25 June 2020

Mitie Group plc

Strategic update and full-year results for the year ended 31 March 2020

Mitie Group plc ("Mitie" or "the Group") (LSE: MTO), one of the UK's leading facilities management companies, today provides the following market update.

Refinancing and strategic highlights

- Signed Sale & Purchase Agreement to acquire Interserve Facilities Management enhancing Mitie's position as a leading UK facilities management company
  - Total consideration £271m to be paid in cash and shares, with shares equivalent to 23.4% of the enlarged Mitie Group
- Fully underwritten rights issue to raise £201m to strengthen the balance sheet against an extended negative COVID-19 impact, to secure refinancing and to provide a platform for growth opportunities
- Extension of £250m revolving credit facility (RCF) to December 2022

Further information is provided in a separate Rights Issue/Acquisition RNS released this morning

Current trading highlights

- Our business is proving to be more resilient to COVID-19 than initially expected
- Revenue in April and May 2020 was £301.4m, 12% lower than the same period last year
  - Includes 3% revenue decline as a result of contract maturities
  - COVID-19 revenue decline from reduced discretionary project work
  - In year revenue from projects relating to COVID-19 services c. £30m

FY19/20 financial highlights

- FY19/20 revenue of £2,174m was 4% ahead of the prior year with flat organic revenue growth
  - Revenue growth from top 50 accounts was 5%
  - Significant new customer wins including GSK and BMW
- FY19/20 operating profit before other items of £86.1m is 8% ahead of the prior year (FY18/19 £79.6m)
  - Cost synergies from the integration of VSG, Security and Cleaning operations
- Basic earnings per share of 16.0p, 9% ahead of the prior year (FY18/19 14.7p)
- Free cash flow of £10.8m (FY18/19 £21.4m)
- Closing net debt reduced to £75m (FY18/19 £141m) with covenant leverage of 0.7x
- Continued improvement in average daily net debt to £240m (FY18/19 £302m) and average net debt to EBITDA of 2.25x (FY18/19 2.92x) on a pre-IFRS 16 basis
- Order Book increased 4% to £4.3bn (FY18/19 £4.1bn)
- Net Promoter Score (NPS) increased to +30 (FY18/19 +12)
- The Board is recommending no final dividend (FY18/19 final 2.67p) be paid given the need to conserve cash in the COVID-19 situation

Commenting on the Refinancing and Strategic Progress of Mitie, Phil Bentley, Group Chief Executive, said:

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

"We are pleased to have signed a Sale and Purchase Agreement to acquire Interserve's Facilities Management. This will be a transformative acquisition, expanding the scale and footprint of our business to create the UK's largest facilities management company and accelerate the delivery of Mitie's long-term technology-led, vision.

"The transaction will better balance our public and private sector divisions; driving greater returns from the investments we have made in technology and customer service over the past three years. Together, we will create a true UK Facilities Management champion and partner to UK business, with over 77,500 exceptional employees".

Commenting on COVID-19 and current trading. Phil Bentley, Group Chief Executive, said:

"In adversity, we have seen character, bravery, resilience, determination – and opportunity. I have been incredibly proud of how our business has responded to the COVID-19 crisis. We have 37,500 frontline workers keeping the UK safe and operational whether in hospitals, supermarkets or, sites of national security, or keeping offices, transport hubs or manufacturing plants open. Mitie has been proud to support NHS Nightingale hospitals and COVID-19 testing centres around the UK. Our employees are our frontline heroes and I am humbled by all they do.

"In the first two months of our current financial year, our business proved more resilient than initially expected, reflecting the essential nature of the services we provide to customers. The decline in revenue was 12% with a drop through to profit of 20%. As further cost saving initiatives kick-in, we would expect the profit drop-through impact to reduce. Year to date average net debt of £86m at 31 May 2020 is at the lowest point for over 10 years and has benefited from tax deferral support from HMRC. Early indications show that June trading will also be better than expected.

"As the lockdown eases, we are working with our customers to ensure their employees can safely return to work. Over the medium term, COVID-19 will present a different way of doing business and we are at the forefront of creating new solutions to enable our customers to operate safely and efficiently. We have already launched a new cleaning product - 'Citrox Protect' - which provides surface protection against certain coronaviruses and we have installed new thermal imaging equipment. Our two guides to help our customers prepare for returning to their buildings and managing in the COVID-19 environment have been well received.

"As stated in the trading update of 27 March 2020, due to the ongoing uncertainties arising out of the Covid-19 pandemic, the Board will not be providing guidance for the year 20/21.

Full-year results for the year ended 31 March 2020

£m unless otherwise specified	**FY19/20**		FY18/19		
	Before other items[3]	**Total**	Before other items[3]	Total	Growth before other items %
Revenue[1]	**2,173.7**	**2,173.7**	2,085.3	2,085.3	+4.2
Operating profit[1]	**86.1**	**64.6**	79.6	41.7	+8.2
Operating profit margin[1]	***4.0%***	***3.0%***	*3.8%*	*2.0%*	+20bps
Profit before tax[1]	**69.9**	**48.4**	65.9	28.0	
Profit for the year	**60.3**	**90.5**	63.7	30.9	
Basic earnings per share	**16.0p[1]**	**25.0p**	14.7p[1]	8.6p	+8.8%
Dividends per share	**-**	**1.33p**		4.0p	-67%
		FY19/20		FY18/19	
Period-end net debt (pre-IFRS 16)[3]		**74.9**		140.7	-47%
Average daily net debt (pre-IFRS 16)		**239.6**		302.0	-21%
Period-end net debt (post-IFRS 16)[3]		**167.9**		n/a	
Order book[1]		**4,294.4**		4,120.8	

Notes:
1. From continuing operations.
2. Other items are as described in Note 4 to the consolidated financial statements.
3. Note 21 to the consolidated financial statements for analysis of net debt.

Commenting on FY19/20 results, Phil Bentley, Group Chief Executive, said:

"Mitie has a leading position in the facilities management market in the United Kingdom with a profitable and well invested business model. We deliver essential services and support a range of public sector and private sector clients with critical roles in the UK economy.

"This year our financial results reflect solid progress. We have achieved revenue growth of 4%, operating profit growth of 8% and further reduced our average net debt to £240m (pre-IFRS 16). We have continued winning new business, adding value to existing contracts and improving the financial stability of the Group.

"The second half of the year was more challenging, particularly for Technical Services which undertakes a significant proportion of discretionary variable works and project work. The headwind of Brexit and the General Election, in conjunction with COVID-19 in March, resulted in lower revenue. Business Services reported a stronger second half. Specialist Services also maintained its strong performance.

"Over the three-year period, since we began our transformation to build the foundations of our business, revenue from continuing operations has increased 18%; with EBIT growth from continuing operations of 13% and EPS growth of 15%. All whilst self-financing significant investment into our technology platforms, our service delivery, and our people. Most importantly we have put Mitie on a firmer financial footing by reducing net debt.

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

A pre-recorded presentation is available from 7.00am on the Company website at www.mitie.com/investors. There will be a conference call for investors and analysts to take questions at 07.45am on Thursday 25 June please contact Fiona.lawrenceIR@mitie.com for details.

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About Mitie

Founded in 1987, Mitie is one of the UK's leading **facilities management** and **professional services** company. It offers a range of services including **Technical Services** (Engineering Services, Energy, Water and Real Estate Services), **Business Services** (Security, Cleaning and Office Services) and **Specialist Services** (Care & Custody, Landscapes and Waste Management).

Mitie employs 47,500 people across the country, looking after a large, diverse, blue-chip customer base, from banks and retailers, to hospitals, schools and critical government strategic assets. It takes care of its customers' people and buildings, by delivering the basics brilliantly and by deploying advanced technology. It is pioneering technology, 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 contains certain financial information, including revenue, operating profit and net debt as at and for the two-month periods ended 31 May 2019 and 2020, and information on trading in early June 2020, that has not been subject to independent audit or review. Such information may differ from financial information provided in Mitie's Q1 20/21 trading update when published in due course.

Chief Executive's strategic review

COVID-19 and current trading

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

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

Mitigating factors

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

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

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

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

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

CURRENT TRADING

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

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

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

Technical Services

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

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

Business Services

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

The division has seen an uplift in demand for services from the retail sector with new wins and renewals at four of the UK's largest supermarket retailers. This sector represents c. 30% of divisional revenues and witnessed growth during this period benefitting both security and cleaning. Similarly, the Group also saw demand increase in healthcare and NHS Hospitals. Technology & communications, representing c. 7% of divisional revenues, has proved to be resilient with a flat performance. Office services, largely the Vetting business which is linked to the aviation sector, has reported a significant decline.

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

Specialist Services

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

Cost management

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

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

Net debt and working capital

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

Medium term outcome of COVID-19

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

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

Mitie's response is to flex the business model, managing costs with less overtime, a reduction in temporary staff hours and a reduction in equipment hire to mitigate the downside. Mitie's customers are likely to seek more advanced specialised work to support their buildings as and when they re-open. Mitie has launched a comprehensive guide to getting facilities back up and running 'Getting Britain Back to Business' – including a detailed checklist covering all aspects of facilities management. Mitie has also created a COVID-19 Checklist Assured service 'Mitie Building Confidence' which outlines all the steps required to enable businesses and their employees to feel confident returning to their properties. Thirdly, Mitie has launched specific products to mitigate some of the COVID-19 impact, which include 'Citrox Protect', thermal imaging and energy reduction.

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

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

Financial results for FY19/20

Revenue from continuing operations increased 4.2% to £2,174m (FY 18/19: £2.085m). Revenue from Mitie's UK businesses, excluding the revenue associated with the VSG acquisition, was just ahead of the prior year by 0.5%. After good growth in strategic accounts in the first half for Technical Services, the second half proved to be more challenging, as economic uncertainty resulted in revenue declines as variable works and projects reduced. Business Services, excluding VSG, delivered a better second half, reversing the terminations reported in the first half, as new customers mobilised during the second half of the year. Specialist Services delivered good revenue growth as Waste Management benefited from a full year of the NHS Improvement contract and additional variable works and Care & Custody saw a strong performance from the Heathrow Immigration Centre.

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

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

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

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

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

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

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

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

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

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

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

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

Our transformation

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

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

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

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

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

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

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

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

Social Value and Responsible Business

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

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

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

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

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

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

Dividend

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

More generally, the Board's intention is to hold the dividend flat, in line with amounts paid in the immediately preceding year, until transformation is complete, when we will review the dividend policy Mitie has reached agreement with the holders of their US Private Placement notes and the revolving credit facility banks to amended financial covenants, details of which can be found within the Financial Review. In return, Mitie has agreed, among other things, restrictions to dividend payments which will continue to apply if leverage is above 3.0x net debt to EBITDA.

Looking ahead

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

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

Operating review

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

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

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

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

Technical Services

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

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

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

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

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

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

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

Technical Services, £m	FY19/20	FY18/19	*Change, %*
Revenue	**947.2**	**974.2**	***(2.8)***
Maintenance	762.9	762.2	*0.1*
Engineering Projects	161.7	173.9	*(7.0)*
International	22.6	38.1	*(40.7)*
Operating profit before other items	**55.9**	**56.9**	***(1.8)***
Maintenance	42.7	*43.8*	*(2.5)*
Engineering Projects	13.8	14.9	*(7.4)*
International	(0.6)	(1.8)	*66.7*
Operating profit margin before other items, %	*5.9%*	*5.8%*	*0.1ppt*
Order book	1,914	1,862	2.8

Performance highlights

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

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

Operational performance

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

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

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

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

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

Financial performance

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

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

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

Medium term outlook

The impact of COVID-19 is covered in the Chief Executive's Review.

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

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

Business Services

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

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

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

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

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

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

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

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

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

Business Services, £m	**FY19/20**	**FY18/19**	***Change, %***
Revenue	**986.9**	894.0	*10.4*
Security	562.7	*454.0*	*23.9*
Cleaning	340.5	357.6	*(4.8)*
Office Services	83.7	82.4	*1.6*
Operating profit before other items	**42.2**	39.0	*8.2*
Security	26.6	22.3	*19.3*
Cleaning	7.0	8.1	*(13.6)*
Office Services	8.6	8.6	-
Operating profit margin before other items, %	***4.3%***	*4.4%*	*(0.1ppt)*
Order book	***1,835***	*1,596*	*15.0*

Performance highlights

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

Operational performance

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

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

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

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

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

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

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

Customer NPS for Business Services increased 12 points to +28 (FY 18/19 +16). This is largely due to a significant improvement in customer relationship management, which is now more prominent and prioritises a personal approach to maintaining and improving business relationships, and the division's position as a thought leader in the security and intelligence sector, supported by market-leading technology.

Financial performance

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

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

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

Medium term outlook

The impact of COVID-19 is covered in the Chief Executive's Review.

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

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

Specialist Services

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

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

The individual performance of each business unit is below.

Specialist Services, £m	**FY19/20**	**FY18/19**	***Change, %***
Revenue	**239.6**	217.1	*10.4*
Operating profit before other items	**25.3**	20.4	*24.0*
Operating profit margin before other items, %	***10.6%***	*9.4%*	*1.2ppt*
Order book	***545***	*664*	*(17.9)*

Care & Custody

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

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

Care & Custody, £m	**FY19/20**	**FY18/19**	***Change, %***
Revenue	**110.2**	107.3	2.7
Operating profit before other items	**7.7**	3.9	*97.4*
Operating profit margin before other items, %	***7.0%***	*3.6%*	*3.4ppt*
Order book	***481***	*597*	*(19.4)*

Operational performance

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

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

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

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

Financial performance

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

Operating profit before other items increased to £7.7m (FY18/19: £3.9m) due to a stronger performance in our immigration services business, improved margins for Police forensic medical services plus the impact of expensing a net £3.3m of mobilisation costs related to that contract in H118/19. Campsfield House IRC was demobilised in H119/20, with the contract having expired in early 2019.

Medium term outlook

The impact of COVID-19 is covered in the Chief Executive's Review.

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

Waste

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

Waste £m	**FY19/20**	**FY18/19**	***Change, %***
Revenue	**81.6**	63.1	*29.3*
Operating profit before other items	**9.0**	7.2	*25.0*
Operating profit margin before other items, %	***11.0%***	*11.4%*	*(0.4 ppt)*
Order book	***24***	*28*	*(14.3)*

Operational performance

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

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

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

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

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

Financial performance

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

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

Medium term outlook

The impact of COVID-19 is covered in the Chief Executive's Review.

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

Landscapes

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

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

Landscapes, £m	**FY19/20**	**FY18/19**	***Change*, %**
Revenue	**47.8**	46.7	*2.4*
Operating profit before other items	**8.6**	9.3	*(7.5)*
Operating profit margin before other items, %	***18.0%***	*19.9%*	*(1.9ppt)*
Order book	***40***	*39*	*2.6*

Operational performance

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

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

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

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

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

Financial performance

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

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

Medium term outlook

The impact of COVID-19 is covered in the Chief Executive's Review.

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

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

Discontinued operations

Catering

Catering £m	**FY19/20**	**FY18/19**	***Change, %***
Revenue	**60.5**	136.1	*nm*
Operating profit before other items	**2.8**	8.6	*nm*
Operating profit margin, %	***4.6%***	*6.3%*	*nm*

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

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

Corporate overheads

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

Finance review

Overview

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

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

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

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

Alternative Performance Measures

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

New accounting standards

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

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

As a result of adopting the new accounting standard for the year ended 31 March 2020, the Group's profit before tax has decreased by £1.9m, and operating profit has increased by £1.2m. The reduction in profit before tax is the net impact of £3.1m of additional finance charges and £23.6m of additional depreciation, replacing £24.8m of operating lease rental charges. Finance charges under IFRS 16 are front-loaded in the early part of the lease term and when using the modified retrospective approach to adoption, this resulted in the overall cost of leases being greater than operating lease rental charges would have been under IAS 17. This impact will unwind over the next few years as the remaining term of the leases in the portfolio becomes more balanced.

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

Financial performance

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

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

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

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

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

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

Continuing operations (£m)	FY19/20	FY18/19	*Change*, %
Operating profit before other items	**86.1**	79.6	*8.2%*
Net finance costs	**(16.2)**	(13.7)	
Profit before tax before other items	**69.9**	65.9	*6.1%*
Tax before other items	**(11.9)**	(12.8)	
Profit for the year before other items	**58.0**	53.1	*9.2%*
Other items after tax	**(17.5)**	**(30.5)**	
Profit for the year	**40.5**	22.6	*79.2%*

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

Tax

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

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

Mitie is a significant contributor of revenues to the UK Exchequer, paying £504.9m in the year ended 31 March 2020 (FY18/19: £529.3m).

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

Other items

Continuing operations (£m)	**FY19/20**
Project Forte	(10.6)
Project Helix	(3.6)
Acquisition and disposal related costs	(1.2)
Amortisation of acquisition related intangible assets	(2.3)
Other	(3.8)
Total other items before tax	**(21.5)**
Tax credit on other items	4.0
Other items after tax	**(17.5)**

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

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

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

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

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

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

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

Balance sheet

£m	FY19/20 Post-IFRS 16	FY18/19 Pre-IFRS 16
Goodwill and intangible assets	329.5	344.5
Property, plant and equipment	110.8	29.0
Working capital balances	(176.0)	(216.9)
Net debt	(167.9)	(140.7)
Retirement benefit liabilities	(46.7)	(63.8)
Deferred tax	29.7	35.8
Other net assets/(liabilities)	1.1	(0.3)
Total net assets/(liabilities)	**80.5**	**(12.4)**

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

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

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

Retirement benefit schemes

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

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

Cash flow

£m	FY19/20 Post-IFRS 16	FY18/19 Pre-IFRS 16
Operating cash inflow before working capital movements	**105.0**	**39.5**
Working capital movements	(33.2)	8.0
Operating cash flow	**71.8**	**47.5**
Lease payments including interest paid (reclassified under IFRS16)	(23.7)	-
Sub-total	**48.1**	**47.5**
Capex	(19.0)	(18.6)
Interest (excluding IFRS 16)	(11.9)	(12.2)
Tax	(6.4)	4.7
Free cash inflow	**10.8**	21.4

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

Working capital

Working capital movements resulted in an outflow for the year of £33.2m. There has been a £33m permanent working capital outflow from M&A in the year relating to a timing difference on the settlement of VSG transition payments, the settlement of various Social Housing liabilities, and the disposal of the Catering business. In addition, confidential invoice discounting (CID) reduced by £12m, and there was a £24m reduction in deferred income as Mitie sought to normalise the balance sheet. These outflows have been offset by the £33m HMRC Time to Pay tax payment deferral.

Capital expenditure

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

Net debt

£m	FY19/20 Post-IFRS 16	FY18/19 Pre-IFRS 16
Free cash inflow	**10.8**	**21.4**
M&A	64.2	43.5
Dividends	(14.4)	(14.4)
Other	(0.3)	2.3
Movement in net debt	**60.3**	**52.8**
Opening net debt pre-IFRS 16	**(140.7)**	**(193.5)**
Opening net debt adjustment for lease liabilities (IFRS 16 adjustment)	(87.5)	-
Opening net debt post-IFRS 16	(228.2)	-
Movement in net debt	**60.3**	**52.8**
Closing net debt pre-IFRS 16	n/a	**(140.7)**
Closing net debt post-IFRS 16	**(167.9)**	n/a

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

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

Period-end Total Financial Obligations (TFO)

£m	FY19/20	FY18/19
Net debt pre-IFRS 16	**74.9**	**140.7**
Leases liabilities (IFRS 16)	93.0	-
Net debt post-IFRS 16	**167.9**	n/a
Supply chain finance	16.0	20.0
Customer invoice discounting	61.2	73.2
Operating leases	n/a	83.7
Pension deficit	46.7	63.8
Total Financial Obligations	**291.8**	**381.4**

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

Liquidity and covenants

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

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

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

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

The principal financial covenant ratios (leverage and interest cover) for the committed funding arrangements are tested every six months on a rolling 12-month basis. The FY19/20 covenant calculations below are based on a measurement period from 1 April 2019 to 31 March 2020. A reconciliation of key items in the calculation is set out in the table below:

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

£m		FY19/20 (R12M)	FY18/19 (R12M)
Operating profit before other items		**88.9**	**92.2**
Add: depreciation, amortisation and impairment		43.9	20.8
Headline EBITDA		**132.8**	**113.0**
Deduct: covenant adjustments		0.3	(7.1)
IFRS 16 EBITDA adjustment		(24.8)	-
Consolidated EBITDA	**(a)**	**108.3**	**105.9**
Full-year effect of acquisitions & disposals		(1.7)	(2.3)
Adjusted consolidated EBITDA	**(b)**	**106.6**	**103.6**
Net finance costs		16.4	13.8
Less: covenant adjustments		(1.7)	(1.7)
IFRS 16 finance costs adjustment		(3.1)	-
Consolidated net finance costs	**(c)**	**11.6**	**12.1**
Interest cover (ratio of (a) to (c) must exceed 4.0x)		**9.3x**	**8.8x**
Net debt		167.9	140.7
Impact of hedge accounting & upfront fees		2.3	(3.0)
IFRS 16 net debt adjustment		(93.0)	-
Consolidated total net borrowings	**(d)**	**77.2**	**137.7**
Leverage (ratio of (d) to (b) must not exceed 3.0x)		**0.72x**	**1.33x**

Prompt payment regulations

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

Dividend

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

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

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

- END -

Consolidated income statement
For the year ended 31 March 2020

	Notes	2020 Before other items £m	2020 Other items[3] £m	2020 Total £m	2019[1,2] Before other items £m	2019[1,2] Other items[3] £m	2019[1,2] Total £m
Continuing operations							
Revenue	3	**2,173.7**	–	**2,173.7**	2,085.3	–	2,085.3
Cost of sales		**(1,886.2)**	–	**(1,886.2)**	(1,803.8)	–	(1,803.8)
Gross profit		**287.5**	–	**287.5**	281.5	–	281.5
Administrative expenses		**(201.4)**	**(21.5)**	**(222.9)**	(201.9)	(37.9)	(239.8)
Operating profit/(loss)[4]	3	**86.1**	**(21.5)**	**64.6**	79.6	(37.9)	41.7
Finance income		**0.4**	–	**0.4**	0.2	–	0.2
Finance costs[4]		**(16.6)**	–	**(16.6)**	(13.9)	–	(13.9)
Net finance costs		**(16.2)**	–	**(16.2)**	(13.7)	–	(13.7)
Profit/(loss) before tax		**69.9**	**(21.5)**	**48.4**	65.9	(37.9)	28.0
Tax	6	**(11.9)**	**4.0**	**(7.9)**	(12.8)	7.4	(5.4)
Profit/(loss) from continuing operations after tax		**58.0**	**(17.5)**	**40.5**	53.1	(30.5)	22.6
Discontinued operations							
Profit/(loss) from discontinued operations	5	**2.3**	**47.7**	**50.0**	10.6	(2.3)	8.3
Profit/(loss) for the year attributable to owners of the parent		**60.3**	**30.2**	**90.5**	63.7	(32.8)	30.9
Earnings per share (EPS) attributable to owners of the parent							
From continuing operations:							
Basic	8	**16.0p**		**11.2p**	14.7p		6.3p
Diluted	8	**15.7p**		**10.9p**	14.6p		6.2p
From continuing and discontinued operations:							
Basic	8	**16.7p**		**25.0p**	17.7p		8.6p
Diluted	8	**16.3p**		**24.4p**	17.5p		8.5p

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Re-presented to classify the Catering business as discontinued operations. See Note 5.
3. Other items are as described in Note 4.
4. The adoption of IFRS 16 in the year ended 31 March 2020 resulted in an increase in operating profit of £1.2m. See Note 20. Finance costs increased by £3.1m.

Consolidated statement of comprehensive income
For the year ended 31 March 2020

	Notes	2020 £m	2019[1] £m
Profit for the year		**90.5**	30.9
Items that will not be reclassified to profit or loss in subsequent years			
Remeasurement of net defined benefit pension liability	22	**9.2**	(13.9)
Tax (charge)/credit on remeasurement of net defined benefit pension liability	6	**(1.3)**	2.4
		7.9	(11.5)
Items that may be reclassified to profit or loss in subsequent years			
Exchange differences on translation of foreign operations		**0.2**	(0.3)
Gains on net investment hedge taken to equity		–	0.1
Net gains on cash flow hedges taken to equity[2]		**5.7**	2.2
Tax charge relating to items that may be reclassified to profit or loss in subsequent years	6	**(0.7)**	(0.3)
		5.2	1.7
Other comprehensive income/(expense) for the year		**13.1**	(9.8)
Total comprehensive income for the year attributable to owners of the parent		**103.6**	21.1

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Net gains on cash flow hedges taken to equity include fair value gains of £11.8m on derivative financial instruments used for hedging private placement notes (See Note 19). This gain is netted against reclassification adjustments related to foreign exchange losses on private placement notes of £6.0m and interest costs of £0.1m.

Consolidated balance sheet
As at 31 March 2020

	Notes	2020 £m	2019[1] £m
Non-current assets			
Goodwill	9	**278.9**	293.8
Other intangible assets	10	**50.6**	50.7
Property, plant and equipment[2]	11	**110.8**	29.0
Derivative financial instruments	19	**28.0**	16.4
Other receivables	12	**3.3**	–
Contract assets	13	**3.2**	4.5
Deferred tax assets	17	**32.6**	38.7
Total non-current assets		**507.4**	433.1
Current assets			
Inventories		**4.8**	5.6
Trade and other receivables	12	**403.1**	435.2
Contract assets	13	**1.6**	1.6
Derivative financial instruments	19	**0.2**	–
Current tax assets		**1.1**	–
Cash and cash equivalents		**124.6**	108.4
Total current assets		**535.4**	550.8
Total assets		**1,042.8**	983.9
Current liabilities			
Trade and other payables	14	**(487.0)**	(533.9)
Deferred income	15	**(35.9)**	(54.9)
Current tax liabilities		**–**	(0.3)
Financing liabilities[3]	18	**(24.3)**	(40.7)
Provisions	16	**(41.4)**	(50.6)
Total current liabilities		**(588.6)**	(680.4)
Net current liabilities		**(53.2)**	(129.6)
Non-current liabilities			
Trade and other payables	14	**(0.3)**	–
Deferred income	15	**(15.6)**	(18.4)
Financing liabilities[3]	18	**(296.4)**	(224.8)
Provisions	16	**(11.8)**	(6.0)
Retirement benefit liabilities	22	**(46.7)**	(63.8)
Deferred tax liabilities	17	**(2.9)**	(2.9)
Total non-current liabilities		**(373.7)**	(315.9)
Total liabilities		**(962.3)**	(996.3)
Net assets/(liabilities)		**80.5**	(12.4)

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Property, plant and equipment at 31 March 2020 includes £87.0m of additional right-of-use assets recognised under IFRS 16. See Note 20.
3. Financing liabilities at 31 March 2020 include £23.9m of additional current lease liabilities and £69.1m of additional non-current lease liabilities recognised under IFRS 16. See Note 20.

Consolidated balance sheet continued
As at 31 March 2020

	2020	2019[1]
	£m	£m
Equity		
Share capital	**9.3**	9.3
Share premium account	**130.6**	130.6
Merger reserve	**99.9**	104.2
Own shares reserve	**(34.2)**	(38.1)
Other reserves	**9.5**	10.3
Hedging and translation reserve	**(0.4)**	(5.6)
Retained losses	**(134.2)**	(223.1)
Equity attributable to owners of the parent	**80.5**	(12.4)

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

Consolidated statement of changes in equity
For the year ended 31 March 2020

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves[1] £m	Hedging and translation reserve £m	Retained earnings £m	**Total equity[2] £m**
Adjusted balance at 1 April 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(230.8)	**(26.1)**
Profit for the year	–	–	–	–	–	–	30.9	**30.9**
Other comprehensive income	–	–	–	–	–	1.7	(11.5)	**(9.8)**
Total comprehensive expense	–	–	–	–	–	1.7	19.4	**21.1**
Dividends paid	–	–	–	–	–	–	(14.4)	**(14.4)**
Share-based payments	–	–	–	5.3	(1.0)	–	0.9	**5.2**
Other movements	–	–	–	–	–	–	1.8	**1.8**
At 31 March 2019	9.3	130.6	104.2	(38.1)	10.3	(5.6)	(223.1)	**(12.4)**
At 1 April 2019	9.3	130.6	104.2	(38.1)	10.3	(5.6)	(223.1)	**(12.4)**
Profit for the year	–	–	–	–	–	–	90.5	**90.5**
Other comprehensive income	–	–	–	–	–	5.2	7.9	**13.1**
Total comprehensive income	–	–	–	–	–	5.2	98.4	**103.6**
Dividends paid	–	–	–	–	–	–	(14.4)	**(14.4)**
Share-based payments	–	–	–	3.9	(0.8)	–	0.6	**3.7**
Realised merger reserve[3]	–	–	(4.3)	–	–	–	4.3	–
At 31 March 2020	9.3	130.6	99.9	(34.2)	9.5	(0.4)	(134.2)	**80.5**

Notes:

1. Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve.
2. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option which has resulted in no impact on the Group's opening equity. Under this option, the comparative information is not restated. See Note 1.
3. Merger reserve of £4.3m has been realised in retained earnings on disposal of the Catering business.

Consolidated statement of cash flows
For the year ended 31 March 2020

	Notes	2020 £m	2019[1] £m
Continuing operations – operating profit before other items[2]	3	**86.1**	79.6
Continuing operations – other items[2]	4	**(21.5)**	(37.9)
Discontinued operations – operating profit after other items[2]	5	**51.8**	6.5
Adjustments for:			
Share-based payments expense		**3.7**	5.0
Defined benefit pension costs	22	**1.3**	1.8
Past service costs and curtailments	22	**–**	1.6
Defined benefit pension contributions	22	**(10.7)**	(11.6)
Depreciation of property, plant and equipment[3]	11,20	**33.3**	11.6
Amortisation of intangible assets	10	**11.4**	9.0
Amortisation of contract assets	13	**1.5**	0.8
Share of profit of joint ventures and associates		**–**	(0.5)
Impairment of non-current assets	20,10	**0.8**	1.1
Loss/(gain) on disposal of property, plant and equipment		**0.3**	(0.8)
Gain on bargain purchase		**–**	(8.8)
Gain on disposal of businesses	5	**(50.3)**	(17.9)
Research and development tax credits		**(0.8)**	–
Other		**(1.9)**	–
Operating cash flows before movements in working capital[4]		**105.0**	39.5
(Increase)/decrease in inventories		**(1.2)**	0.4
Decrease/(increase) in receivables		**20.9**	(51.7)
Increase in contract assets		**(0.5)**	(4.7)
(Decrease)/increase in deferred income		**(23.6)**	5.1
(Decrease)/increase in payables		**(24.8)**	33.4
(Decrease)/increase in provisions		**(4.0)**	25.5
Cash generated from operations		**71.8**	47.5
Income taxes (paid)/received		**(6.4)**	4.7
Interest paid[4]		**(15.4)**	(12.4)
Net cash generated from operating activities		**50.0**	39.8
Investing activities			
Acquisition of businesses, net of cash acquired		**(1.0)**	(9.3)
Disposal of businesses, net of cash disposed[5]	5	**65.2**	52.8
Interest received		**0.4**	0.2
Purchase of property, plant and equipment	11	**(8.2)**	(12.1)
Purchase of other intangible assets	10	**(11.2)**	(11.2)
Disposal of property, plant and equipment		**0.4**	4.7
Net cash generated from investing activities		**45.6**	25.1

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Re-presented to classify the Catering business as discontinued operations. See Note 5.
3. Additional depreciation on the Group's right-of-use assets due to the adoption of IFRS 16 amounted to £23.6m for the year ended 31 March 2020. See Note 20.
4. Due to adoption of IFRS 16, operating cash inflows before movements in working capital are £24.8m higher, interest paid is £3.1m higher and cash outflows on the capital element of lease rentals are £20.6m higher, for the year ended 31 March 2020.
5. Disposal of businesses for the year ended 31 March 2020, is net of cash disposed of £4.5m and transaction costs paid in the period for disposals of £3.0m.

For the year ended 31 March 2020

	Notes	2020 £m	2019[1] £m
Financing activities			
Capital element of lease rentals[2]	20	**(21.2)**	0.2
Repayment of bank loans		**(3.9)**	(2.1)
Private placement notes repaid		**(40.0)**	–
Equity dividends paid	7	**(14.4)**	(14.4)
Net cash used in financing activities		**(79.5)**	(16.3)
Net increase in cash and cash equivalents		**16.1**	48.6
Net cash and cash equivalents at beginning of the year		**108.4**	59.8
Effect of foreign exchange rate changes		**0.1**	–
Net cash and cash equivalents at end of the year		**124.6**	108.4

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Due to adoption of IFRS 16, operating cash Inflows before movements in working capital are £24.8m higher, interest paid is £3.1m higher and cash outflows on the capital element of lease rentals are £20.6m higher, for the year ended 31 March 2020.

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

Reconciliation of net cash flow to movements in net debt	Notes	2020 £m	2019 £m
Cash drivers			
Net increase in cash and cash equivalents		**16.1**	48.6
Repayment of bank loans		**3.9**	2.1
Private placement notes repaid		**40.0**	–
Capital element of lease rentals		**21.2**	(0.2)
Non-cash drivers			
Non-cash movement in bank loans		**(0.4)**	(0.2)
Non-cash movement in private placement notes and associated hedges		**5.7**	2.2
Non-cash movement in lease liabilities		**(26.1)**	–
Effect of foreign exchange rate changes		**(0.1)**	0.3
Decrease in net debt during the year		**60.3**	52.8
Opening net debt as reported at 31 March		**(140.7)**	(193.5)
IFRS 16 opening net debt adjustment[1]		**(87.5)**	–
Opening net debt		**(228.2)**	(193.5)
Closing net debt	21	**(167.9)**	(140.7)

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

1. Basis of preparation

The financial information in this announcement has been extracted from the Group's Annual Report and Accounts for the year ended 31 March 2020 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.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS and the financial information set out does not constitute the Company's statutory accounts for the current or prior year. Statutory accounts for the years ended 31 March 2020 and 31 March 2019 have been reported on by the Independent Auditor. The independent auditor's report for the year ended 31 March 2020 was unqualified but did draw attention to a material uncertainty relating to going concern which is detailed below. The independent auditor's report for the year ended 31 March 2019 was unqualified and did not draw attention to any matters by way of emphasis. The independent auditor's report for the year ended 31 March 2020 and 31 March 2019 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 2019 have been filed with the Registrar and the statutory accounts for the year ended 31 March 2020 will be delivered following the Company's annual general meeting.

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

Going concern

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the Group's business activities and the principal risks and uncertainties. As part of this assessment the Directors have considered modelling performed using a base case, a Reasonable Worst Case (RWC) downside scenario and reverse stress tests, all in the context of the COVID-19 pandemic. These scenarios exclude the acquisition of Interservefm (Holdings) Limited, for which a share purchase agreement was signed after 31 March 2020 as disclosed in Note 25 of the financial statements, on the basis that this transaction remains conditional.

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

In undertaking its going concern assessment, the Directors have considered the RWC downside scenario to take into account the potential impact of COVID-19.

The RWC downside scenario assumes that COVID-19 will have an adverse impact on revenue of approximately 35% for the first six months of FY 20/21, before beginning to recover, with Technical Services being most significantly impacted given its higher proportion of discretionary variable work and projects compared with the other divisions. The base case also assumes a deterioration in gross margin and a reduction in cash flow associated with slower payment by customers.

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

As at 31 March 2020 the Group had net debt of £74.9m before IFRS 16 lease liabilities and deferred HMRC payments, with available headroom in its committed revolving credit facility of £225.5m.

The Group's principal debt financing arrangements are a £275.0m revolving credit facility, which expires in July 2021, and £151.5m of US private placement notes, of which £121.5m are repayable in December 2022 and the remaining £30.0m in December 2024. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis, as set out in the finance review.

If the Group's results were to be in line with its base case, it would not be in breach of the financial covenants for a period of no less than 12 months from approval of the financial statements.

There can be no assurance that a downside scenario will be avoided and, if it is not, that alternative actions would be capable of implementation in the time available and/or would ultimately be successful. If the COVID-19 pandemic increases in severity or it continues to negatively affect demand for the Group's services for an even more prolonged period of time, it may have a significantly adverse impact on the Group's liquidity during the next 12 to 18 months, which could negatively impact its ability to meet debt and other payment obligations as they come due as well as impacting the Group's ability to meet its financial covenants at the measurement period dates.

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

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

On the basis that the rights issue is successful and Group's results are in line with its RWC downside scenario, it would not be in breach of the financial covenants for a period of no less than 12 months from approval of the financial statements.

The Directors have also completed reverse stress tests on the RWC downside scenario. The reverse stress tests assessed the point at which the covenants would be breached based on the following sensitivities:

- A further downturn in revenues;
- A deterioration of gross margin;
- Lack of planned overhead savings; and
- Downturn in cash generation.

As a result of completing this assessment the Directors considered the likelihood of the reverse stress scenarios arising to be remote. In reaching the conclusion of remote the Directors considered the following:

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

Based on this assessment, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group has continued to adopt the going concern basis of accounting in preparing the consolidated financial statements.

However, the requirement to obtain formal shareholder approval of the rights issue at the General Meeting on 13 July 2020 indicates that material uncertainty exists in relation to the rights issue, without which the Group would not be in a position to withstand significant downside scenarios. These conditions and events indicate the existence of a material uncertainty that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern. If the rights issue were to be successful, this would remove the material uncertainty.

Discontinued operations

On 6 September 2019, the Group completed the sale of the Catering business comprising Mitie Catering Services Limited and the catering business assets of Mitie Facilities Management Limited in Ireland, together trading under the name Gather & Gather, along with the entire issued share capital of Creativevents Limited. The Catering business previously formed a separate major line of business of the Group. As a result of the disposal, the results of the Catering business have been classified as discontinued operations and comparative information has been re-presented.

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

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

Accounting standards that are newly effective in the current year

With the exception of the adoption of IFRS 16 which is discussed below, none of the new standards and amendments that are effective for the first time this year have had a material effect on the Group.

IFRS 16 'Leases' became effective for the Group from 1 April 2019 and replaced the requirements of IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases - Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The Group applied IFRS 16 using the modified retrospective method with no impact on the Group's opening equity. This transition option does not require the restatement of prior period financial information.

On adoption of IFRS 16, the Group immediately recognised additional right-of-use assets of £86.2m representing its right to use the underlying assets, and associated lease liabilities of £87.5m representing its obligation to make lease payments on all leases within the scope of the standard. At 31 March 2020, right-of-use assets and lease liabilities amounted to £88.1m and £93.8m respectively. Details of the changes in the Group's accounting policy and impact of the adoption of IFRS 16 are detailed below.

IFRIC 23 'Uncertainty over Income Tax Treatments' became effective for the Group from 1 April 2019 and provides guidance when there is an income tax uncertainty under IAS12 'Income Taxes'. The Group does not have any significant uncertainties in its income tax filings and therefore IFRIC 23 has no material impact.

Other than as stated above, the accounting policies and methods of calculation adopted in the preparation of these Group consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 March

2019, which were prepared in accordance with IFRS as issued by the International Accounting Standards Board and as adopted by the European Union.

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

None of the new standards and amendments that are not yet effective are expected to have a material effect on the Group.

Adoption of IFRS 16

The Group adopted IFRS 16 with a date of initial application of 1 April 2019 using the modified retrospective approach whereby the right-of-use asset on transition equalled the lease liability, before the reclassification and adjustment of associated balance sheet items. The comparative information for the year ended 31 March 2019 has not been restated and continues to be reported under IAS 17.

The Group applied the following practical expedients available on transition to IFRS 16, to leases previously classified as operating leases:

- grandfathered the definition of a lease on transition and applied IFRS 16 only to those contracts that were previously identified as containing a lease. Contracts previously identified as not containing leases under IAS 17 and IFRIC 4 were not reassessed;
- relied on the Group's previous assessment of whether leases are onerous in accordance with IAS 37 immediately before the date of initial application as an alternative to performing an impairment review;
- not to recognise right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis;
- a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term in a similar class of underlying asset); and
- the use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

IFRS 16 eliminates the classification of leases as either operating or finance leases as required by IAS 17 and introduces a single accounting model. The Group changed its accounting policies and updated its internal processes and controls relating to leasing. The new definition of a lease has been applied to contracts entered into from 1 April 2019.

Lease accounting policy

The Group has various lease arrangements for properties (e.g. office buildings and storage facilities), vehicles, and other equipment including IT equipment and machinery. At inception of a lease contract, the Group assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Group recognises a lease liability and a corresponding right-of-use asset with respect to all lease arrangements in which it is a lessee.

A right-of-use asset is capitalised on the balance sheet at cost which comprises the present value of future lease payments determined at the inception of the lease adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred in addition to an estimate of costs to remove or restore the underlying asset. Where a lease incentive is receivable, the amount is offset against the right-of-use asset at inception. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life of the asset or the lease term and are reviewed for impairment to account for any loss when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right-of-use assets exclude low-value leases and short-term leases of 12 months or less, costs for which are recognised as an operating expense within the income statement as they are incurred.

The lease liability is initially measured at amortised cost using the effective interest rate method to calculate the present value of future lease payments and is subsequently increased by the associated interest cost and decreased by lease payments made. The effective interest rate is based on estimates of relevant incremental borrowing costs. Lease payments made are apportioned between an interest charge and a capital repayment amount which are disclosed within the financing activities and the operating activities sections of the consolidated statement of cash flows respectively. Lease payments comprise fixed lease rental payments only, with the exception of property leases for which the associated fixed service charge is also included. Lease liabilities are classified between current and non-current on the balance sheet.

The lease term comprises the non-cancellable period in addition to the determination of the enforceable period which is covered by an option to extend the lease, where it is reasonably certain that the option will be exercised, and the period covered by the option to terminate the lease to a point in time where no more than an 'insignificant penalty' is incurred. The Group assesses an insignificant penalty with reference to the wider economics of the lease including any investment in non-transferable leasehold improvements which may result in an impairment charge should the lease be terminated.

A modification to a lease which changes the lease payment amount (e.g. due to a renegotiation or market rent review) or amends the term of the lease, results in a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Impact on transition

The impact on the Group's opening balance sheet at 1 April 2019 as a result of the adoption of IFRS 16 was as follows:

	£m
Net liabilities at 31 March 2019	(12.4)
Reclassification of existing property restoration assets from property, plant and equipment	(0.6)
Reclassification of rental prepayments	(0.6)
Right-of-use assets recognised[1]	86.2
Reclassification of accruals	4.4
Lease liabilities recognised[1]	(87.5)
Adjustment to dilapidations provision as a result of adopting the Group's incremental borrowing rate	(1.9)
Net liabilities at 1 April 2019	**(12.4)**

Note:

1. The right-of-use assets recognised are included within property plant and equipment and the lease liabilities recognised are included within financing liabilities. The amounts stated above exclude the finance leases already capitalised at the date of transition to IFRS 16.

Applying the Group's incremental borrowing rate to discount the operating lease commitments reported at 31 March 2019 gives a liability of £66.0m. This differs from the lease liabilities of £87.5m recognised at 1 April 2019 as a result of the following adjustments:

	£m
Operating lease commitments at 31 March 2019	72.0
Discount using the incremental borrowing rate at 1 April 2019	(6.0)
Discounted operating lease commitments	66.0
Recognition exemption for short-term and low-value leases	(1.5)
Reclassification of accruals	2.1
Reassessment of lease terms including extension and termination options reasonably certain to be exercised	20.9
Lease liabilities recognised at 1 April 2019	**87.5**

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

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

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

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

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.

2. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, made by management in the process of applying the Group's accounting policies, that have the most significant effect on the amounts recognised in the Group's financial statements.

Revenue recognition
Due to the size and complexity of the Group's contracts, management is required to form a number of key judgements in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise. This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

For certain contracts, key judgements were made concerning contract extensions and amendments which, for example, directly impact the timing of revenue recognition in addition to the phasing of upfront payments to, or from customers which are deferred to the balance sheet and unwound over the expected contract term. Management considers this to be an area of judgement due to the determination of whether a modification represents a separate contract based on its assessment of the stand-alone selling price, rather than a termination of the existing contract and establishment of a new contract for which the revised contract price would be recognised from the date of modification.

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

Other items after tax of £30.2m were credited (2019: £32.8m charged) to the income statement for the year ended 31 March 2020. An analysis of the amounts included in other items is detailed in Note 4.

Adoption of IFRS 16
Management in the adoption of IFRS 16 has applied a judgement which relates to the assessment of the likelihood that lease contract extension and termination options will be exercised. This resulted in an additional £20.9m being recognised in lease liabilities at 1 April 2019 when compared with operating lease commitments reported at 31 March 2019.

Lease liabilities are measured at amortised cost using the effective interest rate method. Management in the adoption of IFRS 16 at 1 April 2019 also applied judgement related to the assessment of the incremental borrowing rate (IBR) used to discount future lease rentals to present value. The IBR has been considered on a lease by lease basis and the weighted average rate applied by the Group at transition was 3.5%.

Recoverability of trade receivables and accrued income
The Group has material amounts of billed and unbilled work outstanding at 31 March 2020. Receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Group recognises a loss allowance for expected credit losses (ECLs) on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Group will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date which includes an assessment of current disputes with customers over commercial positions, and where information suggests customers are facing significant financial difficulties. The judgement on specific allowance for impairments on receivables as at 31 March 2020 has included an assessment of COVID-19 impacts.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

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

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 March 2020 of £53.2m (2019: £56.6m). Further details are included in Note 16.

A provision of £10.6m has been recorded for estimated costs of rectification works associated with certain property maintenance contracts of the discontinued Social Housing business. Estimations have been made in relation to the amounts of provision recognised and no further information is provided as this would prejudice the position of the Group.

Management has reviewed the adequacy of provisions for onerous contracts, in the context of the COVID-19 pandemic. Based on COVID-19 adjusted forecasts, management has concluded that no additional provisions are required as a result of the COVID-19 pandemic as at 31 March 2020.

Measurement of defined benefit pension obligations
The net pension liability at 31 March 2020 was £46.7m (2019: £63.8m).

The measurement of defined benefit obligations requires judgement. It is dependent on material key assumptions including discount rates, life expectancy rates, and future contribution rates. See Note 22 for further details and a sensitivity analysis for the key assumptions.

The Group also participates in four multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme). A provision of £20.0m has been made for Section 75 employer debts in respect of the participation of Robert Prettie & Co. Limited in the Plumbing Scheme.

The Group has a further potential exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, which have been estimated at £2.4m by the trustee. This exposure has been disclosed as a contingent liability as no event has occurred to trigger this debt, as Mitie Property Services (UK) Limited still employs active members of the Plumbing Scheme.

Gain/(loss) on disposal of discontinued operations
The Group has recognised a net gain of £49.4m on the disposal of the Catering business (refer to Note 5). The value of the gain is subject to finalisation of the deferred consideration which requires judgement. The maximum potential undiscounted deferred consideration amount that the Group could receive is £6.0m, which is due in 2023, and is subject to the achievement of certain performance milestones. At 31 March 2020 contingent consideration receivable with a fair value of £3.3m has been recognised on a discounted basis (refer to Note 12). Management has estimated the contingent consideration receivable using prudent assumptions taking into account the expected impact of COVID-19 on the future performance of the Catering business compared with performance milestones.

Additional transaction costs of £0.4m were recognised in relation to the disposal of Mitie Pest Control Limited (2019: £26.7m net gain on disposal) and £0.8m in relation to the Social Housing business (2019: £11.7m net loss on disposal). Refer to Note 5. The value of these gains and losses is subject to finalisation of the consideration to be paid through agreement of the completion accounts with the purchasers of these businesses. The Directors have made a judgement as to the likely outcome of each completion accounts settlement.

Deferred tax assets
The Group has recognised deferred tax assets of £32.6m (2019: £38.7m), refer to Note 17. Management has assessed recovery of these assets with reference to the Group's medium-term forecasts. Recovery of these assets is subject to the Group generating taxable profits in future years.

Impairment of goodwill
Management no longer considers impairment of goodwill as a key source of estimation uncertainty. Management has revised the Group's cash flow projections to take account of the expected impact of COVID-19. Despite the potential impact of COVID-19, management does not consider that any reasonably foreseeable change in this source of estimation would have a material impact on the carrying value of Goodwill in the Group's financial statements.

3. Business segment information

The Group manages its business on a service division basis. At 31 March 2020, the Group has five reportable segments and the information, as reported, is consistent with information presented to the Board, which is the Group's chief operating decision maker. Revenue, operating profit before other items and operating profit margin before other items are the primary measures of performance that are reported to and reviewed by the Board.

The information presented for the year ended 31 March 2019 has been re-presented to reflect changes in management reporting, implemented in the year ended 31 March 2020. Mitie has reorganised its divisional structure into five reportable segments: Technical Services, Business Services, Care & Custody, Landscapes and Waste. Care & Custody, Landscapes and Waste businesses are aggregated and categorised as Specialist Services, however each of these businesses individually meets the IFRS 8 'Operating Segments' criteria for being a separate reportable segment. The Waste and Landscapes businesses were previously presented within Professional Services and Cleaning & Environmental Services respectively. Technical Services comprises Engineering Services and the technical services related to the physical assets of buildings and building management presented within Professional Services in prior periods. Business Services comprises Security, and the previously presented Cleaning & Environmental Services excluding the Landscapes business which is now a separate reportable segment.

Segment assets have not been disclosed as they are not regularly reviewed by the Board.

Income statement information

	2020			2019[1,3]		
	Revenue	**Operating profit/(loss) before other items[2]**	**Operating margin before other items[2]**	Revenue	Operating profit/(loss) before other items[2]	Operating margin before other items[2]
	£m	**£m**	**%**	£m	£m	%
Technical Services	**947.2**	**55.9**	**5.9**	974.2	56.9	5.8
Business Services	**986.9**	**42.2**	**4.3**	894.0	39.0	4.4
Specialist Services	**239.6**	**25.3**	**10.6**	217.1	20.4	9.4
Care & Custody	***110.2***	***7.7***	***7.0***	*107.3*	*3.9*	*3.6*
Landscapes	***47.8***	***8.6***	***18.0***	*46.7*	*9.3*	*19.9*
Waste	***81.6***	***9.0***	***11.0***	*63.1*	*7.2*	*11.4*
Corporate centre	**–**	**(37.3)**	**–**	–	(36.7)	–
Total from continuing operations	**2,173.7**	**86.1**	**4.0**	2,085.3	79.6	3.8
Catering	**60.5**	**2.8**	**4.6**	136.1	8.6	6.3
Pest Control	**–**	**–**	**–**	11.9	2.4	20.2
Social Housing	**–**	**–**	**–**	89.1	1.6	1.8
Total from discontinued operations	**60.5**	**2.8**	**4.6**	237.1	12.6	5.3
Total	**2,234.2**	**88.9**	**4.0**	2,322.4	92.2	4.0

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.
3. Re-presented to classify the Catering business as discontinued operations. See Note 5. In addition, certain administrative expenses previously allocated to Catering, which have been retained within the Group, have been reclassified to continuing operations.
4. No single customer accounted for more than 10% of external revenue in the year ended 31 March 2020 or in the comparative period.

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

	2020	2019[1]
	£m	£m
Operating profit before other items	**86.1**	79.6
Other items[2]	**(21.5)**	(37.9)
Net finance costs	**(16.2)**	(13.7)
Total from continuing operations	**48.4**	28.0
Operating profit before other items	**2.8**	12.6
Other items[2]	**49.0**	(6.1)
Net finance costs	**(0.2)**	–
Total from discontinued operations	**51.6**	6.5
Profit before tax	**100.0**	34.5

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.

Geographical segments

Revenue, operating profit and operating margin from external customers by geographical segment is shown below:

	2020			2019[1]		
	Revenue £m	**Operating profit before other items[2] £m**	**Operating margin before other items[2] %**	Revenue £m	Operating profit before other items[2] £m	Operating margin before other items[2] %
United Kingdom	**2,108.6**	**85.2**	**4.0**	2,006.8	78.6	3.9
Other countries	**65.1**	**0.9**	**1.4**	78.5	1.0	1.3
Continuing operations	**2,173.7**	**86.1**	**4.0**	2,085.3	79.6	3.8
United Kingdom	**50.8**	**2.1**	**4.1**	216.4	11.0	5.1
Other countries	**9.7**	**0.7**	**7.2**	20.7	1.6	7.7
Discontinued operations	**60.5**	**2.8**	**4.6**	237.1	12.6	5.3
Total	**2,234.2**	**88.9**	**4.0**	2,322.4	92.2	4.0

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.

The carrying amount of non-current assets, excluding derivative financial instruments and deferred tax assets, by geographical segment is shown below:

	2020 £m	2019[1] £m
United Kingdom	**435.5**	367.0
Other countries	**11.3**	11.0
Total	**446.8**	378.0

Notes

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

Supplementary information

	2020				2019[1]			
	Depreciation of property, plant and equipment[2] £m	**Amortisation of intangible assets £m**	**Amortisation of contract assets £m**	**Other items[3] £m**	Depreciation of property, plant and equipment £m	Amortisation of intangible assets £m	Amortisation of contract assets £m	Other items[3] £m
Technical Services	**3.1**	**0.6**	**0.9**	**8.0**	0.9	0.6	0.2	7.0
Business Services	**4.9**	**1.2**	**–**	**(0.2)**	4.8	1.2	–	3.6
Specialist Services	**2.3**	**–**	**0.6**	**0.2**	1.4	–	0.6	0.1
Care & Custody	***0.3***	**–**	***0.6***	***0.1***	*0.4*	–	*0.6*	*0.1*
Landscapes	***1.1***	**–**	**–**	**–**	*0.8*	–	–	–
Waste	***0.9***	**–**	**–**	***0.1***	*0.2*	–	–	–
Corporate centre	**22.6**	**9.6**	**–**	**13.5**	3.2	7.0	–	27.2
Continuing operations	**32.9**	**11.4**	**1.5**	**21.5**	10.3	8.8	0.8	37.9
Catering	**0.4**	**–**	**–**	**(50.7)**	1.0	0.1	–	0.1
Healthcare	**–**	**–**	**–**	**(0.5)**	–	–	–	(2.0)
Pest Control	**–**	**–**	**–**	**0.7**	0.1	–	–	(27.6)
Social Housing	**–**	**–**	**–**	**1.5**	0.2	0.1	–	35.6
Discontinued operations	**0.4**	**–**	**–**	**(49.0)**	1.3	0.2	–	6.1
Total	**33.3**	**11.4**	**1.5**	**(27.5)**	11.6	9.0	0.8	44.0

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Additional depreciation on the Group's right-of-use assets due to the adoption of IFRS 16 amounted to £23.6m for the year ended 31 March 2020.
3. 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). Management believes this best depicts how the nature, timing and amount of revenue and cash flows are affected by economic factors. The following table includes a reconciliation of disaggregated revenue with the Group's reportable segments.

2020

	Sector[1]			Contract duration for timing of revenue recognition		
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Technical Services	**303.7**	**643.5**	**947.2**	**100.0**	**847.2**	**947.2**
Business Services	**194.0**	**792.9**	**986.9**	**311.8**	**675.1**	**986.9**
Specialist Services	**151.4**	**88.2**	**239.6**	**22.1**	**217.5**	**239.6**
Care & Custody	***110.2***	–	***110.2***	–	***110.2***	***110.2***
Landscapes	***12.0***	***35.8***	***47.8***	***12.9***	***34.9***	***47.8***
Waste	***29.2***	***52.4***	***81.6***	***9.2***	***72.4***	***81.6***
Continuing operations	**649.1**	**1,524.6**	**2,173.7**	**433.9**	**1,739.8**	**2,173.7**
Catering	**3.4**	**57.1**	**60.5**	**8.2**	**52.3**	**60.5**
Discontinued operations	**3.4**	**57.1**	**60.5**	**8.2**	**52.3**	**60.5**
Total	**652.5**	**1,581.7**	**2,234.2**	**442.1**	**1,792.1**	**2,234.2**

Note:

1. Sector is defined by the end customer on any contract e.g. if the Group is a subcontractor to a company repairing a government building, then the contract would be classified as government.

2019

	Sector[1]			Contract duration for timing of revenue recognition		
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Technical Services	321.6	652.6	974.2	99.6	874.6	974.2
Business Services	185.5	708.5	894.0	276.2	617.8	894.0
Specialist Services	136.4	80.7	217.1	16.9	200.2	217.1
Care & Custody	*107.3*	–	*107.3*	–	*107.3*	*107.3*
Landscapes	*12.0*	*34.7*	*46.7*	*11.8*	*34.9*	*46.7*
Waste	*17.1*	*46.0*	*63.1*	*5.1*	*58.0*	*63.1*
Continuing operations	643.5	1,441.8	2,085.3	392.7	1,692.6	2,085.3
Catering	5.7	130.4	136.1	17.4	118.7	136.1
Pest Control	–	11.9	11.9	–	11.9	11.9
Social Housing	89.1	–	89.1	54.1	35.0	89.1
Discontinued operations	94.8	142.3	237.1	71.5	165.6	237.1
Total	738.3	1,584.1	2,322.4	464.2	1,858.2	2,322.4

Note:

1. Sector is defined by the end customer on any contract e.g. if the Group is a subcontractor to a company repairing a government building, then the contract would be classified as government.

Transaction price allocated to the remaining performance obligations

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

	2020			2019		
	Less than 1 year £m	**More than 1 year £m**	**Total secured revenue £m**	Less than 1 year £m	More than 1 year £m	Total secured revenue £m
Technical Services	**380.3**	**1,533.9**	**1,914.2**	381.1	1,480.5	1,861.6
Business Services	**782.9**	**1,051.8**	**1,834.7**	726.4	869.1	1,595.5
Specialist Services	**119.9**	**425.6**	**545.5**	137.2	526.5	663.7
Care & Custody	***89.9***	***391.2***	***481.1***	*100.8*	*495.8*	*596.6*
Landscapes	***22.3***	***18.1***	***40.4***	*27.6*	*11.5*	*39.1*
Waste	***7.7***	***16.3***	***24.0***	*8.8*	*19.2*	*28.0*
Continuing operations	**1,283.1**	**3,011.3**	**4,294.4**	1,244.7	2,876.1	4,120.8
Catering	**–**	**–**	**–**	7.2	19.3	26.5
Discontinued operations	**–**	**–**	**–**	7.2	19.3	26.5
Total	**1,283.1**	**3,011.3**	**4,294.4**	1,251.9	2,895.4	4,147.3

4. Other items

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

The Group separately reports impairment of goodwill, impairment and amortisation of acquisition related intangible assets, acquisition and disposal costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items as other items, together with their related tax effect:

					2020
Continuing operations	**Restructure costs £m**	**Acquisition & disposal related costs £m**	**Gain on disposal £m**	**Other exceptional items £m**	**Total £m**
Other items within administrative expenses before tax	**(15.7)**	**(3.5)**	**–**	**(2.3)**	**(21.5)**
Tax	**2.7**	**1.0**	**–**	**0.3**	**4.0**
Other items after tax	**(13.0)**	**(2.5)**	**–**	**(2.0)**	**(17.5)**
Discontinued operations					
Other items before tax	**–**	**(1.3)**	**50.3**	**–**	**49.0**
Tax	**–**	**0.3**	**(1.6)**	**–**	**(1.3)**
Other items after tax	**–**	**(1.0)**	**48.7**	**–**	**47.7**
Total Group					
Other items before tax	**(15.7)**	**(4.8)**	**50.3**	**(2.3)**	**27.5**
Tax	**2.7**	**1.3**	**(1.6)**	**0.3**	**2.7**
Other items after tax	**(13.0)**	**(3.5)**	**48.7**	**(2.0)**	**30.2**

					2019
Continuing operations	Restructure costs £m	Acquisition & disposal related costs £m	Gain on disposal £m	Other exceptional items £m	Total £m
Other items within administrative expenses before tax	(15.0)	0.1	–	(23.0)	(37.9)
Tax	2.8	0.6	–	4.0	7.4
Other items after tax	(12.2)	0.7	–	(19.0)	(30.5)
Discontinued operations					
Other items before tax	(0.9)	–	17.9	(23.1)	(6.1)
Tax	0.2	–	(0.9)	4.5	3.8
Other items after tax	(0.7)	–	17.0	(18.6)	(2.3)
Total Group					
Other items before tax	(15.9)	0.1	17.9	(46.1)	(44.0)
Tax	3.0	0.6	(0.9)	8.5	11.2
Other items after tax	(12.9)	0.7	17.0	(37.6)	(32.8)

Restructure costs

Restructure costs relate to the costs associated with implementing the Group transformation programme, which includes Project Helix and Project Forte.

The costs are analysed below:

	2020			2019		
	Continuing operations £m	**Discontinued operations £m**	**Total[1] £m**	Continuing operations £m	Discontinued operations £m	Total[1] £m
Group transformation programme:						
Project Helix[1]	**(3.6)**	–	**(3.6)**	(13.5)	–	(13.5)
Project Forte[2]	**(10.6)**	–	**(10.6)**	–	–	–
Other transformation projects[3]	**(1.5)**	–	**(1.5)**	(1.5)	(0.9)	(2.4)
Restructuring costs	**(15.7)**	–	**(15.7)**	(15.0)	(0.9)	(15.9)
Taxation	**2.7**	–	**2.7**	2.8	0.2	3.0
Restructuring costs net of taxation	**(13.0)**	–	**(13.0)**	(12.2)	(0.7)	(12.9)

Notes:

1. The Group is undertaking a major transformation programme involving the restructuring of operations to reposition the business for its next phase of growth. Project Helix was a three-year programme launched in 2017, focused on establishing a shared service centre model for key back office functions, including offshoring the majority of Finance and IT, and centralising HR following the standardisation of systems.
2. Project Forte is a two-year programme which was launched in 2019, primarily focused on re-engineering the Technical Services business to modernise the technology infrastructure. It will improve both the customer experience and the efficiency of the internal operations. Project Forte will also drive further Group-wide organisational consolidation, automation of processes and further offshoring of back office activities.
3. Other transformation projects focus on the remaining areas of the business, which are being aligned to the new operating model, including restructuring the property portfolio and simplifying the management structure.

The costs associated with the Group transformation programme include redundancy costs of £4.4m (2019: £4.7m), of which £0.3m (2019: £nil) relates to accelerated share-based payment charges, external consultancy costs of £1.8m (2019: £0.2m) and fixed-term staff costs of £8.0m (2019: £11.0m) to manage and implement the changes .

Acquisition and disposal related costs

Acquisition and disposal related costs from continuing operations include £0.6m (2019: £1.4m) of integration costs and a £1.9m credit (2019: £nil) arising on the release of a liability associated with the Vision Security Group (VSG) business that was acquired on 26 October 2018, the amortisation charge for acquisition related intangibles of £2.3m (2019: £1.5m), the charge for restricted shares issued of £0.8m (2019: £3.9m), acquisition costs of £0.1m (2019: £1.2m) which for the year ended 31 March 2020 is related to the acquisition of Global Aware International Group business and costs associated with other transaction related projects of £1.6m (2019: £0.7m). In the prior year a gain on bargain purchase of £8.8m was recorded in respect of the acquisition of VSG.

Acquisition and disposal related costs from discontinued operations include costs related to the disposal of the Catering business of £0.3m (2019: £nil), costs related to the disposal of the Social Housing business of £0.7m (2019: £nil) and costs related to the disposal of the Pest Control business of £0.3m (2019: £nil).

Gain on disposal

During the year ended 31 March 2020, the Group completed the sale of the Catering business. The Group disposed the Pest Control and Social Housing businesses during the year ended 31 March 2019. See Note 5 for further details.

Other exceptional items

Other exceptional items included in operating profit are analysed below:

	2020			2019		
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Continuing operations £m	Discontinued operations £m	Total £m
Regulatory investigation[1]	**(0.7)**	–	**(0.7)**	(1.1)	–	(1.1)
IFRS 16/15/9 adoption and implementation projects[2]	**(0.7)**	–	**(0.7)**	(0.7)	–	(0.7)
Costs incurred and provision for settlement of contractual disputes[3]	**(0.9)**	–	**(0.9)**	–	(20.5)	(20.5)
Provision for indemnified costs	–	–	–	–	(2.6)	(2.6)
Cost of equalising Guaranteed Minimum Pensions	–	–	–	(1.6)	–	(1.6)
Pension scheme Section 75 employer debt	–	–	–	(20.0)	–	(20.0)
Gain on closure of Mitie Reinsurance	–	–	–	0.4	–	0.4
Other exceptional items	**(2.3)**	–	**(2.3)**	(23.0)	(23.1)	(46.1)
Taxation	**0.3**	–	**0.3**	4.0	4.5	8.5
Other exceptional items net of taxation	**(2.0)**	–	**(2.0)**	(19.0)	(18.6)	(37.6)

Notes:

1. Legal and professional costs of £0.7m (2019: £1.1m) have been incurred in respect of the closed FRC and FCA investigations, and the Company's own investigations into the same matters. Further details of these investigations are set out in the Annual Report and Accounts 2019.
2. Professional fees and fixed-term contract staff costs of £0.7m (2019: £0.7m) have been incurred in relation to the projects required to adopt IFRS 16 'Leases', IFRS 15 'Revenue from contracts with customers', and IFRS 9 'Financial Instruments'.
3. Legal costs of £0.9m have been incurred for the year ended 31 March 2020 (2019: £nil) in relation to a legal dispute due to the way a tender process was run. The £20.5m charge for the year ended 31 March 2019 related to the disposed Social Housing business and included £3.4m in respect of the settlement of a contract dispute, £16.1m for the estimated costs of rectification works and legal advice associated with certain of the Group's property maintenance contracts, and £1.0m for other contractual disputes.

5. Discontinued operations and disposal of subsidiaries

On 6 September 2019, the Group completed the sale of Mitie Catering Services Limited, Creativevents Limited and the catering trade and assets in Ireland (together, the Catering business). The results of the Catering business have been classified as discontinued operations at 31 March 2020 and comparative information has been re-presented. The Group recognised a net gain on disposal of £49.4m in relation to Catering, which together with transaction costs of £0.4m and £0.8m in relation to the Pest Control and Social Housing prior year disposals respectively, and £0.5m of indemnity provision release in relation to the Healthcare business which was disposed on 28 February 2017, has been reported in profit from discontinued operations for the year ended 31 March 2020 and recognised in other items (see Note 4).

Prior year disposals

On 30 September 2018, the Group completed the sale of Mitie Pest Control Limited (Pest Control) for cash consideration of £40.0m before tax and transaction costs. The results of the Pest Control business were classified as discontinued operations. The Group recognised a net gain on disposal of £26.7m, reported in profit from discontinued operations in the year ended 31 March 2019 and recognised in other items.

On 19 November 2018, the Company signed an agreement for the sale of Mitie Property Management Limited and MPS Housing Limited (together the Social Housing business) and this transaction was subsequently completed on 30 November 2018. The results of the Social Housing business were classified as discontinued operations. The Group retained liability, and made provisions where appropriate, for certain legacy contracts of the Social Housing business so these were not included within liabilities disposed. The Group recognised a net loss on disposal of £11.7m, reported in profit from discontinued operations in the year ended 31 March 2019 and recognised in other items.

The gain on disposal for the year ended 31 March 2019 also included £2.0m of indemnity provision release in relation to the Healthcare business, reported in profit from discontinued operations and recognised in other items.

Gain/(loss) on disposal of discontinued operations

	2020					2019
	Catering[1] £m	Pest Control £m	Social Housing £m	Healthcare £m	Total £m	Total £m
Total consideration	76.0	–	–	–	76.0	60.9
Net assets disposed[2]	(20.4)	–	–	–	(20.4)	(39.7)
Customer liability	(2.6)	–	–	–	(2.6)	–
Release of indemnity provision	–	–	–	0.5	0.5	2.0
Transaction costs	(2.0)	(0.4)	(0.8)	–	(3.2)	(5.3)
Total gain/(loss) on disposal before tax	51.0	(0.4)	(0.8)	0.5	50.3	17.9
Taxation	(1.6)	–	–	–	(1.6)	(0.9)
Net gain/(loss) on disposal of discontinued operations	49.4	(0.4)	(0.8)	0.5	48.7	17.0

Note:

1. Total consideration includes £72.7m of cash consideration and £3.3m of contingent consideration.
2. Net assets disposed include goodwill of £15.7m (2019: £15.8m) and cash balances of £4.5m (2019: £3.6m).

Income statement of discontinued operations

	2020												
	Catering			Pest Control			Social Housing			Healthcare	Total discontinued operations		
	Before other items £m	Other items[1] £m	Total £m	Before other items £m	Other items[1] £m	Total £m	Before other items £m	Other items[1] £m	Total £m	Other items[1] £m	Before other items £m	Other items[1] £m	Total £m
Revenue	60.5	–	60.5	–	–	–	–	–	–	–	60.5	–	60.5
Cost of sales	(54.7)	–	(54.7)	–	–	–	–	–	–	–	(54.7)	–	(54.7)
Gross profit	5.8	–	5.8	–	–	–	–	–	–	–	5.8	–	5.8
Administrative expenses	(3.0)	(0.3)	(3.3)	–	(0.3)	(0.3)	–	(0.7)	(0.7)	–	(3.0)	(1.3)	(4.3)
Operating profit/(loss)	2.8	(0.3)	2.5	–	(0.3)	(0.3)	–	(0.7)	(0.7)	–	2.8	(1.3)	1.5
Net finance costs	(0.2)	–	(0.2)	–	–	–	–	–	–	–	(0.2)	–	(0.2)
Profit/(loss) before tax	2.6	(0.3)	2.3	–	(0.3)	(0.3)	–	(0.7)	(0.7)	–	2.6	(1.3)	1.3
Tax	(0.3)	–	(0.3)	–	–	–	–	0.3	0.3	–	(0.3)	0.3	–
Profit and total comprehensive income for the year	2.3	(0.3)	2.0	–	(0.3)	(0.3)	–	(0.4)	(0.4)	–	2.3	(1.0)	1.3
Net gain/(loss) on disposal	–	49.4	49.4	–	(0.4)	(0.4)	–	(0.8)	(0.8)	0.5	–	48.7	48.7
Total profit/(loss) for the year	2.3	49.1	51.4	–	(0.7)	(0.7)	–	(1.2)	(1.2)	0.5	2.3	47.7	50.0

Notes:

1. Other items are as described in Note 4.

	Catering			Pest Control			Social Housing			Healthcare	Total discontinued operations		
													2019
	Before other items[1] £m	Other items[2] £m	**Total £m**	Before other items £m	Other items[1] £m	**Total £m**	Before other items £m	Other items[1] £m	**Total £m**	Other items[1] **£m**	Before other items £m	Other items[1] £m	**Total £m**
Revenue	136.1	–	136.1	11.9	–	11.9	89.1	–	89.1	–	237.1	–	237.1
Cost of sales	(120.1)	–	(120.1)	(6.7)	–	(6.7)	(72.9)	–	(72.9)	–	(199.7)	–	(199.7)
Gross profit	16.0	–	16.0	5.2	–	5.2	16.2	–	16.2	–	37.4	–	37.4
Administrative expenses	(7.4)	(0.1)	(7.5)	(2.8)	–	(2.8)	(15.1)	(23.9)	(39.0)	–	(25.3)	(24.0)	(49.3)
Share of profit of associates	–	–	–	–	–	–	0.5	–	0.5	–	0.5	–	0.5
Operating profit/(loss)	8.6	(0.1)	8.5	2.4	–	2.4	1.6	(23.9)	(22.3)	–	12.6	(24.0)	(11.4)
Net finance (cost)/income	(0.1)	–	(0.1)	0.1	–	0.1	–	–	–	–	–	–	–
Profit/(loss) before tax	8.5	(0.1)	8.4	2.5	–	2.5	1.6	(23.9)	(22.3)	–	12.6	(24.0)	(11.4)
Tax	(1.0)	–	(1.0)	(0.3)	–	(0.3)	(0.7)	4.7	4.0	–	(2.0)	4.7	2.7
Profit and total comprehensive income for the year	7.5	(0.1)	7.4	2.2	–	2.2	0.9	(19.2)	(18.3)	–	10.6	(19.3)	(8.7)
Net gain/(loss) on disposal	–	–	–	–	26.7	26.7	–	(11.7)	(11.7)	2.0	–	17.0	17.0
Total profit/(loss) for the year	7.5	(0.1)	7.4	2.2	26.7	28.9	0.9	(30.9)	(30.0)	2.0	10.6	(2.3)	8.3

Notes:

1. Certain administrative expenses previously allocated to the Catering business, which have been retained within the Group, have been reclassified to continuing operations.
2. Other items are as described in Note 4.

Cash flows from discontinued operations

	2020 £m	2019 £m
Net cash used in operating activities	**(3.3)**	(2.2)
Net cash generated from investing activities	**65.0**	52.1
Net cash generated from financing activities	–	(0.1)
Increase in cash and cash equivalents	**61.7**	49.8

6. Tax

Continuing and discontinued operations	2020 £m	2019[1] £m
Current tax	**5.8**	3.4
Deferred tax (Note 17)	**3.7**	0.2
Tax charge for the year	**9.5**	3.6
Continuing operations	**7.9**	5.4
Discontinued operations	**1.6**	(1.8)
Tax charge for the year	**9.5**	3.6

Note:
1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

Corporation tax is calculated at 19% (2019: 19%) of the estimated taxable profit for the year. A reconciliation of the tax charge to the elements of profit before tax per the consolidated income statement elements is as follows:

			2020			2019[1]
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	**72.5**	**27.5**	**100.0**	78.5	(44.0)	34.5
Tax at UK rate of 19% (2019: 19%)	**13.8**	**5.2**	**19.0**	14.9	(8.4)	6.5
Reconciling tax charges for:						
Non-tax deductible charges	**0.5**	**0.3**	**0.8**	0.9	–	0.9
Share-based payments	**0.7**	**0.3**	**1.0**	0.3	0.7	1.0
Gain on disposal of businesses	**–**	**(8.6)**	**(8.6)**	–	(4.0)	(4.0)
Losses not previously recognised	**(0.1)**	**–**	**(0.1)**	–	–	–
Overseas tax rates	**–**	**0.6**	**0.6**	(0.2)	–	(0.2)
Impact of change in statutory tax rates	**(2.3)**	**–**	**(2.3)**	(0.4)	0.5	0.1
Prior year adjustments	**(0.4)**	**(0.5)**	**(0.9)**	(0.7)	–	(0.7)
Tax charge/(credit) for the year	**12.2**	**(2.7)**	**9.5**	14.8	(11.2)	3.6
Effective tax rate for the year	**16.8%**	**(9.8%)**	**9.5%**	18.9%	25.5%	10.4%

Notes:
1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.

In addition to the amounts charged to the consolidated income statement, tax relating to retirement benefit costs amounting to a £1.3m charge (2019: £2.4m credit) has been taken directly to the statement of comprehensive income together with a £0.7m charge relating to hedged items (2019: £0.3m charge).

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as a consequence a credit of £2.3m has been included in the tax charge. A further credit of £0.5m (2019: £nil) has been incorporated within the tax on other comprehensive income. The UK deferred tax assets and liabilities at 31 March 2020 reflect this change. A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation.

7. Dividends

	2020 Pence per share	2020 £m	2019 pence per share	2019 £m
Amounts recognised as distributions in the year:				
Final dividend for prior year	**2.67**	**9.6**	2.67	9.6
Interim dividend for current year	**1.33**	**4.8**	1.33	4.8
	4.00	**14.4**	4.00	14.4
Proposed final dividend for the year ended 31 March	**–**	**–**	2.67	9.6

8. Earnings per share

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

From continuing operations	2020 £m	2019[1] £m
Net profit before other items attributable to equity holders of the parent	**58.0**	53.1
Other items net of tax[2]	**(17.5)**	(30.5)
Net profit attributable to equity holders of the parent	**40.5**	22.6

From discontinued operations	2020 £m	2019[1] £m
Net profit before other items attributable to equity holders of the parent	**2.3**	10.6
Other items net of tax[2]	**47.7**	(2.3)
Net profit attributable to equity holders of the parent	**50.0**	8.3

From continuing and discontinued operations	2020 £m	2019[1] £m
Net profit before other items attributable to equity holders of the parent	**60.3**	63.7
Other items net of tax[2]	**30.2**	(32.8)
Net profit/(loss) attributable to equity holders of the parent	**90.5**	30.9

Number of shares	2020 million	2019[1] million
Weighted average number of ordinary shares for the purpose of basic EPS	**361.7**	360.8
Effect of dilutive potential ordinary shares: share options	**8.9**	2.2
Weighted average number of ordinary shares for the purpose of diluted EPS	**370.6**	363.0

	2020 p	2019[1] p
From continuing operations:		
Basic earnings before other items per share[2]	**16.0**	14.7
Basic earnings per share	**11.2**	6.3
Diluted earnings before other items per share[2]	**15.7**	14.6
Diluted earnings per share	**10.9**	6.2
From discontinued operations:		
Basic earnings before other items per share[2]	**0.7**	3.0
Basic earnings per share	**13.8**	2.3
Diluted earnings before other items per share[2]	**0.6**	2.9
Diluted earnings per share	**13.5**	2.3
From continuing and discontinued operations:		
Basic earnings before other items per share[2]	**16.7**	17.7
Basic earnings per share	**25.0**	8.6
Diluted earnings before other items per share[2]	**16.3**	17.5
Diluted earnings per share	**24.4**	8.5

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.

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

The dilutive potential ordinary shares relate to instruments that could potentially dilute basic earnings per share in the future, such as share options.

9. Goodwill

	£m
Cost	
At 1 April 2018	359.2
Disposal of businesses	(32.9)
At 31 March 2019	326.3
Arising on business combinations	0.8
Disposal of businesses	(15.7)
At 31 March 2020	**311.4**
Accumulated impairment losses	
At 1 April 2018	49.6
Disposal of businesses	(17.1)
At 31 March 2019	32.5
Disposal of businesses	–
At 31 March 2020	**32.5**
Net book value	
At 31 March 2020	**278.9**
At 31 March 2019	293.8

Acquisition of Global Aware International Group Limited (GAIG)
On 31 July 2019, the Group acquired GAIG. The goodwill arising on acquisition was £0.8m.

Disposal of Catering
On 6 September 2019, the Group completed the sale of the Catering business and the associated goodwill of £15.7m has been included in the net assets disposed. See Note 5.

Goodwill impairment testing
Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. The Group tests goodwill at least annually for impairment or more frequently if there are indicators that goodwill may be impaired.

Mitie has reorganised its business in the year ended 31 March 2020 and the determination of CGUs has been updated accordingly to meet the criteria laid out by IAS 36 'Impairment of Assets'. The information presented for the year ended 31 March 2019 has been re-presented to reflect the changes implemented in the year ended 31 March 2020. Technical Services, Business Services, Landscapes and Catering have been determined to be relevant CGUs for the year ended 31 March 2020. Technical Services incorporates the previously presented Engineering Services and Professional Services CGUs for the year ended 31 March 2019. Business Services incorporates the previously presented Security and Cleaning & Environmental Services CGUs for the year ended 31 March 2019, with the exception of Landscapes which is determined to be a separate CGU at 31 March 2020 and was previously incorporated within the Cleaning & Environmental Services CGU.

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

	Pre-tax discount rate %	**Goodwill 2020 £m**	Goodwill 2019 £m
Technical Services	**11.3%**	**146.6**	146.6
Business Services	**11.3%**	**126.5**	125.7
Landscapes	**11.3%**	**5.8**	5.8
Catering	**–**	**–**	15.7
Total		**278.9**	293.8

At 31 March 2019 and under the previous organisational structure, the goodwill was allocated as follows:

	Goodwill 2019 £m
Engineering Services	130.9
Security	101.7
Professional Services	15.7
Cleaning & Environmental Services	29.8
Catering	15.7
Social Housing	–
Total	293.8

Key assumptions

The recoverable amounts for each CGU are based on value-in-use which is derived from discounted cash flow calculations. The key assumptions applied in value-in-use calculations are those regarding forecast operating profits, growth rates and discount rates.

Forecast operating profits

For all CGUs, the Group prepared cash flow projections derived from the most recent forecasts for the year ending 31 March 2021 and the Group's medium-term strategic plan to 31 March 2025, adjusted for COVID-19 impacts. Forecast revenue and direct costs are based on past performance and expectations of future changes in the market, operating model and cost base.

Growth rates and terminal values

Revenue growth rates applied to the value-in-use calculations of each CGU reflects management's strategy and a terminal value using a long-term growth assumption of 1.7% (2019: 1.5%) based on forecast inflation.

Discount rates

The pre-tax discount rates used to assess the forecast cash flows from CGUs are derived from the Company’s post-tax weighted average cost of capital, which was 9.2% at 31 March 2020 (2019: 8.8%). These rates are reviewed annually with external advisers and adjusted for the risks specific to the business being assessed and the market in which the CGU operates. All CGUs have the same access to the Group’s treasury functions and borrowing lines to fund their operations.

Sensitivity analysis

A sensitivity analysis has been performed and management has concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of any of the Group’s CGUs. Given the uncertainties related to COVID-19 in terms of the duration and depth of impact, sensitivity analysis using the downside scenario (see Note 1) has also been performed and management has concluded that even in the downside scenario, no impairments would be required.

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 2018	88.4	10.9	**99.3**	106.3	**205.6**
Additions	–	–	**–**	11.2	**11.2**
Arising on business combinations	14.9	–	**14.9**	–	**14.9**
Disposals	–	–	**–**	(31.3)	**(31.3)**
Disposal of businesses	–	–	**–**	(6.0)	**(6.0)**
At 31 March 2019	103.3	10.9	**114.2**	80.2	**194.4**
Additions	–	–	**–**	11.2	**11.2**
Arising on business combinations	0.5	–	**0.5**	–	**0.5**
Disposals	–	–	**–**	(21.1)	**(21.1)**
Disposal of businesses	(1.9)	–	**(1.9)**	–	**(1.9)**
At 31 March 2020	101.9	10.9	**112.8**	70.3	**183.1**
Amortisation					
At 1 April 2018	85.6	10.0	**95.6**	71.7	**167.3**
Charge for the year	1.2	0.3	**1.5**	7.5	**9.0**
Impairment	–	–	**–**	1.1	**1.1**
Disposals	–	–	**–**	(31.3)	**(31.3)**
Disposal of businesses	–	–	**–**	(2.4)	**(2.4)**
At 31 March 2019	86.8	10.3	**97.1**	46.6	**143.7**
Charge for the year	2.1	0.2	**2.3**	9.1	**11.4**
Disposals	–	–	**–**	(20.7)	**(20.7)**
Disposal of businesses	(1.9)	–	**(1.9)**	–	**(1.9)**
At 31 March 2020	87.0	10.5	**97.5**	35.0	**132.5**
Net book value					
At 31 March 2020	14.9	0.4	**15.3**	35.3	**50.6**
At 31 March 2019	16.5	0.6	17.1	33.6	50.7

Customer relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. These currently range from four to eight years. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives which currently range from three to ten years. Software and development costs are amortised over their useful lives of between five and ten years, once they have been brought into use.

Following a review of the carrying amount of intangible assets, no impairment has been recorded (2019: £1.1m).

11. Property, plant and equipment

Property, plant and equipment comprise owned and leased assets.

	31 March 2020 £m
Owned property, plant and equipment	**22.7**
Right-of-use assets (Note 20)	**88.1**
At 31 March 2020	**110.8**

The table below relates to owned property, plant and equipment.

	Freehold properties £m	Leasehold properties £m	Plant and vehicles £m	Total £m
Cost				
At 1 April 2018	0.3	21.1	79.6	**101.0**
Additions	–	4.1	8.0	**12.1**
Reclassifications within property, plant and equipment	–	(0.3)	0.3	**–**
Disposals	–	(6.5)	(17.3)	**(23.8)**
Arising on business combinations	–	–	0.2	**0.2**
Disposal of businesses	(0.3)	(0.7)	(2.4)	**(3.4)**
At 31 March 2019	–	17.7	68.4	**86.1**
Impact of change in accounting policy[1]	–	(1.4)	(4.1)	**(5.5)**
Adjusted balance at 1 April 2019	–	16.3	64.3	**80.6**
Additions	–	0.4	7.8	**8.2**
Disposals	–	(0.6)	(14.7)	**(15.3)**
Disposal of businesses	–	–	(8.3)	**(8.3)**
At 31 March 2020	–	16.1	49.1	**65.2**
Accumulated depreciation and impairment				
At 31 March 2018	0.1	12.2	55.1	**67.4**
Charge for the year	–	0.8	10.8	**11.6**
Reclassifications within property, plant and equipment	–	(0.1)	0.1	**–**
Disposals	–	(2.7)	(17.2)	**(19.9)**
Disposal of businesses	(0.1)	(0.2)	(1.7)	**(2.0)**
At 31 March 2019	–	10.0	47.1	**57.1**
Impact of change in accounting policy[1]	–	(0.8)	(2.8)	**(3.6)**
Adjusted balance at 1 April 2019	–	9.2	44.3	**53.5**
Charge for the year	–	1.5	7.7	**9.2**
Disposals	–	(0.3)	(14.4)	**(14.7)**
Disposal of businesses	–	–	(5.5)	**(5.5)**
At 31 March 2020	–	10.4	32.1	**42.5**
Net book value				
At 31 March 2020	–	5.7	17.0	**22.7**
At 31 March 2019	–	7.7	21.3	29.0

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. Property restoration assets of £0.6m have been reclassified from leasehold properties to right-of-use assets. See Note 1. In addition, £1.3m of assets relating to finance leases at 31 March 2019 which were previously capitalised as plant and vehicles under IAS17 have been reclassified to right-of-use assets. See Note 20.

12. Trade and other receivables

	2020 £m	2019 £m
Trade receivables	**207.7**	233.6
Accrued income	**132.2**	132.6
Prepayments	**30.0**	27.1
Other receivables[1]	**36.5**	41.9
Total	**406.4**	435.2
Included in current assets	**403.1**	435.2
Included in non-current assets[1]	**3.3**	–
Total	**406.4**	435.2

Note:

1. Other receivables include £3.3m of contingent consideration receivable from the disposal of the Catering business. See Note 5.

Trade receivables at 31 March 2020 represent 28 days credit on sales (March 2019: 29 days).

The Group makes use of a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Group's relationship banks. As these trade receivables are sold without recourse, the Group has derecognised them, and so they are not included within trade receivables. The Group has reduced the amount of invoice discounting from £73.2m as at 31 March 2019 to £61.2m as at 31 March 2020.

Management considers that the carrying amount of trade and other receivables approximates their fair value.

Information about the Group's exposure to credit risk and its loss allowance against the balance of trade receivables and accrued income, is provided in Note 19.

13. Contract assets

	Pre-contract costs £m	Contract fulfilment costs £m	Total £m
At 1 April 2018	–	2.2	**2.2**
Additions	2.2	2.5	**4.7**
Amortisation	–	(0.8)	**(0.8)**
At 31 March 2019	2.2	3.9	**6.1**
Additions	0.2	0.3	**0.5**
Disposal of businesses	(0.1)	(0.2)	**(0.3)**
Amortisation	(0.8)	(0.7)	**(1.5)**
At 31 March 2020	1.5	3.3	**4.8**
Included in current assets	0.9	0.7	**1.6**
Included in non-current assets	0.6	2.6	**3.2**
Total	1.5	3.3	**4.8**

Contract assets are amortised on a straight-line basis over the contract life which is consistent with the transfer of services to the customer to which the asset relates. Management has determined that no impairment of contract assets is required as at 31 March 2020.

14. Trade and other payables

	2020 £m	2019 £m
Trade payables	**154.2**	160.3
Other taxes and social security	**113.0**	97.1
Other payables[1]	**17.0**	45.6
Accruals	**203.1**	230.9
Total	**487.3**	533.9
Included in current liabilities	**487.0**	533.9
Included in non-current liabilities	**0.3**	–
Total	**487.3**	533.9

Note:

1. Other payables include £0.5m of contingent consideration payable in respect of the acquisition of GAIG of which £0.3m has been recorded as non-current liabilities.

Trade creditors at 31 March 2020 represent 50 days credit on trade purchases (2019: 50 days).

Included within the Group's trade creditors balance is £16.0m (2019: £20.0m) relating to payments due to UK suppliers which make use of bank provided supply chain finance arrangements. During the year ended 31 March 2020 these arrangements were used by c.200 suppliers, with a maximum facility available of £50.0m. The Group settles these amounts in accordance with each supplier's agreed payment terms.

Management considers that the carrying amount of trade and other payables approximates their fair value.

15. Deferred income from contracts with customers

The significant changes in deferred income are as follows:

	2020 £m	2019 £m
At 1 April	**73.3**	65.0
Revenue recognised that was included in the deferred income balance at the beginning of the year	**(55.7)**	(44.9)
Increase due to cash received, excluding amounts recognised as revenue during the year	**33.9**	50.0
Arising on business combinations	–	4.9
Disposal of businesses	–	(1.7)
At 31 March	**51.5**	73.3

	2020 £m	2019 £m
Included within current liabilities	**35.9**	54.9
Included within non-current liabilities	**15.6**	18.4
Total	**51.5**	73.3

For any amounts which do not relate to specific contractual performance obligations, the income is deferred to the balance sheet and amortised over the period to which the contracted services are delivered to the customer.

16. Provisions

	Legal costs	Acquisition and disposal of businesses	Restructuring	Insurance reserve	Contract specific costs	Pension	Dilapidations	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April 2018	4.1	4.9	1.2	15.3	2.4	–	3.6	**31.5**
Amounts recognised in the income statement	0.2	0.6	–	2.5	11.5	20.0	–	**34.8**
Utilised within captive insurance subsidiary	–	–	–	(0.1)	–	–	–	**(0.1)**
Unwinding of discount	–	–	–	–	–	–	0.1	**0.1**
Utilised in the year	(4.0)	(0.2)	(1.2)	(3.3)	(0.6)	–	(0.4)	**(9.7)**
Reclassification	–	–	–	0.6	(0.6)	–	–	**–**
At 31 March 2019	0.3	5.3	–	15.0	12.7	20.0	3.3	**56.6**
Impact of change in accounting policy[1]	–	–	–	–	–	–	1.9	1.9
Adjusted balance at 1 April 2019	0.3	5.3	–	15.0	12.7	20.0	5.2	58.5
Amounts recognised in the income statement	–	(0.5)	–	1.5	(0.4)	–	(0.2)	**0.4**
Unwinding of discount	–	–	–	–	–	–	0.1	0.1
Utilised in the year	(0.3)	(0.8)	–	(2.7)	(1.6)	–	(0.4)	**(5.8)**
At 31 March 2020	**–**	**4.0**	**–**	**13.8**	**10.7**	**20.0**	**4.7**	**53.2**
Included in current liabilities	–	4.0	–	6.0	10.7	20.0	0.7	**41.4**
Included in non-current liabilities	–	–	–	7.8	–	–	4.0	**11.8**
Total	–	**4.0**	–	**13.8**	**10.7**	**20.0**	**4.7**	**53.2**

Note:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

The provisions balance includes the following items:

The legal costs provision related to professional fees payable and the potential cost of settlement of outstanding claims against the Group.

The acquisition and disposal of businesses provision relates to indemnities provided following the disposal by the Group of the Healthcare and Social Housing businesses. The amounts recognised in the income statement represent a £0.5m release in respect of Healthcare. Utilisation of £0.8m was in respect of Social Housing.

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

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

The contract specific cost provisions relate to obligations arising in the ordinary course of providing services in line with commercial contracts. The £10.7m provision at 31 March 2020 includes £10.6m estimated costs of rectification works associated with certain property maintenance contracts of the discontinued Social Housing business. The provision has been recorded as a current provision, however, timing of outflows is dependent on when claims are received by the Group and may occur over a longer period than one year.

The pension provision relates to the Section 75 employer debt liability of Robert Prettie & Co Limited as a result of that company's participation in the Plumbing Scheme. The provision has been recorded as a current provision, however timing of outflows is dependent on agreement with the trustee of the Plumbing Scheme and may occur over a longer period than one year. See Notes 22 and 23.

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

Contingent asset

Management is working to ensure that a proportion of the £5.5m costs incurred cumulatively in the years ended 31 March 2020 and 31 March 2019, and £10.6m costs provided for at 31 March 2020 in respect of rectification works for the Social Housing property maintenance contracts is recovered through a combination of insurance claims and recourse to suppliers. The amount and timing of recoveries is yet to be determined.

17. 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 capital allowance £m	Retirement benefit liabilities £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	**Total £m**
At 1 April 2018	18.8	6.2	9.5	(0.8)	0.7	1.5	**35.9**
Arising on business combinations	–	0.3	–	(2.5)	–	0.2	**(2.0)**
Disposal of businesses	–	(0.3)	–	0.5	–	(0.2)	**–**
(Charge)/credit to income	(1.5)	(1.2)	2.3	(0.1)	0.4	(0.1)	**(0.2)**
Credit/(charge) to equity and other comprehensive income	–	–	2.4	–	(0.3)	–	**2.1**
At 31 March 2019	17.3	5.0	14.2	(2.9)	0.8	1.4	**35.8**
Arising on business combinations	–	(0.1)	–	–	–	–	**(0.1)**
Disposal of businesses	–	(0.3)	–	–	–	–	**(0.3)**
(Charge)/credit to income	(5.6)	1.1	(0.2)	–	0.3	0.7	**(3.7)**
Charge to equity and other comprehensive income	–	–	(1.3)	–	(0.7)	–	**(2.0)**
At 31 March 2020	11.7	5.7	12.7	(2.9)	0.4	2.1	**29.7**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2020 £m	2019 £m
Deferred tax assets	**32.6**	38.7
Deferred tax liabilities	**(2.9)**	(2.9)
Net deferred tax asset	**29.7**	35.8

The Group has unutilised income tax losses of £68.4m (2019: £102.3m) that are available for offset against future profits. A deferred tax asset has been recognised in respect of £61.5m (2019: £92.8m) of these losses to the extent that it is probable that taxable profits will be generated in the future and be available for utilisation. Deferred tax has been calculated using the corporation tax rate disclosed in Note 6. In addition, the Group has £0.8m (2019: £0.8m) of capital losses.

18. Financing liabilities

	2020 £m	2019 £m
Bank loans – under committed facilities	**49.0**	52.1
Private placement notes	**177.9**	211.9
Lease liabilities[1] (Note 20)	**93.8**	1.5
Total	**320.7**	265.5
Included in current liabilities	**24.3**	40.7
Included in non-current liabilities	**296.4**	224.8
Total	**320.7**	265.5

Note:
1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option resulting in the inclusion of an additional £93.0m lease liabilities at 31 March 2020, of which £23.9m has been recorded as current liabilities. Under this option, the comparative information is not restated. See Note 1.

The £275.0m bank facility and the private placement notes as at 31 March 2020 are unsecured, but have financial and non-financial covenants and obligations commonly associated with these arrangements. The final maturity dates of all facilities remained unchanged as at 31 March 2020. The covenants are calculated on a Frozen GAAP basis and the Group was in compliance with these covenants as at 31 March 2020, hence all amounts are classified in line with repayment dates.

At 31 March 2020, the Group had available £225.5m (2019: £221.9m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facilities have an expiry date of July 2021.

Details of the Group's contingent liabilities are provided in Note 23.

The weighted average interest rates paid during the year were as follows:

	2020 %	2019 %
Bank loans	1.4	1.6
Private placement notes	4.1	4.1

Private placement notes

Following the issue on 16 December 2010 of US$96.0m and £40.0m of private placement (PP) notes in the United States Private Placement market, the Group issued a further US$153.0m and £55.0m of PP notes on 13 December 2012. The PP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the Group. In order to manage the risk of foreign currency fluctuations and to manage the Group's finance costs through a mix of fixed and variable rate debt, the Group has entered into cross-currency interest rate swaps. The swap contracts have the same duration and other critical terms as the borrowings and are considered to be highly effective. US$96.0m of these PP notes were settled in December 2017 upon maturity, along with the associated swaps which had been designated as fair value hedges. A further £40m of these PP notes were settled in December 2019, upon maturity. The amount, maturity and interest terms of the remaining PP notes as at 31 March 2020 are shown below.

Tranche	Maturity date	Amount	Interest terms	Swap interest
10 year	16 December 2022	US$76.0m	US$ fixed at 3.85%	£ fixed at 4.05%
10 year	16 December 2022	US$77.0m	US$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	£25.0m	£ fixed at 3.87%	n/a
12 year	16 December 2024	£30.0m	£ fixed at 4.00%	n/a

19. Financial instruments

Classification

The Group's principal financial assets are cash and cash equivalents, trade and other receivables from customers, contingent consideration receivable and derivative financial instruments. The derivative financial instruments are designated as cash flow hedges and are measured at fair value. Contingent consideration receivable is designated as 'fair value through profit and loss' (FVTPL). All other financial assets are held and measured at amortised cost.

The Group's principal financial liabilities are trade and other payables, contingent consideration payable and financing liabilities. Except for contingent consideration payable, which is designated as FVTPL, all other financial liabilities are held and measured at amortised cost.

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

Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from other observable inputs for the asset or liability;
- Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

The following table comprises the Group's financial assets and liabilities:

	2020 £m	2019 £m
Held at amortised cost		
Cash and cash equivalents	**124.6**	108.4
Trade and other receivables	**403.1**	435.2
Financing liabilities	**(320.7)**	(265.5)
Trade and other payables	**(486.8)**	(533.9)
Held at fair value through the profit or loss		
Other receivables	**3.3**	–
Other payables	**(0.5)**	–
Hedging instruments at fair value through other comprehensive income		
Derivative financial instruments hedging private placement notes	**28.2**	16.4

The fair values of contingent consideration receivable and contingent consideration payable are estimated using discounted cash flow models. The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected amounts are determined by considering possible scenarios, which relate to future business performance. Consequently, contingent consideration receivable and contingent consideration payable fall into Level 3.

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

Risk management objectives

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

Interest rate risk

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

Interest rate sensitivity

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

If underlying interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2020 and reserves would decrease/increase by £0.8m (2019: £0.8m).

Foreign currency risk

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

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

At 31 March 2020 £5.5m (2019: £9.2m) of cash and cash equivalents were held in foreign currencies. Included in bank loans were £9.5m (2019: £13.1m) of loans denominated in foreign currency.

Liquidity risk

The Group monitors its liquidity risk using a cash flow projection model which considers the maturity of the Group's assets and liabilities and the projected cash flows from operations. Bank loans under committed facilities, which allow for appropriate headroom in the Group's daily cash movements, are then arranged. Details of the Group's bank facilities can be found in Note 18.

The tables below summarise the maturity profile (including both undiscounted interest and principal cash flows) of the Group's financial liabilities:

Financial liabilities at 31 March 2020	**Within one year £m**	**In the second to fifth years £m**	**After five years £m**	**Total £m**
Trade payables	154.2	–	–	154.2
Other payables	16.7	0.3	–	17.0
Financing liabilities	83.0	244.6	23.9	351.5
Financial liabilities[1]	253.9	244.9	23.9	522.7

Financial liabilities at 31 March 2019	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade payables	160.3	–	–	160.3
Other payables	45.6	–	–	45.6
Financing liabilities	102.0	162.6	30.9	295.5
Financial liabilities[1]	307.9	162.6	30.9	501.4

Note:

1. Financial liabilities maturity profile is exclusive of the £28.2m (2019: £16.4m) derivative asset which would naturally offset the settlement value of the maturing private placement notes in financing liabilities.

Credit risk

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

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

The maximum exposure to credit risk in relation to derivatives at the balance sheet date is £28.2m (2019: £16.4m), being the fair value of interest rate swaps. The maximum exposure to credit risk on cash and cash equivalents at the balance sheet date is £124.6m (2019: £108.4m).

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

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

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

The following tables provide information about the Group's exposure to credit risk and ECLs against customer balances:

Trade receivables at 31 March 2020	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Current (not overdue)	**171.8**	**(1.8)**	**170.0**
1-30 days overdue	**29.0**	**(0.5)**	**28.5**
31-60 days overdue	**4.9**	**(0.2)**	**4.7**
61-90 days overdue	**1.3**	**–**	**1.3**
More than 90 days overdue	**4.6**	**(1.4)**	**3.2**
Total	**211.6**	**(3.9)**	**207.7**

Trade receivables at 31 March 2019	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Current (not overdue)	200.6	(2.2)	198.4
1-30 days overdue	24.9	(0.4)	24.5
31-60 days overdue	6.5	(0.5)	6.0
61-90 days overdue	1.7	(0.3)	1.4
More than 90 days overdue	7.9	(4.6)	3.3
Total	241.6	(8.0)	233.6

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

	2020 £m		2019 £m	
	Trade receivables	**Accrued income**	Trade receivables[1]	Accrued income
At 1 April	**8.0**	**5.6**	17.3	6.5
Impact of change in accounting policy	**–**	**–**	1.5	1.0
Impairment losses/(gains) recognised	**(4.0)**	**(0.4)**	(0.4)	(1.6)
Arising on business combinations	**–**	**–**	1.9	0.1
Disposal of businesses	**(0.1)**	**–**	(12.3)	(0.4)
At 31 March	**3.9**	**5.2**	8.0	5.6

Note:

1. Trade receivables allowance for impairment has been re-presented to adjust for £11.2m loss allowance in relation to businesses disposed in the year ended 31 March 2019.

Capital management risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the Group consists of net debt per Note 21 and equity per the consolidated statement of changes in equity. The Group is not subject to externally imposed regulatory capital requirements.

Hedging activities

Derivative financial instruments - cash flow hedges

The Group holds a number of cross-currency interest rate swaps designated as cash flow hedges on US$153.0m of private placement notes. Biannual fixed interest cash flows denominated in US dollars arising over the periods to December 2022 from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. A fair value gain of £11.8m (2019: £10.3m gain) was recognised in other comprehensive income during the year. All cash flow hedges were assessed as being highly effective as at 31 March 2020 and no amounts (2019: £nil) relating to hedge ineffectiveness were recognised in profit or loss during the year. In addition, £0.1m loss (2019: £nil) was reclassified from the hedging reserve to the income statement during the year.

The carrying value of derivative financial instruments at the balance sheet date was as follows:

	Assets 2020 £m	Assets 2019 £m
Derivative financial instruments hedging private placement notes[1]	**28.2**	16.4
Total	**28.2**	16.4
Included in current assets	**0.2**	–
Included in non-current assets	**28.0**	16.4
Total	**28.2**	16.4

Note:

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

Hedge of net investment in foreign operations

Included in bank loans at 31 March 2020 was a borrowing of €9.5m (2019: €9.5m) which has been designated as a hedge of the net investment in the Republic of Ireland business of Mitie Technical Facilities Management Limited, and is being used to hedge the Group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of the borrowing are transferred to other comprehensive income to offset gains or losses on the translation of the net investment.

20. Leases

The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. The details of adjustments made on transition and the related accounting policy are contained in Note 1.

Right-of-use assets	Properties £m	Plant and vehicles £m	Total £m
At 1 April 2019[1]	48.0	39.5	87.5
Additions	3.3	23.6	26.9
Impairment	(0.8)	–	(0.8)
Modifications to lease terms	(0.6)	(0.8)	(1.4)
Depreciation	(6.6)	(17.5)	(24.1)
At 31 March 2020[2]	**43.3**	**44.8**	**88.1**

Notes:

1. Right-of-use assets at 1 April 2019 include £86.2m of assets recognised on adoption of IFRS 16 (see Note 1) and £1.3m of assets relating to finance leases at 31 March 2019 which were previously capitalised as plant and vehicles under IAS17 within property, plant and equipment (see Note 11).
2. Right-of-use assets at 31 March 2020 include £87.0m of additional non-current assets recorded as a result of IFRS 16 adoption as well as £0.8m in relation to finance leases and £0.3m in respect of property restoration assets at 31 March 2020 which under IAS 17 would have been reported as plant and vehicles and leasehold properties respectively within property, plant and equipment.

Lease liabilities	£m
At 1 April 2019[1]	88.9
Additions	27.5
Modifications to lease terms	(1.4)
Interest expense related to lease liabilities	3.1
Repayment of lease liabilities (including interest)	(24.3)
At 31 March 2020[2]	**93.8**

Notes:

1. Lease liabilities at 1 April 2019 include £87.5m of additional liabilities recognised due to adoption of IFRS 16 (see Note 1) and £1.4m of liabilities relating to finance leases which existed at 31 March 2019.
2. Lease liabilities at 31 March 2020 include £93.0m of additional liabilities recognised due to adoption of IFRS16 and £0.8m of liabilities relating to finance leases which existed at 31 March 2019, of which £23.9m and £0.4m respectively have been recorded as current liabilities.

Maturity analysis - contractual undiscounted cash flows	2020 £m
Less than one year	26.6
One to five years	53.1
More than five years	23.9
Total undiscounted lease liabilities at 31 March 2020	**103.6**
Lease liabilities in the consolidated balance sheet at 31 March 2020	**93.8**
Current	24.3
Non-current	69.5

Amounts recognised in the consolidated income statement	2020 £m
Depreciation of right-of-use assets[1]	(24.1)
Short-term lease expense	(2.9)
Low-value lease expense	(0.1)
Operating profit impact	**(27.1)**
Interest on lease liabilities	(3.1)
Profit before taxation impact	**(30.2)**

Notes:

1. Additional depreciation of £23.6m was recorded due to adoption of IFRS 16 for the year ended 31 March 2020. If IFRS 16 had not been adopted, the IAS 17 operating lease rentals recorded within operating profit in respect of assets capitalised under IFRS 16 would have been £24.8m for the year ended 31 March 2020. Adoption of IFRS 16 has therefore led to an increase in operating profit of £1.2m.

Amounts recognised in the consolidated statement of cash flows	2020 £m
Total cash outflow for capitalised leases[1]	**24.3**

Notes:

1. Includes capital element of lease rental payments of £21.2m and interest payments of £3.1m.

21. Analysis of net debt

	2020 £m	2019 £m
Cash and cash equivalents	**124.6**	108.4
Bank loans (Note 18)	**(49.0)**	(52.1)
Private placement notes (Note 18)	**(177.9)**	(211.9)
Derivative financial instruments hedging private placement notes (Note 19)	**28.2**	16.4
Net debt before obligations under finance leases	**(74.1)**	(139.2)
Lease liabilities[1] (Note 20)	**(93.8)**	(1.5)
Net debt	**(167.9)**	(140.7)

Notes:

1. The Group has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option resulting in the inclusion of an additional £93.0m of lease liabilities at 31 March 2020. Under this option, the comparative information is not restated. See Note 1.

Net debt excludes amounts in respect of customer invoice discounting referred to in Note 12 and amounts in respect of supply chain financing referred to in Note 14.

22. Retirement benefit schemes

The Group has a number of pension arrangements for employees:

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

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

Defined contribution schemes

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

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

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

During the year, the Group made a total contribution to the defined contribution schemes of £8.4m (2019: £8.0m) and contributions to the auto-enrolment scheme of £15.3m (2019: £8.6m), which are included in the income statement charge. The Group expects to make contributions of a similar amount in the year ending 31 March 2021.

Defined benefit schemes

Group scheme

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

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

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

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

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

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

Other defined benefit schemes

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

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

Multi-employer schemes

As a result of historic acquisition activity and staff transfers following contract wins, the Group participates in four multi-employer pension schemes. The total contributions to these schemes for the financial year ending 31 March 2021 are anticipated to be £0.1m. For three of these schemes, the Group's share of the assets and liabilities is minimal.

The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme), a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. Historically, the size and complexity of the Plumbing Scheme has meant the trustee has been unable to identify the assets and liabilities of the scheme which are attributable to the Group. On 23 April 2019 the trustee of the Plumbing Scheme issued a Section 75 employer debt notice in respect of the participation of Robert Prettie & Co Limited in the Plumbing Scheme (refer to Notes 16 and 23). Another Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme and the Group accounts for its contributions as if they were paid to a defined contribution scheme.

The Annual Member update issued by the Plumbing Scheme in October 2018 stated that the triennial valuation as at 5 April 2017 showed a surplus on a technical provisions basis of £29m, on liabilities of £1.9bn.

As set out in Note 16, a provision of £20.0m was made in the year ended 31 March 2019 for Section 75 employer debts in respect of the participation of Robert Prettie & Co. Limited in the Plumbing Scheme.

As set out in Note 23 the Group has a further potential exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme. This exposure has been estimated at £2.4m and has been disclosed as a contingent liability as no event has occurred to trigger this debt and Mitie Property Services (UK) Limited still employs active members of the Plumbing Scheme.

Further information in respect of the Group scheme and Other schemes

The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2017.

Following the £13.5m payments made during the period from November 2017 to 31 March 2019, the Group paid additional contributions of £9.5m to the Group scheme during the year ended 31 March 2020.

Under the concluded schedule for payments, a further £55.4m is payable in instalments by 31 March 2025, which, if the assumptions above are borne out in practice, should eliminate the deficit by 31 March 2025.

The Group made contributions to the other schemes of £0.3m in the year (2019: £0.3m). The Group expects to make contributions of around £0.3m to the other schemes in the year ending 31 March 2021.

Details of latest funding valuation

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

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

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

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

Accounting assumptions

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

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

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

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations, with a lower 'best-estimate' allowance for future improvements to mortality. The Group is monitoring the impact of COVID-19 on the Group's defined benefit pension schemes and no impact of COVID-19 has been factored into the life expectancy assumptions as at 31 March 2020.

Principal accounting assumptions at balance sheet dates

	Group scheme		Other schemes	
	2020 %	2019 %	**2020 %**	2019 %
Key assumptions used for IAS 19 valuation:				
Discount rate	**2.35**	2.40	**2.35**	2.40
Expected rate of pensionable pay increases	**2.50**	3.20	**2.50**	3.20
Retail price inflation	**2.50**	3.20	**2.50**	3.20
Consumer price inflation	**1.70**	2.20	**1.70**	2.20
Future pension increases	**3.20**	3.50	**3.20**	3.50

	Group scheme	
	2020 Years	2019 Years
Post retirement life expectancy:		
Current pensioners at 65 – male	**88.0**	88.0
Current pensioners at 65 – female	**89.0**	89.0
Future pensioners at 65 – male	**89.0**	89.0
Future pensioners at 65 – female	**90.0**	90.0

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

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

Sensitivity of defined benefit obligations to key assumptions

	Impact on defined benefit obligations		
	Change in assumption	Increase/(decrease) in obligations %	Increase/(decrease) in obligations £m
Increase in discount rate	0.1%	(1.9)%	(4.6)
Increase in RPI inflation*	0.1%	0.9%	2.3
Increase in CPI inflation (excluding pay)	0.1%	0.6%	1.5
Increase in life expectancy	1 year	4.1%	10.3

* Including other inflation-linked assumptions (CPI inflation, pension increases and salary growth)

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the Group scheme holds a proportion of its assets in UK corporate bonds. A fall in the discount rate as a result of lower UK corporate bond yields would lead to an increase in the value of these assets, thus mitigating the increase in the defined benefit obligation to some extent. The duration, or average term to payment for the benefits due, weighted by liability, is around 19 years for the Group scheme.

Amounts recognised in financial statements

The table below outlines where the Group's post-employment amounts are included in the financial statements.

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Current service cost	**(0.3)**	**(0.3)**	**(0.6)**	(0.4)	(0.3)	(0.7)
Total administration expense	**(0.7)**	–	**(0.7)**	(1.1)	–	(1.1)
Amounts recognised in operating profit	**(1.0)**	**(0.3)**	**(1.3)**	(1.5)	(0.3)	(1.8)
Past service cost (including curtailments)	–	–	–	(1.6)	–	(1.6)
Net interest cost	**(1.4)**	–	**(1.4)**	(1.2)	(0.1)	(1.3)
Amounts recognised in profit/(loss) before tax	**(2.4)**	**(0.3)**	**(2.7)**	(4.3)	(0.4)	(4.7)

The past service cost (including curtailments) of £nil (2019: £1.6m) was the cost of equalising Guaranteed Minimum Pensions.

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

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Actuarial gains/(losses) arising due to changes in financial assumptions	**17.4**	**1.1**	**18.5**	(13.6)	(0.9)	(14.5)
Actuarial (losses)/gains arising from liability experience	**(1.6)**	**1.5**	**(0.1)**	(1.3)	–	(1.3)
Actuarial gains due to changes in demographic assumptions	–	**0.2**	**0.2**	–	0.1	0.1
Movement in asset ceiling	–	**0.1**	**0.1**	–	–	–
Return on scheme assets, excluding interest income	**(7.7)**	**(1.8)**	**(9.5)**	1.3	0.5	1.8
	8.1	**1.1**	**9.2**	(13.6)	(0.3)	(13.9)

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

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	**191.1**	**11.8**	**202.9**	190.5	13.1	203.6
Present value of defined benefit obligations	**(236.4)**	**(13.2)**	**(249.6)**	(251.9)	(15.5)	(267.4)
Net pension liability	**(45.3)**	**(1.4)**	**(46.7)**	(61.4)	(2.4)	(63.8)

All figures above are shown before deferred tax.

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

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	**251.9**	**15.5**	**267.4**	237.1	14.1	251.2
Current service cost	**0.3**	**0.3**	**0.6**	0.4	0.3	0.7
Interest cost	**6.0**	**0.3**	**6.3**	6.0	0.4	6.4
Contributions from scheme members	–	**0.2**	**0.2**	–	0.1	0.1
Actuarial (gains)/losses arising due to changes in financial assumptions	**(17.4)**	**(1.1)**	**(18.5)**	13.6	0.9	14.5
Actuarial losses/(gains) arising from experience	**1.6**	**(1.5)**	**0.1**	1.3	–	1.3
Actuarial gains due to changes in demographic assumptions	–	**(0.2)**	**(0.2)**	–	(0.1)	(0.1)
Movement in asset ceiling	–	**(0.1)**	**(0.1)**	–	–	–
Benefits paid	**(6.0)**	**(0.2)**	**(6.2)**	(8.1)	(0.2)	(8.3)
Past service cost (including curtailments)	–	–	–	1.6	–	1.6
At 31 March	**236.4**	**13.2**	**249.6**	251.9	15.5	267.4

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

	2020 £m	2019 £m
Active	**48.2**	51.4
Deferred	**122.9**	131.0
Pensioners	**65.3**	69.5
At 31 March	**236.4**	251.9

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

	2020			2019		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	**190.5**	**13.1**	**203.6**	182.3	12.1	194.4
Interest income	**4.6**	**0.3**	**4.9**	4.8	0.3	5.1
Actuarial (losses)/gains on assets	**(7.7)**	**(1.8)**	**(9.5)**	1.3	0.5	1.8
Contributions from the sponsoring companies	**10.4**	**0.3**	**10.7**	11.3	0.3	11.6
Contributions from scheme members	–	**0.1**	**0.1**	–	0.1	0.1
Expenses paid	**(0.7)**	–	**(0.7)**	(1.1)	–	(1.1)
Benefits paid	**(6.0)**	**(0.2)**	**(6.2)**	(8.1)	(0.2)	(8.3)
At 31 March	**191.1**	**11.8**	**202.9**	190.5	13.1	203.6

The history of experience adjustments is as follows:

	Group scheme				
	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of scheme assets	**191.1**	190.5	182.3	177.8	156.9
Present value of defined benefit obligations	**(236.4)**	(251.9)	(237.1)	(248.5)	(191.3)
Deficit in the scheme	**(45.3)**	(61.4)	(54.8)	(70.7)	(34.4)
Experience (losses)/gains on scheme obligations	**(1.6)**	(1.3)	(1.1)	0.8	3.1
Percentage of scheme obligations	**0.7%**	0.5%	0.5%	(0.3)%	(1.6)%
Experience (losses)/gains on scheme assets	**(7.7)**	1.3	4.6	18.7	(6.2)
Percentage of scheme assets	**(4.0)%**	0.7%	2.5%	10.5%	(4.0)%

	Other schemes				
	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of scheme assets	**11.8**	13.1	12.1	11.3	9.5
Present value of defined benefit obligations	**(13.2)**	(15.5)	(14.1)	(14.8)	(10.6)
Deficit in the scheme	**(1.4)**	(2.4)	(2.0)	(3.5)	(1.1)
Experience gains on scheme obligations	**1.5**	–	0.8	–	–
Percentage of scheme obligations	**(11.4)%**	–	(5.6)%	–	–
Experience (losses)/gains on scheme assets	**(1.8)**	0.5	0.4	1.3	(0.6)
Percentage of scheme assets	**(15.3)%**	4.0%	3.3%	11.5%	(6.1)%

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

			2020			2019
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Equities	**54.4**	**6.0**	**60.4**	51.7	7.5	59.2
Government bonds	**53.7**	**0.5**	**54.2**	27.1	4.0	31.1
Corporate bonds	**28.8**	**3.5**	**32.3**	51.9	0.1	52.0
Property	**16.6**	**1.4**	**18.0**	16.8	1.0	17.8
Diversified growth fund	**32.9**	–	**32.9**	37.0	–	37.0
Cash	**4.7**	**0.4**	**5.1**	6.0	0.5	6.5
Total fair value of assets	**191.1**	**11.8**	**202.9**	190.5	13.1	203.6

The investment portfolios are diversified, investing in a wide range of assets, in order to provide reasonable assurance that no single asset or type of asset could have a materially adverse impact on the total portfolio. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of government and corporate bonds, designed to mirror movements in corresponding liabilities.

Around 55% (2019: 56%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long term.

The property assets represent quoted property investments.

Risks and risk management

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

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

Risk	Description
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation for accounting is calculated using a discount rate set with reference to corporate bond yields. The Group scheme holds a large proportion of its assets (55%) in equities and other return-seeking assets (principally diversified growth funds (DGFs) and property). The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level has the potential to be volatile in the short term, potentially resulting in short-term cash requirements, or alternative security offers, which are acceptable to the Trustee, and an increase in the net defined benefit liability recorded on the Group's balance sheet. Equities and DGFs are considered to offer the best returns over the long term with an acceptable level of risk and hence the scheme holds a significant proportion of these types of asset. However, the scheme's assets are well-diversified by investing in a range of asset classes, including property, government bonds and corporate bonds. The Group scheme holds 16% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting obligations. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting obligations. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the scheme's obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the obligations.

Areas of risk management

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

Certain benefits payable on death before retirement are insured.

23. Contingent liabilities

Contractual disputes, guarantees and indemnities

The Company and various of its subsidiaries are, from time to time, party to contractual disputes that arise in the ordinary course of business. Management does not anticipate that the outcome of any of these disputes will have a material adverse effect on the Group's financial position, other than as already provided for in the financial statements. In appropriate cases, a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction, due to the uncertainty of the actual costs and liabilities that may be incurred. Management will continue to monitor events as matters progress.

In addition, the Company and its subsidiaries have provided guarantees and indemnities in respect of performance, issued by financial institutions on its behalf, amounting to £20.6m (2019: £22.2m) in the ordinary course of business. These are not expected to result in any material financial loss.

Multi-employer pension schemes

The Group participates in several industry multi-employer defined benefit schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme (Plumbing Scheme). The total contributions to these schemes for the financial year ended 31 March 2020 were £0.1m.

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

On 23 April 2019 the trustee of the Plumbing Scheme issued a Section 75 employer debt estimate to Robert Prettie & Co Limited for the amount of £20.0m. The Group has continued to hold the provision that was recorded in the year ended 31 March 2019. The Group is validating the accuracy of the Section 75 debt estimate and once validated intends to seek the approval of the trustee for the payment of the debt over a number of years. See Note 22.

The Group continues to have an exposure to Section 75 employer debts in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, which have been estimated at £2.4m by the trustee, however no event has occurred to trigger this debt as Mitie Property Services (UK) Limited still employs active members of the Plumbing Scheme.

Employment claims

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

24. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note. For the year ended 31 March 2019, the Group derived £0.5m revenue from contracts with joint ventures with no such transactions noted at 31 March 2020.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company. During the year, the Group made donations and gifts in kind of £0.3m (2019: £0.4m) to the Foundation.

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

The Company's preferred supplier for delivering apprenticeships to its employees was Aspire Achieve Advance Ltd (3aaa), a company whose chairman was also Mitie Group plc's Non-Executive Chairman. The Company pays into a government mandated Apprenticeship Levy fund, and 3aaa withdrew from that fund to provide the apprenticeship training. On 11 October 2018, the directors of 3aaa presented a petition to the Court for the compulsory winding up of the company. This petition was accepted by the Court and the Official Receiver was appointed as liquidator on 24 October 2018. During the year ended 31 March 2020 3aaa did not withdraw (2019: £0.6m withdrawn) from the fund in respect of training provided or to be provided.

During the year ended 31 March 2020, the Group generated revenue of £0.2m (2019: £0.2m) relating to Informa plc, a company whose chairman is also Mitie Group plc's Non-Executive Chairman.

25. Events after the reporting period

On 25 June 2020, Mitie announced the intention to raise £201m by way of a rights issue and has also reached an agreement with its lenders for an extension of its revolving credit facility (RCF), providing liquidity of £250m under the facility through to 16 December 2022. The rights issue has been fully underwritten. Mitie has also agreed with the holders of its US private placement notes and lenders to its RCF, the granting of certain leverage and interest covenant amendments. Details of these leverage and interest covenant amendments are set out in the Finance Review.

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

On 25 June 2020, Mitie also announced that it has signed a conditional share purchase agreement to acquire the entire issued share capital of Interservefm (Holdings) Limited. The consideration at completion of the acquisition comprises the issuance of ordinary shares representing c.23.4% of the share capital of Mitie following the rights issue and a cash payment of £120m. The acquisition will be classified as a class 1 transaction under the Listing Rules of the Financial Conduct Authority and is therefore conditional upon, amongst other things, the approval of Mitie's shareholders.

Appendix- Alternative Performance Measures (APMs)

The Group presents various APMs as management believes that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance.

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

Performance before other items

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

These other items include impairment of goodwill, impairment and amortisation of acquisition related intangible assets, acquisition and disposal costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items. Further details of these other items are provided in Note 4.

Operating profit from operations		2020 £m	2019 £m
Operating profit from continuing operations	Statutory measures	**64.6**	41.7
Adjust for: restructure costs	Note 4	**15.7**	15.0
Adjust for: acquisition and disposal related costs	Note 4	**3.5**	(0.1)
Adjust for: other exceptional items	Note 4	**2.3**	23.0
Operating profit before other items from continuing operations	Performance measures	**86.1**	79.6
Operating profit from discontinued operations[1]	Statutory measures	**51.8**	6.5
Adjust for: restructure costs	Note 4	**-**	0.9
Adjust for: acquisition and disposal related costs	Note 4	**1.3**	-
Adjust for: gain on disposal	Note 4	**(50.3)**	(17.9)
Adjust for: other exceptional items	Note 4	**-**	23.1
Operating profit before other items from discontinued operations	Performance measures	**2.8**	12.6
Operating profit before other items - Group	Performance measures	**88.9**	92.2

Notes:

1. Operating profit from discontinued operations comprises the profit before net finance costs and tax of £1.5m (2019: £11.4m loss) and gain on disposal before tax of £50.3m (2019: £17.9m).

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

	2020 £m			2019 £m		
Operating profit/(loss) from operations	**Reported results**	**Adjust for: Other items (Note 4)**	**Performance measures**	Reported results	Adjust for: Other items (Note 4)	Performance measures
Segment						
Technical Services	**47.9**	**8.0**	**55.9**	49.9	7.0	56.9
Business Services	**42.4**	**(0.2)**	**42.2**	35.4	3.6	39.0
Specialist Services	**25.1**	**0.2**	**25.3**	20.3	0.1	20.4
Care & Custody	***7.6***	***0.1***	***7.7***	*3.8*	*0.1*	*3.9*
Landscapes	***8.6***	***–***	***8.6***	*9.3*	*–*	*9.3*
Waste	***8.9***	***0.1***	***9.0***	*7.2*	*–*	*7.2*
Corporate centre	**(50.8)**	**13.5**	**(37.3)**	(63.9)	27.2	(36.7)
Total from continuing operations	**64.6**	**21.5**	**86.1**	41.7	37.9	79.6
Catering	**53.5**	**(50.7)**	**2.8**	8.5	0.1	8.6
Healthcare	**0.5**	**(0.5)**	**–**	2.0	(2.0)	-
Pest Control	**(0.7)**	**0.7**	**–**	30.0	(27.6)	2.4
Social Housing	**(1.5)**	**1.5**	**–**	(34.0)	35.6	1.6
Total from discontinued operations	**51.8**	**(49.0)**	**2.8**	6.5	6.1	12.6
Total - Group	**116.4**	**(27.5)**	**88.9**	48.2	44.0	92.2

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

Earnings per share		**2020** **p**	2019 p
Statutory basic earnings per share	Statutory measures	**25.0**	8.6
Adjust for: earnings per share from discontinued operations		**(13.8)**	(2.3)
Statutory basic earnings per share from continuing operations		**11.2**	6.3
Adjust for: other items per share from continuing operations		**4.8**	8.4
Basic earnings per share before other items from continuing operations	Performance measures	**16.0**	14.7

Organic revenue

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

			2020 £m			**2019 £m**
Revenue from continuing operations	**Reported revenue**	**Adjust for: acquisition of businesses[1]**	**Performance measures**	Reported revenue	Adjust for: acquisition of businesses[1]	Performance measures
Segment						
Technical Services	**947.2**	–	**947.2**	974.2	–	974.2
Business Services	**986.9**	**(172.2)**	**814.7**	894.0	(79.6)	814.4
Specialist Services	**239.6**	–	**239.6**	217.1	–	217.1
Care & Custody	***110.2***	–	***110.2***	*107.3*	–	*107.3*
Landscapes	***47.8***	–	***47.8***	*46.7*	–	*46.7*
Waste	***81.6***	–	***81.6***	*63.1*	–	*63.1*
Total for continuing operations	**2,173.7**	**(172.2)**	**2,001.5**	2,085.3	(79.6)	2,005.7

Note:

1. Comprises revenue of £171.7m (2019: £79.6m) and £0.5m in relation to the acquisitions of VSG and GAIG respectively.

Net debt

The Group includes the carrying value of its derivative financial instruments in its reported net debt measure as this carrying value represents the fair value of cross-currency interest rate swaps on the US$ private placement notes which form part of the Group's financing liabilities. The Group has excluded the financial impact of adopting IFRS 16 from its performance net debt measure. The table below shows the reconciliation of reported net debt to the performance net debt measure.

Net debt		**2020** **£m**	**2019** £m
Cash and cash equivalents		**124.6**	108.4
Financing liabilities	Note 18	**(320.7)**	(265.5)
Derivative financial instruments hedging private placement notes		**28.2**	16.4
Net debt	Reported measures	**(167.9)**	(140.7)
Adjust for: IFRS 16 impact on lease liabilities	Note 20	**93.0**	–
Net debt	Performance measures	**(74.9)**	(140.7)

The Group also uses an average net debt measure as this reflects its financing requirements throughout the period. The Group calculates its average net debt based on the daily closing figures, including its foreign currency bank loans translated at the closing exchange rate for the previous month end. The average net debt includes the fair value of the derivative financial instruments which are used to hedge the US$ private placement notes and excludes the impact of IFRS 16 on lease liabilities. This measure shows average net debt of £239.6m for the year ended 31 March 2020, compared with £302.0m for the year ended 31 March 2019.