2019 is £4.5m relating to the acquisition of VSG (see Note 20). This balance represents amounts expected to be recovered following finalisation of the consideration to be paid, and is subject to agreement of the completion accounts with the seller of the business.

The Group makes use of a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Group's relationship banks. As these trade receivables are sold without recourse, the Group has derecognised them, and so they are not included within trade receivables. The Group has reduced the amount of invoice discounting from £76.3m as at 31 March 2018 to £73.2m as at 31 March 2019.

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

Information about the Group's exposure to credit risk and its loss allowance against the balance of trade receivables and accrued income, is provided in Note 18.

12. Contract assets

	Pre-contract costs £m	Contract fulfilment costs £m	Total £m
At 1 April 2017	–	–	**–**
Additions	–	2.3	**2.3**
Amortised in the period	–	(0.1)	**(0.1)**
At 31 March 2018	–	2.2	**2.2**
Additions	2.2	2.5	**4.7**
Amortised in the period	–	(0.8)	**(0.8)**
At 31 March 2019	2.2	3.9	**6.1**
Included in current assets	0.7	0.9	**1.6**
Included in non-current assets	1.5	3.0	**4.5**
Total	2.2	3.9	**6.1**

Contract assets are amortised on a straight-line basis over the contract life which is consistent with the transfer of services to the customer to which the asset relates. Management has determined that no impairment of contract assets is required as at 31 March 2019.

13. Trade and other payables

	2019 £m	2018 £m
Payments received on account	**0.6**	0.2
Trade creditors	**160.3**	191.3
Other taxes and social security	**97.1**	79.9
Other creditors	**45.0**	29.2
Accruals	**230.9**	196.2
Total	**533.9**	496.8
Included in current liabilities	**533.9**	496.8
Included in non-current liabilities	**–**	–
Total	**533.9**	496.8

Trade creditors at 31 March 2019 represents 50 days credit on trade purchases (2018 restated: 58 days).

Included within the Group's trade creditors balance is £20.0m (2018: £45.1m) relating to payments due to UK suppliers which make use of bank provided supply chain finance arrangements. During the year ended 31 March 2019 these arrangements were used by c.200 suppliers, with a maximum facility available of £50.0m. The Group settles these amounts in accordance with each supplier's agreed payment terms.

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

14. Deferred income from contracts with customers

The significant changes in deferred income are as follows:

	2019 £m	2018 £m
At 1 April	**65.0**	30.1
Revenue recognised that was included in the deferred income balance at the beginning of the year	**(44.9)**	(15.9)
Increase due to cash received, excluding amounts recognised as revenue during the year	**50.0**	50.8
Acquisition of subsidiaries	**4.9**	–
Disposal of subsidiaries	**(1.7)**	–
At 31 March	**73.3**	65.0

	2019 £m	2018 £m
Included within current liabilities	**54.9**	46.2
Included within non-current liabilities	**18.4**	18.8
Total	**73.3**	65.0

Deferred income relating to customer contracts mobilising in the year amounted to £5.8m (2018: £2.6m). For any amounts which do not relate to specific contractual performance obligations, the income is deferred to the balance sheet and amortised over the period to which the contracted services are delivered to the customer.

15. Provisions

	Legal costs £m	Disposal indemnities £m	Restructuring £m	Deferred contingent consideration £m	Insurance reserve £m	Contract specific costs £m	Pension £m	Dilapidations £m	**Total £m**
At 1 April 2017	2.0	6.0	–	0.3	12.5	5.8	–	–	**26.6**
Amounts recognised in the balance sheet	–	–	–	–	–	–	–	3.4	**3.4**
Amounts recognised in the income statement	3.2	–	1.2	–	4.0	(1.3)	–	–	**7.1**
Utilised within captive insurance subsidiary	–	–	–	–	(0.1)	–	–	–	**(0.1)**
Unwinding of discount	–	–	–	–	–	–	–	0.2	**0.2**
Utilised in the year	(1.1)	(1.1)	–	(0.3)	(1.1)	(2.1)	–	–	**(5.7)**
At 31 March 2018	4.1	4.9	1.2	–	15.3	2.4	–	3.6	**31.5**
Amounts recognised in the income statement	0.2	0.6	–	–	2.5	11.5	20.0	–	**34.8**
Utilised within captive insurance subsidiary	–	–	–	–	(0.1)	–	–	–	**(0.1)**
Unwinding of discount	–	–	–	–	–	–	–	0.1	**0.1**
Utilised in the year	(4.0)	(0.2)	(1.2)	–	(3.3)	(0.6)	–	(0.4)	**(9.7)**
Reclassification	–	–	–	–	0.6	(0.6)	–	–	**–**
At 31 March 2019	0.3	5.3	–	–	15.0	12.7	20.0	3.3	**56.6**
Included in current liabilities	0.3	5.3	–	–	9.0	12.7	20.0	3.3	**50.6**
Included in non-current liabilities	–	–	–	–	6.0	–	–	–	**6.0**
Total	0.3	5.3	–	–	15.0	12.7	20.0	3.3	**56.6**

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 utilisation of the provision represents the settlement of a contractual claim related to a contract of the now discontined Social Housing business.

The disposal indemnities provision relates to indemnities provided following the disposal by the Group of the Healthcare and Social Housing businesses from the Group. The amount recognised in the income statement represents a £2.6m charge in respect of Social Housing net of a £2.0m release in respect of Healthcare.

The restructuring provision relates to costs of organisational change associated with the Group's Project Helix transformation programme including the transition costs associated with the outsourcing of certain back-office transactional processes.

The insurance reserve provides for the self-insured element of fleet and liability claims that will typically settle over three to five years. This includes a provision for claims that are expected but have not yet been reported.

The contract specific cost provisions relate to various obligations arising in the ordinary course of providing services in line with commercial contracts. The £11.5m charge for the year ended 31 March 2019 includes the £12.1m estimated costs of rectification works associated with certain property maintenance contracts of the now discontinued Social Housing business, all of which are included within other items. Refer to Note 4 for further details.

The pension provision relates to the Section 75 employer debt liabilities of Robert Prettie & Co Limited as a result of that company's participation in the Plumbing Scheme. This liability is expected to be settled during the year ended 31 March 2020. See Notes 21 and 22.

The provision for dilapidations relates to the legal obligation for leased properties to be returned to the landlord in the contracted condition at the end of the lease period. This cost would include repairs of any damage and wear and tear.

Contingent asset

The Directors are working to ensure that, through a combination of insurance claims and recourse to suppliers a proportion of the £16.1m costs incurred in respect of rectification works for the Social Housing property maintenance contracts, including the £12.1m recorded in provisions above, are recovered. The amount and timing of any recoveries is yet to be determined.

16. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period:

	Losses £m	Accelerated tax depreciation £m	Retirement benefit liabilities £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	**Total £m**
At 1 April 2017	25.8	6.5	12.6	(1.1)	0.7	1.6	**46.1**
(Charge)/credit to income	(7.0)	(0.3)	0.3	0.3	(0.1)	(0.1)	**(6.9)**
(Charge)/credit to equity and the statement of comprehensive income	–	–	(3.4)	–	0.1	–	**(3.3)**
At 31 March 2018	18.8	6.2	9.5	(0.8)	0.7	1.5	**35.9**
Acquisition of subsidiaries	–	0.3	–	(2.5)	–	0.2	**(2.0)**
Disposal of subsidiaries	–	(0.3)	–	0.5	–	(0.2)	**–**
(Charge)/credit to income	(1.5)	(1.2)	2.3	(0.1)	0.4	(0.1)	**(0.2)**
Credit/(charge) to equity and the statement of comprehensive income	–	–	2.4	–	(0.3)	–	**2.1**
At 31 March 2019	17.3	5.0	14.2	(2.9)	0.8	1.4	**35.8**

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:

	2019 £m	2018 £m
Deferred tax assets	**38.7**	36.7
Deferred tax liabilities	**(2.9)**	(0.8)
Net deferred tax asset	**35.8**	35.9

The Group has unutilised income tax losses of £102.3m (2018: £112.8m) that are available for offset against future profits. In addition, the Group has £0.8m (2018: £0.8m) of capital losses. A deferred tax asset has been recognised in respect of £92.8m (2018: £102.7m) of losses to the extent that it is probable that taxable profits will be generated in the future and be available for utilisation. Deferred tax has been calculated using the corporation tax rate disclosed in Note 6.

17. Financing liabilities

	2019 £m	2018 £m
Bank loans – under committed facilities	**52.1**	54.3
Private placement notes	**211.9**	203.8
Obligations under finance leases	**1.5**	1.3
Total	**265.5**	259.4
Included in current liabilities	**40.7**	0.8
Included in non-current liabilities	**224.8**	258.6
Total	**265.5**	259.4

The £275.0m bank facility and the private placement notes are unsecured but have financial and non-financial covenants and obligations commonly associated with these arrangements. The final maturity dates of all facilities remained unchanged. The Group was in compliance with these covenants as at 31 March 2019 and hence all amounts are classified in line with repayment dates.

Included in current financing liabilities are £0.7m (2018: £0.8m) of obligations under finance leases.

With the exception of derivative financial instruments, all financing liabilities are held at amortised cost. Derivative financial instruments are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through profit or loss unless they are designated as hedges for which hedge accounting can be applied (see Note 18).

At 31 March 2019, the Group had available £221.9m (2018: £219.3m) 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 the applicable LIBOR.

Details of the Group's contingent liabilities are provided in Note 22.

The weighted average interest rates paid during the year on overdrafts and loans outstanding were as follows:

	2019 %	2018 %
Overdrafts	**2.7**	2.0
Bank loans	**1.6**	1.5
Private placement notes	**4.1**	3.9

Private placement notes

Following the issue on 16 December 2010 of US$96.0m and £40.0m of private placement (PP) notes in the United States Private Placement market, the Group issued a further US$153.0m and £55.0m of PP notes on 13 December 2012. The PP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the Group. In order to manage the risk of foreign currency fluctuations and to manage the Group's finance costs through a mix of fixed and variable rate debt, the Group has entered into cross-currency interest rate swaps. The swap contracts have the same duration and other critical terms as the borrowings and are considered to be highly effective. US$96.0m of these PP notes were settled in December 2017 upon maturity, along with the associated swaps which had been designated as fair value hedges. The amount, maturity and interest terms of the remaining PP notes are shown below.

Tranche	Maturity date	Amount	Interest terms	Swap interest
9 year	16 December 2019	£40.0m	£ fixed at 4.38%	n/a
10 year	16 December 2022	US$76.0m	US$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	US$77.0m	US$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	£25.0m	£ fixed at 3.87%	n/a
12 year	16 December 2024	£30.0m	£ fixed at 4.00%	n/a

18. 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 held and measured at amortised cost.

The Group's principal financial liabilities are trade and other payables and financing liabilities. All financial liabilities are held and measured at amortised cost.

Derivative financial instruments are measured initially at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through the income statement unless they are designated as hedges for which hedge accounting can be applied.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense) for each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

Risk management objectives

The Group's treasury department monitors and manages the financial risks relating to the operations of the Group. These risks include those arising from interest rates, foreign currencies, liquidity, credit and capital management. The Group seeks to minimise the effects of these risks by using effective control measures and, where appropriate, derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by Group policies and reviewed regularly. Group policy is to not trade in financial instruments. The risk management policies remain unchanged from the previous year.

Interest rate risk

The Group's activities expose it to the financial risks of interest rates. The Group's treasury function reviews its risk management strategy on a regular basis and will, as appropriate, enter into derivative financial instruments in order to manage interest rate risk.

Interest rate sensitivity

The interest rate sensitivity has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. All financial liabilities, other than financing liabilities, are interest free.

If underlying interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2019 and reserves would decrease/increase by £0.8m (2018: £0.7m).

Foreign currency risk

The Group has limited exposure to transactional foreign currency risk from trading transactions in currencies other than the functional currency of individual group entities and some exposure to translational foreign currency risk from the translation of its foreign operations. The Group considers the need to hedge its exposures as appropriate and will enter into forward foreign exchange contracts to mitigate any significant risks.

In addition, the Group has fully hedged the US dollar exposure on its private placement notes into sterling using cross-currency interest rate swaps (see Hedging activities below).

At 31 March 2019 £9.2m (2018: £9.3m) of cash and cash equivalents were held in foreign currencies. Included in bank loans were £13.1m (2018: £15.7m) of loans denominated in foreign currency.

Liquidity risk

The Group monitors its liquidity risk using a cash flow projection model which considers the maturity of the Group's assets and liabilities and the projected cash flows from operations. Bank loans under committed facilities, which allow for appropriate headroom in the Group's daily cash movements, are then arranged. Details of the Group's bank facilities can be found in Note 17.

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 2019	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	**160.1**	**–**	**–**	**160.1**
Other creditors	**40.9**	**–**	**–**	**40.9**
Financing liabilities	**102.0**	**162.6**	**30.9**	**295.5**
Financial liabilities[1]	**303.0**	**162.6**	**30.9**	**496.5**

Financial liabilities at 31 March 2018	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	191.3	–	–	191.3
Other creditors	29.2	–	–	29.2
Financing liabilities	65.6	198.9	31.5	296.0
Financial liabilities[1]	286.1	198.9	31.5	516.5

Note:

1. Financial liabilities maturity profile is exclusive of the £16.4m (2018: £6.1m) derivative asset which would naturally offset the settlement value of the maturing private placement notes in financing liabilities.

Credit risk

The Group's credit risk is monitored on an ongoing basis and formally reported quarterly. The value of business placed with financial institutions is reviewed on a daily basis.

The Group's credit risk on liquid funds and derivative financial instruments is limited because the external counterparties are banks with high credit ratings assigned by international credit rating agencies and are managed through regular review.

The Group's credit risk is primarily attributable to its receivable balances from customers. Before accepting a new customer, the Group uses external credit scoring systems to assess the potential customer's credit quality and define an appropriate credit limit which is reviewed regularly.

The maximum exposure to credit risk in relation to trade receivables and accrued income at the balance sheet date is the fair value of trade receivables and accrued income. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty or group of counterparties.

The amounts presented in the balance sheet in relation to the Group's trade receivables and accrued income balances are presented net of loss allowances. The Group measures loss allowances at an amount equal to lifetime expected credit losses (ECLs) using both quantitative and qualitative information and analysis based on the Group's historical experience, and forward-looking information.

The following table provides information about the Group's exposure to credit risk and ECLs against customer balances as at 31 March 2019 under IFRS 9:

			2019 £m
Trade receivables at 31 March 2019	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Current (not overdue)	**210.3**	**(11.9)**	**198.4**
1-30 days overdue	**26.4**	**(1.9)**	**24.5**
31-60 days overdue	**6.5**	**(0.5)**	**6.0**
61-90 days overdue	**1.7**	**(0.3)**	**1.4**
More than 90 days overdue	**7.9**	**(4.6)**	**3.3**
Total	**252.8**	**(19.2)**	**233.6**

Trade receivables at 31 March 2019 represents 29 days revenue (2018 restated: 26 days).

The following table provides information about the ageing of trade receivables as at 31 March 2018 under IAS 39:

	2018[1] £m
Neither impaired nor past due	163.6
Not impaired and less than three months overdue	37.4
Not impaired and more than three months overdue	21.3
Provision for doubtful debts	(17.3)
Total	205.0

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

The following table provides the movement in the allowance for impairment in respect of trade receivables and accrued income:

	2019 £m		2018[1] £m	
	Trade receivables	**Accrued income**	Trade receivables	Accrued income
At 1 April	**17.3**	**6.5**	16.2	4.5
Impact of change in accounting policy	**1.5**	**1.0**	–	–
Impairment losses/(gains) recognised	**1.1**	**(1.6)**	2.3	2.0
Amounts written off as uncollectable	**(1.5)**	**–**	(1.2)	–
Acquisition of subsidiaries	**1.9**	**0.1**	–	–
Disposal of subsidiaries	**(1.1)**	**(0.4)**	–	–
At 31 March	**19.2**	**5.6**	17.3	6.5

Note:

1. The Group has adopted IFRS 9 starting 1 April 2018 using the transition option available in the standard by disclosing the impact as an adjustment to opening retained earnings at the date of initial application. Under this option, the comparative information is not restated.

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 19 and equity per the consolidated statement of changes in equity.

The Group is not subject to externally imposed regulatory capital requirements.

Hedging activities

Cash flow hedges

The Group holds a number of cross-currency interest rate swaps designated as cash flow hedges on US$153.0m of PP notes. Biannual fixed interest cash flows denominated in US dollars arising over the periods to December 2022 from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. All cash flow hedges were assessed as being highly effective as at 31 March 2019.

Hedge of net investment in foreign operations

Included in bank loans at 31 March 2019 was a borrowing of €9.5m (2018: €9.5m) which has been designated as a hedge of the net investment in the Republic of Ireland business of Dalkia FM, and is being used to hedge the Group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of the borrowing are transferred to equity to offset gains or losses on the translation of the net investment.

Derivative financial instruments

The carrying values of derivative financial instruments at the balance sheet date were as follows:

	Assets 2019 £m	Assets 2018 £m
Derivative financial instruments hedging private placement notes[1]	**16.4**	6.1
Total	**16.4**	6.1
Included in current assets	**–**	–
Included in non-current assets	**16.4**	6.1
Total	**16.4**	6.1

Note:

1. Derivative financial instruments hedging private placement notes comprise cross-currency interest rate swaps designated as cash flow hedges.

Derivative financial instruments are measured at fair value.

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 Group's derivative financial instruments fall into Level 2. There were no transfers between levels during the year. Fair values of these instruments are calculated based on a discounted cash flow analysis using appropriate market information for the duration of the instruments. All contracts are gross settled.

19. Analysis of net debt

	2019 £m	2018 £m
Cash and cash equivalents	**108.4**	59.8
Bank loans (Note 17)	**(52.1)**	(54.3)
Private placement notes (Note 17)	**(211.9)**	(203.8)
Derivative financial instruments hedging private placement notes (Note 18)	**16.4**	6.1
Net debt before obligations under finance leases	**(139.2)**	(192.2)
Obligations under finance leases	**(1.5)**	(1.3)
Net debt	**(140.7)**	(193.5)

Net debt excludes amounts in respect of Customer Invoice Discounting referred to in Note 11 and amounts in respect of Supply Chain Financing referred to in Note 13.

20. Acquisitions

Current year acquisitions – purchase of Vision Security Group

On 26 October 2018, the Group acquired a 100% shareholding in Vision Security Group Limited (VSG). VSG is a leading security services provider offering integrated security systems, manned guarding and key holding services, with a team of approximately 6,000 employees servicing more than 1,400 guarding locations and over 5,000 systems locations across the UK and Ireland.

The acquisition of VSG further strengthens the position of Mitie's Total Security Management business (Mitie TSM) as one of the leading providers of integrated and risk-based security services in the UK. In particular, the combination will offer opportunities to accelerate the growth of Mitie's premium technology-enabled and intelligence-led security solutions.

Consideration of £12.7m (on a debt free, cash free basis) was paid in cash at completion, and funded through Mitie's own cash resources. £4.5m of the cash consideration paid is expected to be to be returned through agreement of the completion accounts with the seller of the business.

The Group's provisional assessment of the fair values of the assets and liabilities recognised as a result of the acquisition has been based on total consideration of £8.2m following expected adjustments to the completion accounts. The purchase price allocation is as follows:

	Book value £m	Provisional fair value adjustment £m	**Fair value £m**
Software and development expenditure	0.1	(0.1)	**–**
Property, plant and equipment	0.5	(0.3)	**0.2**
Customer relationships	–	14.9	**14.9**
Current tax assets	0.5	–	**0.5**
Inventories	0.7	(0.2)	**0.5**
Trade and other receivables	41.5	(4.2)	**37.3**
Cash and cash equivalents	1.6	–	**1.6**
Trade and other payables	(29.8)	(1.2)	**(31.0)**
Deferred income from contracts with customers	(4.0)	(0.9)	**(4.9)**
Current tax liabilities	(0.1)	–	**(0.1)**
Deferred tax liabilities	–	(2.0)	**(2.0)**
Net identifiable assets acquired	11.0	6.0	**17.0**
Less: bargain purchase in other items			**(8.8)**
Consideration			**8.2**

The Group concluded that the the value of the order backlog and the customer relationships to drive renewal of the contracts held by VSG was an intangible asset which has been valued at £14.9m at acquisition and has been recorded as a non-current intangible asset under the caption 'Customer relationships'. The asset will amortise to the income statement in line with the forecast expiry of the underlying customer relationships over a 10-year period.

The Group has recorded a bargain purchase gain of £8.8m in the consolidated income statement within other items. This represents the excess of net identifiable assets acquired of £17.0m over the consideration of £8.2m.

Acquired receivables

The fair value of acquired trade and other receivables was £37.3m. The gross contractual amount for trade and other receivables due was £39.3m, against which £2.0m is the expected credit loss.

Revenue and profit contribution

The acquired business contributed revenues of £79.6m and net profit of £1.4m to the Group for the period from 26 October 2018 to 31 March 2019. If the acquisition had occurred on 1 April 2018, consolidated pro-forma revenue and profit before tax for continuing operations for the year ended 31 March 2019 would have been £2,332.1m and £31.9m respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary; and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 April 2018, together with the consequential tax effects.

Purchase consideration – cash outflow

Outflow of cash to acquire subsidiaries, net of cash acquired:

	2019 £m
Cash consideration	**12.7**
Less: cash balance acquired	**(1.6)**
Add: recovery of consideration[1]	**(1.8)**
Net outflow of cash – investing activities	**9.3**

Note:

1. Recovery of consideration amounting to £1.8m was in respect of the purchase of certain non-controlling interests in the year ended 31 March 2017.

Acquisition related costs

Acquisition related costs of £2.6m are included in administrative expenses and recognised in other items (see Note 4) in the income statement and in operating cash flows in the statement of cash flows.

Prior year acquisitions – purchase of non-controlling interests

On 19 July 2017, the Company purchased the minority 49% shareholding in Source Eight Limited. The consideration paid was £4.0m, satisfied with £3.0m in cash and £1.0m in unrestricted shares. A further £5.1m of shares were issued which were subject to sale restrictions related to continuing employment. Regarding shares issued, 2,196,708 ordinary shares were issued, with a nominal value of 2.5p per share in Mitie Group plc (Mitie shares) at a fair value of 278.8p, of which 1,838,028 Mitie shares were subject to sale restrictions related to continuing employment.

In addition, on 20 October 2017 the Company purchased the remaining minority shareholdings in five Mitie Model companies.
The consideration paid was £3.4m, satisfied through the issue of unrestricted shares. A further £3.0m of shares were issued which were subject to sale restrictions related to continuing employment. Regarding shares issued, 2,396,381 Mitie shares were issued at a fair value of 266.3p, of which 1,139,697 Mitie shares were subject to sale restrictions related to continuing employment.
The shareholdings purchased, primarily held by certain of the employees and senior management of the relevant subsidiary companies, are detailed below:

- Mitie Care and Custody Limited (MCCL) – 6.86% of the issued share capital, comprising 42,505 B ordinary shares of £0.01 each, for a consideration of £0.4m satisfied by the issue of 169,328 Mitie shares;
- Mitie Events & Leisure Services Limited (MELSL) – 24.08% of the issued share capital, comprising 205,000 B ordinary shares of £0.01 each, for a consideration of £0.4m satisfied by the issue of 144,555 Mitie shares;
- Mitie Facilities Management Limited (Ireland) (MFML) – 5.63% of the issued share capital, comprising 146,000 B ordinary shares of €0.01 each, for a consideration of £0.2m satisfied by the issue of 72,228 Mitie shares;
- Mitie Catering Services Limited (MCSL) – 18.55% of the issued share capital, comprising 333,677 D ordinary shares of £0.01 each, for a consideration of £2.9m satisfied by the issue of 1,072,416 Mitie shares; and
- Mitie Waste & Environmental Services Limited (MWESL) – 27.71% of the issued share capital, comprising 332,500 B ordinary shares of £0.01 each, for a consideration of £2.5m satisfied by the issue of 937,854 Mitie shares;

The above acquisitions have been completed based on transfer of consideration of the fair value of the shareholdings of the respective entities. As part of the above transactions Mitie Group issued unrestricted and restricted shares. The restricted shares are attached with a condition that the relevant recipient continues in employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

As a result of the acquisitions outlined above Mitie Group owns 100% of the issued share capital of all of the above entities.

21. Retirement benefit schemes

The Group has a number of pension arrangements for employees:

- Defined contribution schemes for the majority of its employees; and
- Defined benefit schemes which include a group scheme and other smaller schemes.

The Group operates a number of defined contribution pension schemes for qualifying employees. The Group has a defined benefit pension scheme called the Mitie Group plc Pension Scheme (Group scheme) where Mitie Group plc is the principal employer.
The Group participates in a number of other defined benefit schemes (Other schemes) in respect of certain employees who joined the Group under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) or through the acquisition of subsidiary companies.

Defined contribution schemes

A defined contribution scheme is a pension scheme under which the Group pays contributions to an independently administered fund; such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once these contributions have been paid. Members' benefits are determined by the amount of contributions paid, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to take at retirement. As a result, actuarial risk (that pension will be lower than expected) and investment risk (that the assets invested in do not perform in line with expectations) are borne by the employee.

The Group's contributions are recognised as an employee benefit expense when they are due.

The Group operates three separate schemes: a stakeholder defined contribution plan, which is closed to new members; a self-invested personal pension plan, which is closed to new members; and a group personal pension (GPP) plan. Employer contributions are payable to each on a matched basis requiring employee contributions to be paid. Employees have the option to pay their share via a salary sacrifice arrangement. The scheme used to satisfy auto-enrolment compliance is a master trust, The People's Pension.

During the year, the Group made a total contribution to the defined contribution schemes of £8.0m (2018: £9.0m) and contributions to the auto-enrolment scheme of £8.6m (2018: £4.3m), which are included in the income statement charge. The Group expects to make contributions of a similar amount in the year ending 31 March 2020.

Defined benefit schemes

Group scheme

The Group scheme provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their final pensionable pay.

The Group scheme closed to new members in 2006, with new employees able to join one of the defined contribution schemes.
The main Group scheme was closed with effect from October 2017.

Pensions in payment are generally increased in line with RPI inflation, subject to certain caps and floors. Benefits are payable on death and other events such as withdrawal from active service.

The Group scheme is operated under the UK regulatory framework. Benefits are paid to members from the trust-administered fund, where the Trustee is responsible for ensuring that the scheme is sufficiently funded to meet current and future benefit payments. Plan assets are held in trust and are governed by pension legislation. If investment experience is worse than expected or the actuarial assessment of the scheme's liabilities increases, the Group's financial obligations to the scheme rise.

The nature of the relationship between the Group and the Trustee is also governed by regulations and practice. The Trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (which are determined by the Trustee with advice from the scheme actuary). The most recent triennial valuation was carried out as at 31 March 2017 and was concluded in March 2019.

The Trustee's other duties include managing the investment of the scheme's assets, administration of plan benefits and exercising of discretionary powers. The Group works closely with the Trustee to manage the scheme.

Other defined benefit schemes

Grouped together under Other schemes are a number of schemes to which the Group makes contributions under Admitted Body status to clients' (generally local government or government entities) defined benefit schemes in respect of certain employees who transferred to Mitie under TUPE. The valuations of the Other schemes are updated by an actuary at each balance sheet date.

For the Admitted Body schemes, which are largely sections of the Local Government Pension Scheme, the Group will only participate for a finite period up to the end of the relevant contract. The Group is required to pay regular contributions, as decided by the relevant scheme actuaries and detailed in each scheme's Contributions Certificate, which are calculated every three years as part of a triennial valuation. In a number of cases contributions payable by the employer are capped and any excess is recovered from the entity that the employees transferred from. In addition, in certain cases, at the end of the contract the Group will be required to pay any deficit (as determined by the scheme actuary) that is assessed for its notional section of the scheme.

Multi-employer schemes

As a result of historic acquisition activity and staff transfers following contract wins, the Group participates in four multi-employer pension schemes. The total contributions to these schemes for the financial year ending 31 March 2020 are anticipated to be £0.1m. For three of these schemes, the Group's share of the assets and liabilities is minimal.

The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme) a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. Historically, the size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. The Group has recently received a Section 75 employer debt notice in respect of the participation of Robert Prettie & Co Limited in the Plumbing Scheme (refer to Note 15 and Note 22). One Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme, however no apportionment of the assets and liabilities attributable to this company is available and consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

The April 2014 valuation of the Plumbing Scheme indicated a surplus on technical provisions basis of £19.0m, on liabilities of £1.47bn. The Annual Member update issued by the Plumbing Scheme in October 2018 stated that the draft triennial valuation as at 5 April 2017 showed a surplus on a technical provisions basis.

As set out in Note 15, a provision of £20.0m has been made for Section 75 employer debts in respect of the participation of Robert Prettie & Co. Limited in the Plumbing Scheme.

As set out in Note 22 the Group has a further potential exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, which has been disclosed as a contingent liability.

Further information in respect of the Group scheme and Other schemes
The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2017.

Following the £3.0m paid in November 2017, the Group paid additional contributions of £10.5m to the Group scheme during the year ended 31 March 2019, including amounts of £3.8m and £1.8m in respect of the disposals of the Pest Control business and Social Housing business.

Under the concluded schedule for payments, a further £64.8m is payable in instalments by 31 March 2025, which, if the assumptions above are borne out in practice, should eliminate the deficit by 31 March 2025.

The Group made contributions to the Other schemes of £0.3m in the year (2018: £0.3m). The Group expects to make contributions of around £0.3m to the Other schemes in the year ending 31 March 2020.

Details of latest funding valuation

	Group scheme
Date of latest funding valuation	31 March 2017
Assets at valuation date	£178.7 million
Funding liabilities at valuation date	£252.7 million
Deficit at valuation date	£74.0 million

The total contribution rate was set at between 40.1% and 45.0% of annual pay for the remaining active members. The employer contribution rate is the balance of the total cost after the deducting the employee rate, which ranges depending on status and earnings. The total contribution excludes any allowances for expenses met by the scheme.

The following table sets out details of the membership of the Group scheme at 31 March 2017:

	Group scheme
Active members – by number	182
Active members – by proportion of funding liability	19.8%
Total pensionable salary roll p.a.	£8.4m
Deferred members – by number	853
Deferred members – by proportion of funding liability	53.9%
Total deferred pensions p.a. (at date of leaving scheme)	£4.6m
Pensioner members – by number	640
Pensioner members – by proportion of funding liability	26.3%
Total pensions in payment p.a.	£2.7m

Accounting assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension schemes, as detailed below, are set after consultation with independent, professionally qualified actuaries.

The discount rate used to determine the present value of the obligations is set by reference to market yields on high-quality corporate bonds. The assumptions for price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds. The assumption for increases in pensionable pay takes into account expected salary inflation, the cap at CPI, and how often the cap is likely to be exceeded.

A UK High Court judgement was issued on 26 October 2018 relating to Guaranteed Minimum Pensions (GMP). Although the ruling relates to Lloyds Banking Group pension schemes, it is expected to create a precedent for other UK defined benefit pension schemes. The ruling requires the equalisation of member benefits earned between 1990 and 1997 to address gender inequality in instances where GMP benefits are currently unequal. Whilst there remains some uncertainty, the Group has made a provision for the estimated financial impact of this ruling on the Group scheme, based on a comparison of the cumulative value of members' benefits with the benefits of a notional member of the opposite gender (method C2 under the terminology of the High Court Judgement). A past service cost of £1.6m based on the broad profile of the fund (i.e. age profile, service profile and GMP proportion) has been recognised within other items in the year ended 31 March 2019.

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations, with a lower 'best-estimate' allowance for future improvements to mortality.

Principal accounting assumptions at balance sheet dates

	Group scheme		Other schemes	
	2019 %	2018 %	**2019 %**	2018 %
Key assumptions used for IAS 19 valuation:				
Discount rate	**2.40**	2.60	**2.40**	2.60
Expected rate of pensionable pay increases	**3.20**	3.10	**3.20**	3.10
Retail price inflation	**3.20**	3.10	**3.20**	3.10
Consumer price inflation	**2.20**	2.10	**2.20**	2.10
Future pension increases	**3.50**	3.40	**3.50**	3.40

	Group scheme	
	2019 Years	2018 Years
Post retirement life expectancy:		
Current pensioners at 65 – male	**88.0**	88.0
Current pensioners at 65 – female	**89.0**	89.0
Future pensioners at 65 – male	**89.0**	89.0
Future pensioners at 65 – female	**90.0**	90.0

Life expectancy for the other schemes is that used by the relevant scheme actuary.

The sensitivity of defined benefit obligations to changes in principal actuarial assumptions is shown below.

Sensitivity of defined benefit obligations to key assumptions

		Impact on defined benefit obligations	
	Change in assumption	Increase/(decrease) in obligations %	Increase/(decrease) in obligations £m
Increase in discount rate	0.1%	(2.0)%	(4.9)
Increase in RPI inflation*	0.1%	0.8%	2.0
Increase in CPI inflation (excluding pay)	0.1%	0.7%	1.7
Increase in salary growth	0.1%	0.0%	—
Increase in life expectancy	1 year	4.0%	10.4

* 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.

			2019			2018
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Current service cost	**(0.4)**	**(0.3)**	**(0.7)**	(1.7)	(0.3)	(2.0)
Total administration expense	**(1.1)**	**–**	**(1.1)**	(1.1)	–	(1.1)
Amounts recognised in operating profit	**(1.5)**	**(0.3)**	**(1.8)**	(2.8)	(0.3)	(3.1)
Past service cost (including curtailments)	**(1.6)**	**–**	**(1.6)**	(1.9)	–	(1.9)
Net interest cost	**(1.2)**	**(0.1)**	**(1.3)**	(1.9)	(0.1)	(2.0)

Amounts recognised in profit/(loss) before tax	**(4.3)**	**(0.4)**	**(4.7)**	(6.6)	(0.4)	(7.0)

The past service cost (including curtailments) in the year ended 31 March 2019 was the cost of equalising Guaranteed Minimum Pensions and in the year ended 31 March 2018 was a result of an increase in liabilities driven by the closure of the main Group scheme.

Amounts recognised in the consolidated statement of comprehensive income are as follows:

			2019			2018
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Actuarial (losses)/gains arising due to changes in financial assumptions	**(13.6)**	**(0.9)**	**(14.5)**	8.6	0.8	9.4
Actuarial (losses)/gains arising from liability experience	**(1.3)**	**–**	**(1.3)**	(1.1)	0.8	(0.3)
Actuarial gains due to changes in demographic assumptions	**–**	**0.1**	**0.1**	5.9	0.2	6.1
Movement in asset ceiling	**–**	**–**	**–**	–	(0.5)	(0.5)
Return on scheme assets, excluding interest income	**1.3**	**0.5**	**1.8**	4.6	0.4	5.0
	(13.6)	**(0.3)**	**(13.9)**	18.0	1.7	19.7

The amounts included in the consolidated balance sheet in respect of the Group's defined benefit retirement benefit schemes are as follows:

			2019			2018
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	**190.5**	**13.1**	**203.6**	182.3	12.1	194.4
Present value of defined benefit obligations	**(251.9)**	**(15.5)**	**(267.4)**	(237.1)	(14.1)	(251.2)
Net pension liability	**(61.4)**	**(2.4)**	**(63.8)**	(54.8)	(2.0)	(56.8)

All figures above are shown before deferred tax.

Movements in the present value of defined benefit obligations in the year in respect of both the Group and other schemes were as follows:

			2019			2018
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
At 1 April	**237.1**	**14.1**	**251.2**	248.5	14.8	263.3
Current service cost	**0.4**	**0.3**	**0.7**	1.7	0.3	2.0
Interest cost	**6.0**	**0.4**	**6.4**	6.5	0.4	6.9
Contributions from scheme members	**–**	**0.1**	**0.1**	–	0.1	0.1
Actuarial losses/(gains) arising due to changes in financial assumptions	**13.6**	**0.9**	**14.5**	(8.6)	(0.8)	(9.4)
Actuarial losses/(gains) arising from experience	**1.3**	**–**	**1.3**	1.1	(0.8)	0.3
Actuarial gains due to changes in demographic assumptions	**–**	**(0.1)**	**(0.1)**	(5.9)	(0.2)	(6.1)
Movement in asset ceiling	**–**	**–**	**–**	–	0.5	0.5
Benefits paid	**(8.1)**	**(0.2)**	**(8.3)**	(8.1)	(0.2)	(8.3)
Past service cost (including curtailments)	**1.6**	**–**	**1.6**	1.9	–	1.9
At 31 March	**251.9**	**15.5**	**267.4**	237.1	14.1	251.2

The defined benefit obligations of the Group scheme are analysed by participant status as at 31 March 2017 below:

	2019 £m	2018 £m
Active	**51.4**	48.3
Deferred	**131.0**	123.3
Pensioners	**69.5**	65.5
At 31 March	**251.9**	237.1

Movements in the fair value of scheme assets were as follows:

	2019			2018		
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
At 1 April	**182.3**	**12.1**	**194.4**	177.8	11.3	189.1
Interest income	**4.8**	**0.3**	**5.1**	4.6	0.3	4.9
Actuarial gains on assets	**1.3**	**0.5**	**1.8**	4.6	0.4	5.0
Contributions from the sponsoring companies	**11.3**	**0.3**	**11.6**	4.4	0.3	4.7
Contributions from scheme members	**–**	**0.1**	**0.1**	–	–	–
Expenses paid	**(1.1)**	**–**	**(1.1)**	(1.0)	–	(1.0)
Benefits paid	**(8.1)**	**(0.2)**	**(8.3)**	(8.1)	(0.2)	(8.3)
At 31 March	**190.5**	**13.1**	**203.6**	182.3	12.1	194.4

The history of experience adjustments is as follows:

	Group scheme				
	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Fair value of scheme assets	**190.5**	182.3	177.8	156.9	162.2
Present value of defined benefit obligations	**(251.9)**	(237.1)	(248.5)	(191.3)	(197.1)
Deficit in the scheme	**(61.4)**	(54.8)	(70.7)	(34.4)	(34.9)
Experience (losses)/gains on scheme liabilities	**(1.3)**	(1.1)	0.8	3.1	1.2
Percentage of scheme liabilities	**0.5%**	0.5%	(0.3)%	(1.6)%	(0.6)%
Experience gains/(losses) on scheme assets	**1.3**	4.6	18.7	(6.2)	13.0
Percentage of scheme assets	**0.7%**	2.5%	10.5%	(4.0)%	8.0%

	Other schemes				
	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Fair value of scheme assets	**13.1**	12.1	11.3	9.5	9.5
Present value of defined benefit obligations	**(15.5)**	(14.1)	(14.8)	(10.6)	(10.4)
Deficit in the scheme	**(2.4)**	(2.0)	(3.5)	(1.1)	(0.9)
Experience gains/(losses) on scheme liabilities	**–**	0.8	–	–	(0.1)
Percentage of scheme liabilities	**–**	(5.6)%	–	–	0.9%
Experience gains/(losses) on scheme assets	**0.5**	0.4	1.3	(0.6)	0.8
Percentage of scheme assets	**4.0%**	3.3%	11.5%	(6.1)%	8.4%

Fair values of the assets held by the schemes were as follows:

	2019			2018		
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Equities	**51.7**	**7.5**	**59.2**	66.3	7.0	73.3
Government bonds	**27.1**	**4.0**	**31.1**	26.9	–	26.9
Corporate bonds	**51.9**	**0.1**	**52.0**	22.0	3.8	25.8
Property	**16.8**	**1.0**	**17.8**	9.5	0.9	10.4
Diversified growth fund	**37.0**	**–**	**37.0**	45.6	–	45.6
Cash	**6.0**	**0.5**	**6.5**	12.0	0.4	12.4
Total fair value of assets	**190.5**	**13.1**	**203.6**	182.3	12.1	194.4

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 56% (2018: 67%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long term.

The property assets represent quoted property investments.

Risks and risk management

The Group scheme, in common with the majority of UK plans, has a number of risks. These areas of risk and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements:

Risk	Description
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation for accounting is calculated using a discount rate set with reference to corporate bond yields. The Group scheme holds a large proportion of its assets (56%) 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 19% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting obligations. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting obligations. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the scheme's obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the obligations.

Areas of risk management

Although investment decisions in the scheme are the responsibility of the Trustee, the Group takes an active interest to ensure that pension plan risks are managed efficiently. The Group and Trustee have agreed a long-term strategy for reducing investment risk where appropriate.

Certain benefits payable on death before retirement are insured.

22. Contingent liabilities

Contractual disputes, guarantees and indemnities

The Company and various of its subsidiaries are, from time to time, party to contractual disputes that arise in the ordinary course of business. The Directors do not anticipate that the outcome of any of these disputes will have a material adverse effect on the Group's financial position, other than as already provided for in the 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 £23.0m (2018: £21.7m) in the ordinary course of business. These are not expected to result in any material financial loss.

Multi-employer pension schemes

The Group participates in several industry multi-employer defined benefit schemes, including the Plumbing & Mechanical Services (UK) Industry "Pension Scheme" (Plumbing Scheme). The total contributions to these schemes for the financial year ending 31 March 2020 are anticipated to be £0.1m. The size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. Consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

When the Group (or a subsidiary of the Group) exits such schemes (typically by ceasing to have any active employees in the scheme), pension legislation may require the Group to fund the Group's share of the total amount of net liabilities with a one-off cash payment (a Section 75 debt under the Pensions Act 1995).

On 27 March 2018, the trustee of the Plumbing Scheme provided participating employers with a summary of the draft actuarial valuation of the Plumbing Scheme as at 5 April 2017. That summary detailed the results of the valuation on three measures:

- technical provisions - the amount of money the Plumbing Scheme needs to meet all its obligations and pay benefits in respect of past service as they fall due, based on the scheme assets and the economic position as at 5 April 2017. This measure showed a surplus of £45m on liabilities of £1.885bn;
- Pension Protection Fund (PPF) - the amount used to set the Plumbing Scheme's PPF levies. The benefits under this basis are lower than the scheme's own benefits and the assumptions are prescribed by the Pension Regulator. This measure showed a deficit of £412m on liabilities of £2.342bn; and
- solvency – this is an estimate of the cost of insuring all of the Plumbing Scheme's benefits as at 5 April 2017 with an insurer and is the basis required for Section 75 debt calculations. This measure showed a deficit of £658m on liabilities of £2.588bn.

On 23 April 2019 the trustee of the Plumbing Scheme issued a Section 75 debt estimate to Robert Prettie & Co Limited. A provision for this debt has been made. See Note 15.

The Group continues to have an exposure to Section 75 debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, however no event has occurred to trigger this debt.

Employment claims

The Company and its subsidiaries are, from time to time, party to employment disputes, claims, and other potential liabilities which arise in the ordinary course of business. The Directors do not anticipate that any of the current matters will give rise to settlements, either individually or in aggregate, which will have a material adverse effect on the Group's financial position.

23. 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 £0.5m (2018: £0.8m) of revenue from contracts with joint ventures and associated undertakings and received £nil (2018: £0.6m) of dividends. At 31 March 2019 trade and other receivables from joint ventures and associates of £nil (2018: £0.2m) were outstanding and loans to joint ventures and associates of £nil (2018: £nil) were included in financing assets.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company. During the year, the Group made donations and gifts in kind of £0.4m (2018: £0.3m) to the Foundation.

No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest.

The Company's preferred supplier for delivering apprenticeships to its employees is Aspire Achieve Advance Ltd (3aaa), a company whose chairman is also Mitie Group plc's Non-Executive Chairman. The Company pays into a government mandated Apprenticeship Levy Fund, and 3aaa withdraw from that fund to provide the apprenticeship training. On 11 October 2018, the directors of 3aaa presented a petition to the Court for the compulsory winding up of the company. This petition was accepted by the Court and the Official Receiver was appointed as liquidator on 24 October 2018. During the year ended 31 March 2019, 3aaa withdrew £0.6m (2018: £0.2m) from the fund in respect of training provided or to be provided.

24. Events after the reporting period

There are no material post balance sheet events that require adjustment or disclosure in the annual report.

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.

In assessing its performance, the Group has adopted certain non-statutory measures because, unlike its statutory measures, these cannot be derived directly from its financial statements. The Group commonly uses the following measures to assess its performance:

Performance before other items

The Group adjusts the statutory income statement for certain other items which, in the Directors' judgement, need to be disclosed separately by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

These other items include the impairment of goodwill, amortisation of acquisition related intangible assets, acquisition and disposal costs, the gain or loss on business disposals, the cost of restructuring programmes and other exceptional items.

Further details of these other items are provided in Note 4.

Operating profit/(loss) from operations		2019 £m	2018 £m
Operating profit from continuing operations	Face of the consolidated income statement	**50.2**	1.1
Adjust for: impairment of goodwill	Note 4	**–**	22.7
Adjust for: restructure costs	Note 4	**15.1**	47.0
Adjust for: acquisition and disposal related costs	Note 4	**8.7**	8.4
Adjust for: gain on bargain purchase	Note 4	**(8.8)**	–
Adjust for: other exceptional items	Note 4	**23.0**	4.0
Operating profit before other items from continuing operations	Performance measures	**88.2**	83.2
Operating loss from discontinued operations[1]		**(2.0)**	(9.4)
Adjust for: impairment of goodwill	Note 4	**–**	11.9
Adjust for: restructure costs	Note 4	**0.8**	0.3
Adjust for: gain on disposal	Note 4	**(17.9)**	–
Adjust for: other exceptional items	Note 4	**23.1**	3.6
Operating profit before other items from discontinued operations	Performance measures	**4.0**	6.4
Operating profit before other items - Group	Performance measures	**92.2**	89.6

Note:

1. Operating loss for discontinued operations comprises the loss before finance income and tax of £19.9m (2018: £9.4m) and the gain on disposal before tax of £17.9m (2018: £nil). See Note 5.

Reconciliations are provided below to show how the Group's segmental statutory results are adjusted to exclude other items.

Operating profit/(loss) from operations			2019 £m			2018 £m
	Reported results	Other items (Note 4)	Performance measures	Reported results	Other items (Note 4)	Performance measures
Segment						
Engineering Services	**52.5**	**6.2**	**58.7**	50.4	3.7	54.1
Security	**29.1**	**1.6**	**30.7**	27.1	0.4	27.5
Professional Services	**4.8**	**0.8**	**5.6**	5.0	0.6	5.6
Cleaning & Environmental Services	**15.5**	**2.0**	**17.5**	18.5	1.1	19.6
Care & Custody	**3.8**	**0.1**	**3.9**	1.8	0.1	1.9
Catering	**5.1**	**0.1**	**5.2**	5.6	–	5.6
Corporate centre	**(60.6)**	**27.2**	**(33.4)**	(107.3)	76.2	(31.1)
Total from continuing operations	**50.2**	**38.0**	**88.2**	1.1	82.1	83.2
Healthcare	**2.0**	**(2.0)**	**–**	–	–	–
Pest Control	**30.0**	**(27.6)**	**2.4**	2.6	–	2.6
Social Housing	**(34.0)**	**35.6**	**1.6**	(12.0)	15.8	3.8

Total from discontinued operations	**(2.0)**	**6.0**	**4.0**	(9.4)	15.8	6.4
Total - Group	**48.2**	**44.0**	**92.2**	(8.3)	97.9	89.6

In line with the Group's measurement of profit/(loss) from operations before other items, the Group also presents its basic earnings per share before other items for continuing operations. The table below reconciles this to the statutory basic earnings per share.

Earnings per share		2019 p	2018 p
Statutory basic earnings/(loss) per share	Statutory measures	**8.6**	(7.6)
Adjust for: losses from discontinued operations		**(0.3)**	2.7
Statutory basic earnings/(loss) per share from continuing operations		**8.3**	(4.9)
Adjust for: other items per share		**8.5**	20.1
Basic earnings per share before other items from continuing operations	Performance measures	**16.8**	15.2

Organic revenue and order book

The Group adjusts revenue and order book from continuing operations for the impact of acquisitions to show organic measures in order for users of the financial statements to obtain a proper understanding of the underlying movements in these business measures.

Organic revenue by segment for continuing operations				2019 £m	2018 £m
		Reported revenue	Adjust for: acquisition of subsidiaries	Organic revenue (performance measures)	Reported revenue
Segment					
Engineering Services	Note 3	**905.7**	**–**	**905.7**	886.3
Security	Note 3	**536.5**	**(79.6)**	**456.9**	432.0
Professional Services	Note 3	**131.4**	**–**	**131.4**	131.2
Cleaning & Environmental Services	Note 3	**404.4**	**–**	**404.4**	384.1
Care & Custody	Note 3	**107.3**	**–**	**107.3**	59.9
Catering	Note 3	**136.1**	**–**	**136.1**	137.1
Total for continuing operations		**2,221.4**	**(79.6)**	**2,141.8**	2,030.6

The Group's disclosure of its order book is aimed to provide insight into its future revenue and performance. The Group's order book represents the transaction price allocated to the remaining performance obligations on its contracts with customers. This secured revenue corresponds to fixed work contracted with customers and excludes the impact of any anticipated contract extensions, and new contracts with customers.

Organic order book for continuing operations				2019 £m	2018 £m
		Reported order book	Adjust for: acquisition of subsidiaries	Organic order book (performance measures)	Reported order book
Segment					
Engineering Services	Note 3	**1,802.7**	**–**	**1,802.7**	2,039.2
Security	Note 3	**971.5**	**(209.0)**	**762.5**	640.8
Professional Services	Note 3	**86.9**	**–**	**86.9**	144.9
Cleaning & Environmental Services	Note 3	**663.1**	**–**	**663.1**	656.3
Care & Custody	Note 3	**596.6**	**–**	**596.6**	670.1
Catering	Note 3	**26.5**	**–**	**26.5**	34.7
Total for continuing operations		**4,147.3**	**(209.0)**	**3,938.3**	4,186.0

Net debt

The Group includes the carrying value of its derivative financial instruments in its balance sheet in its performance net debt measure as this carrying value represents the fair value of cross-currency interest rate swaps on the US$ private placement notes which form part of the Group's financing liabilities.

The table below shows the reconciliation of statutory net debt to the performance net debt measure.

Net debt		2019 £m	2018 £m
Cash and cash equivalents		**108.4**	59.8
Financing liabilities	Note 17	**(265.5)**	(259.4)
Net debt	Statutory measures	**(157.1)**	(199.6)
Derivative financial instruments hedging private placement notes	Note 18	**16.4**	6.1
Net debt	Performance measures	**(140.7)**	(193.5)

The Group uses an average net debt measure as this reflects its financing requirements throughout the period. The Group calculates its average net debt based on the daily closing figures, including its foreign currency bank loans translated at the closing exchange rate for the previous month end. In line with the performance net debt measure, the average net debt includes the fair value of cross-currency interest rate swaps on the US$ private placement notes. This performance measure shows average net debt of £302.0m for the year ended 31 March 2019, compared with £286.1m for the year ended 31 March 2018.