18 November 2021
**Mitie Group plc**

# Interim results for the six months to 30 September 2021
# "Encouraging H1 performance; steady progress towards delivering our new margin-enhancing growth strategy"

Mitie Group plc ("Mitie" or "the Group") (LSE: MTO), the UK's leading facilities management company, today announces its financial and operational results for the six months ended 30 September 2021 ("H1 FY22").

## Highlights

- Revenue including share of joint ventures and associates[1] of £1,912m, up 103% (H1 FY21: £943m); boosted by inclusion of Interserve Facilities Management (Interserve) revenue of £629m, and £259m from short-term COVID-related contracts
- Mitie standalone revenue (excluding Interserve) up 36%, and underlying revenue back at pre-COVID levels
- Operating profit before other items[1,2] of £85.0m, up 367% (H1 FY21: £18.2m), as the strong revenue growth translated into higher margin profit
- Operating profit[1] of £60.0m (H1 FY21: £6.6m), reflecting the stronger performance this period, partially offset by the increased investments in Project Forté and Interserve within 'Other Items'[2]
- Interserve performing well, with integration largely complete; £12.1m cost and revenue synergies achieved in H1 FY22
- New contract wins, renewals, and projects in H1 FY22 of approximately £1.8bn total contract value (H1 FY21: £500m)
- Improved free cash flow[3] of £86m due to increased profitability (H1 FY21: £78m, including benefit from HMRC Time To Pay scheme)
- Acquisition of DAEL Ventures UK in August and Rock Power Connections and Esoteric in November
- New Revolving Credit Facility (£150m) in place and forward starting USPP (£120m) terms agreed
- Interim dividend of 0.4p/share reinstated as underlying Group performance returns to pre-COVID levels

## Results for the six months ended 30 September 2021

| Continuing operations[1]<br>£m unless otherwise specified | **Six months to 30 September 2021** | | | Six months to 30 September 2020[1] | | |
|---|---|---|---|---|---|---|
| | Before other items[2] | Other items[2] | Total | Before other items[2] | Other items[2] | Total |
| Revenue including share of JVs & associates | 1,912.0 | - | 1,912.0 | 942.8 | - | 942.8 |
| Group revenue | 1,872.7 | - | 1,872.7 | 942.8 | - | 942.8 |
| Operating profit | 85.0 | (25.0) | 60.0 | 18.2 | (11.6) | 6.6 |
| *Operating profit margin* | *4.4%* | | *3.1%* | *1.9%* | | *0.7%* |
| Profit/(loss) before tax | 75.0 | (25.0) | 50.0 | 10.7 | (11.6) | (0.9) |
| Profit/(loss) for the period | 67.4 | (30.6) | 36.8 | 8.0 | (11.3) | (3.3) |
| Basic earnings/(loss) per share | 4.9p | | 2.7p | 0.9p | | (0.4)p |
| Dividend per share | | | 0.4p | | | Nil |
| Cash generated from operations[3] | | | 131.1 | | | 103.2 |
| Free cash flow[3] | | | 85.9 | | | 77.7 |
| Average daily net debt | | | (59.9) | | | (69.3) |
| Closing net cash[3] | | | 8.5 | | | 116.0 |
| Secured order book | | | £6.8bn | | | £4.0bn |

Notes:
1. From continuing operations. The results of the Document Management business and the operations in the Nordics and Poland, which were disposed in H1 FY22, are included within discontinued operations as described in Note 4 to the condensed consolidated financial statements.
2. Other items are as described in Note 3 to the condensed consolidated financial statements.
3. H1 FY21 cash flow and closing net cash has been restated for a change in accounting policy (see Note 1 to the condensed consolidated financial statements).

**Commenting on the H1 FY22 results, Phil Bentley, Group Chief Executive, said:**

*"We have delivered a strong performance in H1 across all our divisions as the addition of Interserve Facilities Management and the contribution from COVID-related contracts boosted the performance of our business. We are beginning to generate good free cash flow and our new long term financing arrangements reflect our strengthened balance sheet and BBB credit rating. With our underlying business back to pre-COVID levels, we have reinstated our interim dividend.*

*"Our new strategy – focusing on growth, enhancing margins, and improving cash generation – is progressing well. Our 'Science of Service' offering is gaining traction, as clients' workspaces require greater hygiene, intelligent security, and critical asset monitoring. We hope to add to the acquisitions made in decarbonisation (Rock Power Connections), telecoms maintenance (DAEL Ventures UK Ltd), and intelligent security Esoteric.*

*"Our second half is traditionally a little stronger than the first half, as the final quarter attracts additional project works across the public sector. Excluding our short-term COVID-related contracts – which we expect to significantly reduce in the second half – we are again expecting a stronger second half performance for the underlying business. This will result in an operating profit before other items for FY22 of between £145m and £155m, unchanged from our previous guidance."*

-END-

The Chief Executive's Review, Operating Review and Finance Review follow from page 3.

**Analyst Presentation and Q&A**

Phil Bentley (CEO) and Simon Kirkpatrick (CFO) will host a presentation and Q&A session today (18 November 2021) at 9.30am at The Shard and via a webcast. For dial in details please contact fiona.lawrenceIR@mitie.com. A copy of the presentation will be available on the company website in advance of the live presentation, www.mitie.com/investors.

**For further information**

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**About Mitie**

Founded in 1987, Mitie's job is to look after places where Britain works and is the leading facilities management company in the UK. We offer a range of services to **Central Government and Defence** customers; **Communities** (Healthcare, Education and Local Authorities); and **Technical Services** (Engineering Services, Energy, Water and Real Estate Services) and **Business Services** (Security, Cleaning and Office Services) to private sector clients in Financial Services, Manufacturing, Transport, Retail and Telecoms and increasingly to the public sector. Finally, our **Specialist Services** (Care & Custody, Landscapes, Spain and Waste Management) division serves both the public and private sectors in these niche businesses.

Mitie acquired Interserve's FM business on 30 November 2020 and now employs 75,000 people. We are the champion of the 'Front-Line Heroes' who have kept Britain working during the COVID-19 pandemic. We take care of our customers' people and buildings, through the 'Science of Service', delivering essential services and deploying industry-leading technology to create safe and effective workspaces.

Find out more at www.mitie.com.

## Chief Executive's Review

### Margin-accretive growth strategy

Over the last four years Mitie has been focussed on improving customer service, engaging with our frontline colleagues, investing in technology, and improving our financial performance and balance sheet. With our transformation complete, and the Interserve integration on track to complete as planned, we announced a new strategy in June which focuses on increasing growth, enhancing margin, and improving cash generation. This new strategy is targeting mid-single digit revenue growth, margins of 4.5-5.5%, sustainable free cash flow, and return on invested capital (ROIC) in excess of 20%, over the medium term.

Mitie's vision is to have number one market share in its core businesses of Cleaning, Security and Technical Services, deploying industry leading technology and skills ('Science of Service') in post-COVID workspaces, becoming the strategic partner of both the public and private sectors, and being recognised as a "Great Place to Work".

### Growth

Our first priority is to retain and grow existing contracts with an upweighted sales/business development team focused on winning new contracts at strong margins.

In the first half we won, renewed, or extended up to £1.8bn of contracts (total contract value (TCV)). Of this, up to £678m was from renewed contracts, reflecting a renewal rate of 94%. This renewal rate is slightly lower than historical rates due to our decision not to seek extension of a number of low margin contracts. Key renewals were with Marks & Spencer, FCO Overseas Affiliates, Heathrow Airport and Department for Transport. We supplemented this with up to £881m TCV of new wins, including with the Defence Infrastructure Organisation (DIO) (FDIS (Scotland & Northern Ireland)), Home Office, Legal & General, FMSP Clyde, Westfield shopping centres, City of Edinburgh Council and Swansea University, and £287m of projects. We have a strong pipeline and are optimistic about converting a number of these opportunities in the second half of the year.

Prior to the acquisition, Interserve's contract renewal rates were significantly lower than Mitie's. It is therefore pleasing that we have renewed or extended all major Interserve contracts that have come up for renewal. These renewals are driven by Mitie's technology and innovative solutions.

Complementing our organic growth initiatives, our strategy also includes expanding our portfolio through infill acquisitions in high growth sectors of telecoms, decarbonisation, intelligent security, and sustainability where Mitie is able to generate a market-leading position. Acquisitions will be funded out of free cash flow or from existing debt facilities, whilst maintaining leverage below 1x net debt to EBITDA. In the first half we sold the Document Management business, the proceeds from which more than offset the investments made in the high growth sectors of telecoms, decarbonisation and intelligent security. DAEL Ventures UK was acquired on 5 August 2021, Rock Power Connections on 1 November 2021 and Esoteric on 17 November 2021.

### Margin enhancement

Margin enhancement is a key focus of the new Mitie strategy. Delivering enhanced margins of between 4.5%-5.5% over the medium term will be achieved through the £42m of Interserve cost synergies, Forté savings and procurement efficiencies, together with a focus on operational excellence and improved contract profitability.

Operating profit margins in the first half were 4.4%, up from 1.9% during the COVID-impacted first half of FY21. Whilst the key driver of margin improvement was the £40m profit from short-term COVID-related contracts, excluding these contracts, margins improved due to the return of higher margin variable and project work and the proactive measures that form part of our strategy to deliver margin enhancement.

In the first half of FY22, £10.8m of Interserve cost synergies have been achieved, with an increased full year target of £25m (previously £23m). These synergies have been achieved through headcount reduction (110 additional heads this period), property rationalisation (one further property exited) and £3.6m of procurement savings. In the twelve months since we acquired Interserve, the total headcount reduction is 271, nine properties have now been exited and the integration of the enlarged supplier base has delivered £6.2m of procurement savings, driven by volume discounts. We remain on track to deliver £42m of cost synergies by the end of FY23.

In addition to the cost synergies, £1.3m of margin from revenue synergies has been achieved in the period through cross-selling within the combined customer base. Since the acquisition, £2.5m of revenue synergies have been delivered into Technical Services, Landscapes, Security and Waste.

A key area of margin enhancement will come from 'turning around' the small number of Interserve loss making contracts. We are utilising expertise from around the Group to bolster the contract teams, are bringing in external experts to perform in depth reviews of individual contracts, and have developed 'playbooks' to ensure that consistent, high-quality processes are adopted on each contract.

Earlier in the year we launched an operational excellence initiative in the former Interserve Communities division to reduce inefficiencies, and to deploy best practice. We are now extending this initiative more broadly across our operations to eliminate process waste, reduce the Cost of Poor Quality (CPQ), and minimise workflow variation. In addition, we are providing six sigma training for our senior managers.

Procurement savings are a key component of our synergy targets, and we are looking to increase and accelerate these savings through the implementation of our Digital Supplier Platform. Through this system we will be able to control our purchases through a digital catalogue, increase compliance with our Mitie Framework Agreements, and ensure complete transparency over our £1.4bn of third party spend.

Project Forté is another contributor to margin enhancement, with savings of £3.5m achieved in the first half of FY22. We are making good progress towards the £15-20m of net savings to be delivered in FY23. Phase one testing has now been completed, identifying a need to undertake further, extended testing. This testing will ensure a launch at the start of the new financial year, and a smooth roll out across 7,000 users, 5 million assets, 2 million jobs, and with automated billing for our top 800 clients.

A final element of margin improvement will come from a new initiative to reduce our Group overhead focussing particularly on spans and layers and target operating model. Whilst labour shortages and inflation are likely to become a greater issue over the next 12 months our contracts generally provide for the passing of labour cost inflation through to our customers. Parts and consumables are generally priced at current cost. We have factored in a net £10-20m inflation cost which will be covered by the Group overhead savings.

## Capability enablers

### *Investing in our people*

It has never been more important to put our people at the heart of our business and deliver our ambition to be a "Great Place to Work". We lead in additional benefits to our Frontline Staff. Alongside Life Assurance benefits we have introduced 24/7 Virtual GP and free Flu vaccinations.

We have also launched a SAYE scheme, and a more generous Share Incentive Plan, as well as giving £4m worth of free shares to our employees.

### *Investing in decarbonisation*

Another Capability Enabler is investing in decarbonisation, both to meet our 2025 Zero Carbon ambition and to support our clients deliver their Zero Carbon ambitions. We have built up a leading industry position in Zero Carbon Energy Procurement, EV rollout, renewal energy projects, waste elimination and biodiversity investments. An exciting next step is our tie-up with Sustainable Development Capital (SDCL) – helping our customers to fund zero carbon investments. With the acquisition of Rock Power Connections, we see our Energy-focused projects business doubling to £200m in FY23.

***The Science of Service***

'The Science of Service' recognises the industry-leading skills we bring in our core areas of Security, Cleaning and Technical Services. In a post-COVID world, clients are looking to such innovation to promote reassurance and wellbeing in the return to work.

Capability examples can be seen at our intelligent service operations centre (iSOC) in Northampton, where we integrate intelligence, technology, and people to deliver holistic security. Other examples are our Birmingham Cleaning & Hygiene Centre of Excellence, where we showcase new robotic cleaners and COVID-assured UV and Citrox cleaning. Our Manchester Technical Service Operations Centre (TSOC) deploys digital maintenance to remotely monitor critical alarms and data from multiple sites, driving insights for customers.

**Increasing cash generation**

In the first half of FY22, free cash flow was £86m, which largely reflects the improvement in profitability from the COVID-related contracts alongside ongoing working capital improvements. 'Other items' will fall in the next 18 months, as Project Forté and Interserve integration costs reduce. Other Items are then expected to relate only to M&A, including amortisation of acquired intangible assets (non-cash).

**Integration of Interserve**

Mitie acquired Interserve on 30 November 2020, and the 12 month integration programme, delivered through 16 complex projects, is now largely complete. Both the Transitional Services Agreement and Reverse Transitional Services Agreement are due to end on 30 November 2021. Delivering £42m of cost synergies by the end of FY23, introducing Interserve customers to our market-leading technology, renewing Interserve contracts, and driving cross-selling opportunities are core drivers of future value-creation.

Good progress has been made, with 27 key Interserve customers who were prioritised for the roll out of Mitie's customer facing technology. The Mozaic MI dashboard has been configured and is running for twelve customers, with a further seven in progress. Aria, the workplace app, is now live or 'in delivery' with several Interserve customers, and the roll out of Digital Workplace is in progress for seven Interserve customers. The roll out of Digital Maintenance and Monitoring as a Service is on track for eight Interserve customers. This focus on technology is a key reason for the successful renewal of Interserve contracts in the period.

Rebranding was completed by 30 September 2021. Vehicles, property signage, and documentation were updated ahead of the deadline, and new 'Mitie branded' uniforms were distributed at a cost of £2m.

In early October, the acquired business was successfully migrated from the legacy Interserve ERP finance system (AX12) to Mitie's SAP environment at a cost of £4m. The completion of this project moves the business toward a standard, consistent way of working across the Group and enables the delivery of headcount synergies.

In November the final of four cohorts of transferring employees migrates to Mitie's HR and payroll systems, giving full access to people systems and available benefits. Having all employees on one HR system is hugely beneficial, not only for effective people management and reviewing spans and layers, but in creating a cohesive organisation and embedding the Mitie culture and values across the entire workforce.

The technology integration has progressed well in the period, with key achievements being the migration of the operational and back-office systems and applications onto the Mitie IT environment, the phased replacement of Interserve IT equipment, with over 2,100 Mitie laptops delivered, and the completion of a cyber security project which has enabled the implementation of a fully operational 24/7 cyber security operations centre across the entire Mitie IT estate.

## Social Value and Responsible Business

Environmental, Social and Governance (ESG) initiatives form a key part of the philosophy of the way we do business at Mitie. We have set a target to be Net Zero carbon by 2025 and generate increased social value.

Mitie has one of the largest electric vehicle (EV) fleets of any organisation in Britain, with over 1,700 EVs representing 27% of its fleet, with an additional 1,800 small fully electric vans planned for delivery in 2022. In addition, we have installed charging points for employees at home and in our offices, with a goal that new offices will have 50% of their parking bays with charging infrastructure.

In line with Mitie's strategy of focusing on faster growing sectors including decarbonisation, good progress has been made with clean energy project wins of £36m TCV in H1 FY22. Furthermore, to support our customers on their decarbonisation journey we have launched two new initiatives: BoltOn, which offers simple solutions such as remote building management and lighting optimisation to help customers achieve their net zero goals; and a partnership with SDCL, helping our customers to fund their capital investment projects required to achieve their Net Zero targets.

As part of our ESG initiatives, when Mitie refinanced its Revolving Credit Facility this year, we made it sustainability linked. This means that there will be a favourable adjustment to pricing on the facility if Mitie achieves its ESG KPIs, and an adverse adjustment if it doesn't. Linking our bank facility pricing to our ESG targets shows our commitment to achieving them and allows our banking partners to be part of the positive advancements we are making in this area.

Our people are highly valued and we continue to invest to ensure Mitie becomes a 'Great Place to Work'. Free shares were granted to all employees and a new more favourable "buy two; get one free" share incentive plan was launched. Alongside the Virtual GP service launched in FY21, this year all employees have access to free flu vaccinations.

Mitie continues to receive prestigious awards including the 'Best Diversity, Equity and Inclusion Initiative' and 'Best Learning Initiative for Business Culture' at the Business Culture Awards; 'Recruitment Programme of the Year' by UK Social Mobility Awards; and 'Positive Climate Action' at the IWFM Impact Awards 2021.

## Financial performance

### *Revenue*

Revenue, including share of joint ventures and associates, from continuing operations, and including the contribution from Interserve, was £1,912m, an increase of 103% compared to the same period last year (H1 FY21: £943m). Excluding the revenue contribution from Interserve of £629m and the £259m from short-term COVID-related contracts (H1 FY21: £32m), revenue growth was 12%, as the business recovered strongly from the significant reduction in revenue in the same period last year, underpinned by new contract wins. Across both the Mitie and Interserve businesses, underlying revenues are now back to pre-COVID revenue levels reported in H1 FY20, when adjusting for the NHS Properties and MOJ contracts, which ended on 31 March 2020. .

### *Operating profit*

Operating profit before other items, from continuing operations, was £85.0m, 367% ahead of the prior year (H1 FY21: £18.2m), as the recovery in revenues was boosted by the inclusion of Interserve profits, £11m of cost synergies, and £40m of profit from the short-term COVID-related contracts. Operating margin increased to 4.4% (H1 FY21: 1.9%), reflecting the growth in higher margin revenue, including the profit from the COVID-related contracts.

### *Cash flow and balance sheet*

Free cash flow was positive at £86m due to the higher level of profits and working capital improvements.

Average daily debt has improved to £60m (H1 FY21: £69m, which included £117m benefit of deferring payments under HMRC's Time to Pay (TTP) scheme, which was repaid in H2 FY21), and closing net cash was £8.5m (H1 FY21 restated: £116m including the proceeds of the Rights Issue).

A reduced revolving credit facility (RCF) of £150m has been refinanced on a longer tenor (4 years + 1 year), and at 125bps less than the facility it replaces. In addition, agreement has been reached to refinance £120m of US private placement (USPP) notes that mature in December 2022. The new notes will be issued under a delayed funding arrangement, avoiding any overlap with the existing £121.5m of notes maturing at the same time, and at an improved average coupon of 2.94%. The notes have an average 10-year maturity profile.

We now have a balance sheet which is strong, stable and flexible, to support future growth opportunities.

## Dividend

Due to the uncertainty of COVID-19, the Board did not recommend a final dividend in respect of the year to 31 March 2020, and no interim or final dividend for the year to 31 March 2021.

However, the Board indicated that it would take account of cash generation and the performance of the underlying business when considering the reinstatement of a dividend in FY22.

With £86m of free cash flow reported in the first half of the year, average daily net debt of £60m, and the underlying performance of the business back to pre-COVID levels, the Board is reintroducing an interim dividend at 0.4p per share (H1 FY21: nil). The dividend will be paid on 2 February 2022 to all shareholders that are on the register at the close of business on 17 December 2021. Shares in the company will be quoted ex-dividend on 16 December 2021. The dividend reinvestment plan election date is 12 January 2022.

## Outlook

The second half is traditionally a little stronger than the first half, as the final quarter attracts additional project works across the public sector. Excluding our short term COVID-related contracts, which we expect to significantly reduce in the second half, we are again expecting a stronger second half performance for the underlying business. This will result in an operating profit before other items for FY22 of between £145m and £155m, unchanged from our previous guidance.

## Operating Review

Following the Interserve acquisition, Mitie now operates under five divisions with focused management expertise aligned along customer or service delivery lines, where operational expertise and targeted sales and business development skills will drive improved customer experience and exceptional performance.

Interserve was acquired by Mitie on 30 November 2020 and contributed a full six months of trading from 1 April 2021 to 30 September 2021. No financial results for Interserve are included for H1 FY21, which was before Mitie owned the business.

The Group disposed of Mitie Document Management and the operations in the Nordics and Poland during the six months ended 30 September 2021. The results of these operations have been removed from Business Services and Technical Services respectively, and included within discontinued operations. All financial information reported below is for 'continuing operations' and is stated before other items.

## Business Services

Business Services focuses on Cleaning, Security and Office Services. Business Services has been responsible for delivering the COVID-related UK Government contracts across testing centres and quarantine services, and more recently immigration services. During the period Mitie Document Management, which formed part of Office Services, was sold, with Vetting and Front of House the two remaining operations. On 1 April 2021 Business Services integrated several hundred contracts from the former Business & Industry division of Interserve, including sizeable contracts with the BBC and TfL. The Business Services healthcare contracts were transferred to Communities from 1 April 2021 to create a focused Healthcare unit and are therefore excluded from the Business Services comparative figures.

| **Business Services, £m** | **H1 FY22** | **H1 FY21** | ***Change, %*** |
|---|---|---|---|
| Revenue | **775.0** | **445.4** | 74% |
| *Security*[1] | *571.9* | *307.5* | *86%* |
| *Cleaning* | *203.1* | *137.9* | *47%* |
| Operating profit before other items | **65.2** | **20.9** | 212% |
| *Operating profit margin before other items, %* | *8.4%* | *4.7%* | *3.7ppt* |
| Order book | £1.3bn | £1.4bn | (6)% |
| Number of employees | 40,700 | 30,800 | 32% |

[1] Document Management was sold on 30 September 2021 and is excluded from 'Continuing operations'. The retained Office Services operations of Vetting and Front of House are reported within Security

### Performance highlights

- Revenue growth of 74% to £775m, including £245m of revenue (H1 FY21: £30m) from UK Government short term COVID-related contracts and the addition of revenue from the former Interserve Business & Industry division contracts
- Revenue excluding both Interserve and COVID-related contracts was 9% ahead of the same period in FY21
- Operating profit was 212% ahead, at £65.2m supplemented by short-term COVID-related contracts
- Up to £612m TCV of new, renewed, or extended contracts with 91% retention rate and project wins £197m
- 11,500 additional employees mobilised to deliver COVID-related contracts
- 29 awards at the National and Regional British Security awards
- Acquisition of leading Technical Counter Surveillance Measures specialist Esoteric on 17 November 2021

**Operational performance**

Business Services has had a very strong six months – reflecting our ability to mobilise projects for the UK Government at short notice, and respond to increased demand for deep cleans from existing customers. In addition, our Fire and Systems Projects business has grown.

Business Services has continued to provide a significant level of support to the UK Government in their fight against COVID. Since these contracts began in June 2020, Mitie has mobilised 170 testing centres and 103 mobile sites, testing 13 million members of the public. Further security services are being provided in support of quarantine and immigration services.

In the first half of the year Business Services has won £256m TCV of new contracts and projects, including the Westfield shopping centres, WPP Group and Hyundai, alongside £553m TCV renewals or extensions including Marks & Spencer, AS Watson and NFU Mutual. The pipeline for Business Services looks promising, with several bids at final stages.

In line with the Group's strategy to lead in the 'Science of Service', Business Services has created a Cleaning & Hygiene Centre of Excellence. This will demonstrate demand-led cleaning – such as our Merlin sensor technology, showcasing new technologies such as robotics and products such as 'Citrox Protect' with laboratory results providing cleaning and hygiene reassurance for our customers.

## Central Government and Defence (CGD)

The CGD business provides facilities management services across central government and defence contracts.

| **CGD, £m** | **H1 FY22** | **H1 FY21** | ***Change*, %** |
|---|---|---|---|
| Revenue including our share of joint ventures and associates | **287.9** | **-** | n.a |
| *Central Government* | *171.2* | - | n.a |
| *Defence* | *116.7* | - | n.a |
| Operating profit before other items | **14.9** | **-** | n.a |
| *Operating profit margin before other items, %* | *5.2%* | - | n.a |
| Order book | £0.9bn | - | n.a |
| Number of employees | 5,800 | - | n.a |

**Performance highlights**

- £288m revenue in H1 FY22, ahead of expectations due to additional project work across the Department for Work and Pensions (DWP) and Home Office/MOJ contracts
- Operating profit of £14.9m includes upfront mobilisation costs for new contracts. Margins in the first half of the year were 5.2%
- Up to £642m TCV new contract wins with Defence Infrastructure Organisation (DIO) (FDIS (Scotland & Northern Ireland)) and FMSP Clyde and renewals or extensions worth £53m, with 100% retention rate
- Partnering with UK Government departments to develop decarbonisation plans
- Our Landmarc JV won the best Capital Project of the year at the UK National GO Excellence in Public Procurement Awards 2021 for Net Zero Accommodation Buildings with the DIO
- Won award for Collaboration at the IWFM Impact Awards 2021 for our work on overseas military bases for DIO

### Operational performance

CGD employs c.5,800 employees across 22 contracts and 27 Government departments and agencies at 3,000 locations across the UK and overseas. This includes maintaining the 1% of the UK land mass that is reserved for the defence training estate.

The focus since becoming part of Mitie has been on retention and extension of contracts – with a 100% success rate so far this year – through investment in technology and people to deliver operational excellence to customers. Technology is being modernised through the introduction of Aria, Mozaic and new Azure Secure Cloud infrastructure and providing customers with a safe and secure return to work environment. In addition, the focus has been on insourcing services formerly provided by third parties, with annual revenue of approximately £20m.

Operationally, CGD has had a strong six months across all UK contracts – adding additional services for customers looking to manage 'back to work' initiatives in the post COVID environment. The strong performance in the UK mitigated a weaker performance for the overseas bases, as COVID and Brexit provided a challenging backdrop to move staff and management between locations.

Earlier in the year, the Group won the FDIS (Scotland and Northern Ireland) and FMSP Clyde contracts, with mobilisations underway and a new contract with Defence Managed Quarantine Services commenced on 1 September 2021. The Home Office contract was extended for a further two years, and further extensions with Department for Transport and Cabinet Office contributed to the 100% renewal rate. The pipeline looks promising with opportunities for the MOD and Government Property Agency.

## Communities

The Communities division includes the former Interserve Communities division and Mitie's Healthcare business, Essex County Council and PFI contracts. Communities focuses on three sectors: Campus & Critical Services, Education and Healthcare. A new management team was put in place at the start of the financial year with a focus on growing the division and turning around underperforming contracts.

| **Communities, £m** | **H1 FY22** | **H1 FY21** | ***Change*, %** |
|---|---|---|---|
| Revenue | **230.3** | **84.9** | *171%* |
| *Campus & Critical* | *28.9* | *-* | *n.a* |
| *Education* | *93.3* | *53.4* | *75%* |
| *Healthcare* | *108.1* | *31.5* | *243%* |
| Operating profit before other items | **11.1** | **5.3** | *109%* |
| *Operating profit margin before other items, %* | *4.8%* | *6.2%* | *(1.4)ppt* |
| Order book | £3.0bn | £1.2bn | *150%* |
| Number of employees | 8,400 | 3,500 | *140%* |

### Performance highlights

- Revenue of £230m increased 171% (H1 FY21: £85m) as the Interserve revenues were included alongside the businesses transferred from Mitie
- Operating profit increased to £11.1m (H1 FY21: £5.3m) following the inclusion of Interserve
- New wins and renewals of £25m TCV across Higher Education (Swansea University) and councils (Southwark Council).
- Order book increased from £1.2bn to £3.0bn due to the addition of the long-term Interserve PFI contracts
- A new contract was won with the John Radcliffe Hospital for cleaning, portering and patient and staff catering in November 2021

**Operational performance**

Since acquiring Interserve on 30 November 2020, a thorough review of over 100 Communities contracts has been undertaken, encompassing operational and financial performance. As highlighted in the FY21 Annual Report and Accounts, Communities has a number of contracts which are underperforming and where provisions have been made for future forecast losses, totalling £15.8m at 30 September 2021. Since 1 April 2021 a turnaround plan has been implemented for each of these contracts focused on embedding new account management where required and on delivering exceptional customer service, but each plan will take some time to deliver an improvement in performance.

Strong progress developing Science of Service through implementation of remote sensor technology (which provides an IT solution for real time updates on cleaning and portering) across five hospital contracts, robotic cleaning (Watford Hospital) and advanced UV cleaning (Hinchingbrooke).

Two contracts won earlier in the year with Swansea University and East & North Hertfordshire were mobilised during the period.

The opportunity to support customers on their decarbonisation journey saw Mitie support Essex County Council, winning a £7m grant to install air source heat pumps, solar panels and window upgrades. Mitie also supported Southwark Council which was awarded £1.3m of funding for air source heat pumps, supporting solar panel installations and building fabric improvements.

## Technical Services

Technical Services delivers engineering services and projects to a range of predominantly private sector clients, with a focus on providing leading edge solutions in Energy, Decarbonisation, Connected Workspace and Telecoms. From 1 April 2021 Technical Services incorporated contracts from the former Business & Industry division of Interserve, including sizeable contracts with the BBC, Nissan, EON and Sellafield. Essex County Council and PFI contracts were transferred to Communities from 1 April 2021 and are therefore excluded from the Technical Services comparative figures.

| **Technical Services, £m** | **H1 FY22** | **H1 FY21** | ***Change*, %** |
|---|---|---|---|
| Revenue | **444.5** | **307.6** | *45%* |
| *Maintenance* | *378.0* | *250.7* | *51%* |
| *Projects* | *66.5* | *56.9* | *17%* |
| Operating profit before other items | **12.7** | **3.0** | *323%* |
| *Operating profit margin before other items, %* | *2.9%* | *1.0%* | *1.9ppt* |
| Order book | £0.9bn | £0.8bn | 9% |
| Number of employees | 9,100 | 7,400 | 23% |

**Performance highlights**

- Revenue of £445m, up 45% as clients recover from COVID impact and the addition of revenue from former Interserve Business & Industry division contracts
- Operating profit of £12.7m (H1 FY21: £3.0m)
- £33m TCV new wins (City of Edinburgh Council and Legal & General); £24m TCV of retentions (Network Rail, Eaton); projects of £78m including energy projects of £36m (10% ahead of same period last year)
- Moving Project Forté into extended testing phase, with a 'Go live' at the start of the new financial year
- Creation and launch of the Manchester TSOC, the command and control centre which will be core to achieving 'Amazon of FM'
- Acquisition and integration of DAEL Ventures UK and Rock Power Connections as we continue to build and grow a presence in the high growth sectors of telecoms and decarbonisation

**Operational performance**

Maintenance works have improved through the period, however the Projects business remains challenging, making slower progress than expected, as material shortages and high material prices are causing customers to delay projects. Customers are returning to their office spaces to varying degrees, with manufacturing strong and the transport sector picking up as airports have re-opened, but footfall is still lower than pre-COVID.

Technical Services has continued to win new business and retain current customers. New contract wins with Aggreko, AF Blakemore, City of Edinburgh Council and Legal & General, alongside enhanced service offerings to Amazon, DWP and Primark, together with renewals or extensions with Network Rail and Primark take the TCV for new wins and renewals to £57m. Strategically Technical Services is focused on growing the Energy, Renewable, and Connected Workspace revenues.

Phase one of Project Forté testing has now been completed, identifying a need to undertake further, extended testing. This extended testing will now take place to ensure a smooth launch of this complex IT solution for the start of the new financial year, with a roll out across 7,000 users, 5 million assets, 2 million jobs and automated billing for the top 800 clients, delivering £15-20m net savings.

Our strategic focus of investing in sectors focusing on high growth businesses such as telecoms and decarbonisation saw us complete the acquisition of DAEL Ventures UK and Rock Power Connections. The acquisition of DAEL closed on 5 August 2021 when it joined the Mitie Telecoms business unit, whilst Rock completed on 1 November 2021, after the period end, and will join the Mitie Energy business unit. Both DAEL Ventures UK and Rock Power Connections are forecast to deliver significant revenue and profit growth over the next three years as they have access to Mitie's customers to scale up.

## Specialist Services

The Specialist Services division encompasses Care & Custody, Landscapes and Waste, with the addition of Interserve's Spanish operations.

| **Specialist Services, £m** | **H1 FY22** | **H1 FY21** | ***Change*, %** |
|---|---|---|---|
| Revenue | **174.3** | **104.9** | *66%* |
| *Care & Custody* | *60.4* | 50.7 | *19%* |
| *Landscapes* | *19.9* | 20.7 | *(4%)* |
| *Spain* | *54.3* | - | *n.a* |
| *Waste* | *39.7* | 33.5 | *19%* |
| Operating profit before other items | **11.1** | **9.5** | *17%* |
| *Operating profit margin before other items, %* | *6.4%* | *9.1%* | *(2.7)ppt* |
| Order book | £0.6bn | £0.6bn | - |
| Number of employees | 10,300 | 3,000 | *243%* |

**Performance highlights**

- Revenue of £174m was 66% higher than the same period last year (H1 FY21: £105m), benefiting from the inclusion of Interserve's Spain operations
- Operating profit of £11.1m (H1 FY21: £9.5m) was ahead of the prior year due to the inclusion of Spain
- Care & Custody won a £66m TCV contract for Dungavel Immigration Removal Centre (IRC) and renewed or extended a number of contracts with Police forces
- Landscapes won £33m TCV of new contracts or projects, with £14m TCV of renewals or extensions. This includes £3.2m of contracts formerly subcontracted by Interserve
- Waste showed strong revenue growth, driven mainly by contracts at COVID testing centres
- Spain revenue of £54m boosted by COVID-related work at numerous airports

**Operational Performance**

**Care & Custody** won a contract for Dungavel IRC (TCV £66m over 8 years) and following a successful mobilisation, the contract went live on 25 September 2021, including the introduction of innovative handheld technology for front line staff. Derwentside IRC (TCV £11m over 2 years), a 'greenfield site' won in Q4 FY21, is also in the process of being mobilised. Within Police Services, contracts for Sussex Police and British Transport Police were successfully renewed in H1 FY22 and extensions were secured for Greater Manchester Police, Cheshire Police and South Wales Police.

These contract wins, renewals and extensions, which have seen an additional 315 staff on-boarded by Care & Custody, are being driven by our high-quality service offerings which are supported by strong technology, information sharing and social value offerings. Care & Custody continues to work very closely with the Home Office to ensure we offer a flexible approach to help deal with the challenges in immigration services, such as ramping up services to deal with the high volume of small boat arrivals on the South Coast during the summer of 2021.

**Landscapes** had a strong performance in the period, supplemented by additional revenue from a cold winter spell in April 2021. Landscapes won £33m TCV of new contracts or projects, with £14m of renewals or extensions and has insourced £3m of contracts from the former Interserve business, including at DWP and supporting CGD on the FDIS contract allowing expansion into Scotland and Northern Ireland with a footprint stretching to 9,000 sites. Renewals in the period include Amazon, West Midlands Trains and NHS.

**Spain** has performed well in the first half of the year, which is typically their strongest period. Revenue and margin were ahead of expectations as they benefited from additional COVID-related activities, particularly at airports.

**Waste** revenue was 19% ahead of prior year driven by testing centres, the insourcing of contracts from Interserve and recovery on contracts as footfall improves. In the first half, all Waste contracts have been renewed or extended.

## Corporate overheads

Corporate overheads represent the costs of running the Group and include costs for central functions such as commercial/business development, finance, marketing, legal and HR. Corporate overhead costs have increased to £30m in H1 FY22 (H1 FY21: £21m). The increase reflects the absorption of central costs from Interserve, higher accruals for share based incentive schemes, based on the improved outlook, and lapping temporary pay reductions during COVID in the prior period.

## Finance review

### Alternative Performance Measures

The Group presents its results as those of continuing operations, before other items. Management believes this is useful for users of the financial statements, providing both a balanced view of the financial statements, and relevant information on the Group's financial performance. Accordingly, the Group separately reports impairment of goodwill, cost of restructuring programmes, acquisition and disposal related costs (including the impairment and amortisation of acquisition related intangible assets), gains or losses on business disposals and other exceptional items as 'Other Items'.

### Financial performance

The reported Income Statement from continuing operations is set out below:

| Continuing operations, £m unless otherwise specified | H1 FY22 | H1 FY21[1] |
|---|---|---|
| Revenue including share of joint ventures and associates | **1,912.0** | 942.8 |
| Group revenue | **1,872.7** | 942.8 |
| Operating profit before other items | **85.0** | 18.2 |
| Other items | **(25.0)** | (11.6) |
| Operating profit | **60.0** | 6.6 |
| Net finance costs | **(10.0)** | (7.5) |
| Profit/(loss) before tax | **50.0** | (0.9) |
| Tax | **(13.2)** | (2.4) |
| Profit/(loss) after tax | **36.8** | (3.3) |
| Basic earnings per share before other items | **4.9p** | 0.9p |
| Basic earnings/(loss) per share | **2.7p** | (0.4)p |

*[1] The Group disposed the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021. The results of these operations are included within discontinued operations.*

### Revenue

Revenue from continuing operations for H1 FY22 of £1,912m, including share of revenue from joint ventures and associates, has increased by 103% compared with the prior year. This significant increase primarily relates to the integration of the Interserve Facilities Management (Interserve) business, increased revenue from COVID-related contracts to £259m (H1 FY21: £32m), and a partial recovery of the Technical Services business, which was heavily hit by COVID in the prior period. The Interserve business was acquired in H2 FY21 and is therefore not included in the prior period figures. Revenue from COVID-related services is expected to significantly reduce in H2 FY22 as the related activities wind down.

### Operating profit

Operating profit from continuing operations before other items was £85.0m (H1 FY21: £18.2m). This significant increase, compared with the prior period, was due to the integration of the Interserve business, the delivery of £12.1m of synergies, the increased contribution from COVID-related contracts of £40.3m, and the partial recovery of the Technical Services business from COVID. These improvements were partly offset by an increase in accruals for share-based payments, reflecting the stronger outlook for the business as it emerges from COVID. Operating profit margin increased to 4.4% (H1 FY21: 1.9%), largely reflecting the contribution from COVID-related contracts.

Operating profit from continuing operations was £60.0m, after accounting for £25.0m of other items in the period.

## Government support

During H1 FY22 the Group continued to make use of the UK Government's Coronavirus Job Retention Scheme as it had done during FY21, and also repaid the £4.1m to the Government relating to furloughed colleagues employed directly at Mitie's own operations that was accrued in FY21 (see Note 2 to the condensed consolidated financial statements).

## Other Items

| **Other Items, £m** | **£m** |
|---|---|
| Interserve acquisition related costs | 0.7 |
| Interserve integration costs | 7.4 |
| Interserve amortisation of acquisition related intangible assets | 10.2 |
| **Sub-total - Interserve related Other Items** | **18.3** |
| Project Forté | 5.1 |
| Amortisation of non-Interserve acquisition related intangible assets | 1.1 |
| Other | 0.5 |
| **Sub-total – Non-Interserve related Other Items** | **6.7** |
| **Total other items from continuing operations before tax** | **25.0** |
| Gain on disposal of Document Management business | (16.0) |
| Other Items related to discontinued operations | 3.0 |
| **Total Other Items before tax** | **12.0** |
| Tax | 5.6 |
| **Total Other Items after tax** | **17.6** |

Other Items in H1 FY22 resulted from the Group's ongoing transformation and M&A activity, which includes Project Forté, costs associated with the Interserve acquisition and integration, and the gain on disposal of the Document Management business.

The Interserve related Other Items primarily relate to the resources being deployed to implement the integration, plus the amortisation charge of £10.2m related to the reduction in the intangible asset value of the acquired customer contracts and relationships, reflecting the passage of time towards the contracts' forecast expiry dates. The acquisition related costs are one-off professional fees, largely associated with the completion accounts process.

Project Forté is focused on re-engineering Technical Services' workflow processes, and is expected to complete by the end of the financial year.

The disposal of the Document Management business was completed on 30 September 2021. Total consideration (before debt-free/cash-free and normalised working capital reductions of £3.3m) was £40.0m, which realised a gain on disposal of £16.0m.

The amortisation of non-Interserve acquisition related intangible assets is primarily associated with Vision Security Group, which was acquired in FY19, and Other Items related to discontinued operations relates to the loss on disposal of operations in the Nordics and Poland, which completed on 1 June 2021.

## Net finance costs

Net finance costs increased by 33% to £10.0m (H1 FY21: £7.5m). The increased costs were principally driven by debt arrangement and amendment fees associated with the June 2020 refinancing and the securing of a relaxation of covenant thresholds, due to the impact of COVID, until September 2022. The negotiation of the new £150m Revolving Credit Facility (RCF) announced in September 2021, together with the agreed refinancing of the US private placement (USPP) notes due to mature in December 2022, will reduce future interest costs by approximately £3m on an annualised basis from December 2022, assuming current levels of utilisation of the RCF.

## Tax

Profit before tax (from continuing operations), before Other Items, of £75.0m (H1 FY21: £10.7m) resulted in a tax charge of £7.6m (H1 FY21: £2.7m), representing an effective tax rate of 10.1% (H1 FY21: 25.2%). Including Other Items, the tax charge for continuing operations was £13.2m (H1 FY21: £2.4m).

The lower effective tax rate for H1 FY22 relates to the increase in the rate of UK corporation tax from 19% to 25%, which will be effective from 1 April 2023 and was substantively enacted during H1 FY22. As a result, deferred tax balances have been recalculated using the higher rate where appropriate, resulting in a £8.2m tax credit before other items related to an increase in net deferred tax assets. If the impact of the tax rate change was excluded, the tax charge on profit before other items from continuing operations would be £15.8m, representing an effective tax rate of 21.1%.

The tax charge for Other Items of £5.6m from continuing operations comprises a tax credit of £4.1m related to other items before tax, and a tax charge of £9.7m in respect of the tax rate change, which resulted in an increase in deferred tax liabilities related to acquired intangible assets.

The Group paid corporation tax of £4.1m in the period (H1 FY21: £1.0m repayment), of which £2.8m was paid in the UK and £1.3m overseas. The H1 FY21 repayment relates solely to the UK.

## Joint ventures and associates

Operating profit for H1 FY22 includes Mitie's share of the results net of tax of joint ventures and associates that were acquired as part of the Interserve transaction, of which £2.8m was reported within operating profit before Other Items and a charge of £1.8m for amortisation of acquired intangible assets was reported within other items.

## Earnings per share

Basic earnings per share before Other Items from continuing operations, increased significantly to 4.9p (H1 FY21: 0.9p). This is as a result of the higher profit before tax, driven by the higher operating profit noted above, combined with the lower effective tax rate.

Basic earnings per share from continuing operations was 2.7p (H1 FY21: loss per share of 0.4p), with the increase reflecting the factors outlined above, partially offset by the impact of the higher level of Other Items in H1 FY22.

### Balance sheet

| £m | H1 FY22 | Restated[1] FY21 | Restated[2] H1 FY21 |
|---|---|---|---|
| Goodwill and intangible assets | **556.2** | 561.0 | 328.9 |
| Property, plant and equipment | **129.2** | 117.9 | 105.6 |
| Interest in joint ventures and associates | **10.5** | 11.0 | - |
| Working capital balances | **(205.2)** | (166.2) | (218.0) |
| Provisions | **(118.1)** | (123.6) | (47.9) |
| Net cash/(debt) | **8.5** | (86.7) | 116.0 |
| Net retirement benefit liabilities | **(32.5)** | (42.5) | (62.0) |
| Deferred tax | **9.4** | 19.8 | 31.3 |
| Other net assets/(liabilities) | **70.2** | 71.1 | (0.7) |
| **Total net assets** | **428.2** | 361.8 | 253.2 |

[1] The comparatives for FY21 have been restated for measurement period adjustments in respect of the Interserve acquisition (see Notes 1 and 16 to the condensed consolidated financial statements)
[2] Working capital and net cash balances for H1 FY21 have been restated due to a change in accounting policy related to BACS payments (see Note 1 to the condensed consolidated financial statements)

Overall, the Group reported net assets of £428.2m at 30 September 2021, which is an increase of £66.4m compared with 31 March 2021, driven mainly by the retained profit for the period from continuing and discontinued operations of £52.2m, which resulted in an improved net cash/(debt) balance.

The acquisition of Interserve increased net assets by £78.7m, compared with 30 September 2020, comprising £131.0m of net assets acquired and the £52.7m receivable related to the provisional adjustment to consideration, partially offset by the £105.0m cash consideration paid, all of which are explained further below.

### Acquisition of Interserve

The acquisition of Interserve was completed on 30 November 2020. At 31 March 2021, provisional values were reported for the acquisition accounting, including £3.3m for goodwill, which was based on £138.7m for the acquired identifiable net assets and liabilities on the balance sheet, and total consideration of £142.0m.

Under IFRS, the value of goodwill must be finalised within a 12-month measurement period from the date of acquisition, which would be 29 November 2021 in the case of Interserve. Adjustments have been made in H1 FY22 reducing the value attributed to the net assets acquired by £7.7m, from £138.7m to £131.0m. This change is predominantly due to an increase in provisions for certain PFI contracts where new information has been received about facts and circumstances that existed as at the acquisition date.

The provisional value of consideration has been revised upwards by £4.9m from £142.0m to £146.9m, which comprises £199.6m of consideration already settled (£105.0m cash paid and £94.6m shares issued) less an adjustment to consideration of £52.7m. The adjustment to consideration largely relates to the completion accounts process and is included as a receivable in the balance sheet as at 30 September 2021 (within Other net assets in the table above). The receivable from the seller has reduced by £4.9m, primarily reflecting the removal of certain liabilities from the acquisition balance sheet, and other completion accounts adjustments. The final outcome of the completion accounts process is inherently uncertain, given that this is subject to a commercial negotiation and an expert determination process, and the final amount agreed could therefore be materially different from the estimate.

As a result of the reduction in the value of the net assets acquired of £7.7m and the increase in consideration of £4.9m, provisional goodwill on the acquisition of Interserve has increased by £12.6m to £15.9m.

Further details on the acquisition of Interserve are set out in Note 16 to the condensed consolidated financial statements.

## Change in accounting policy

As reported in the Annual Report and Accounts 2021, the Group changed its accounting policy in relation to the recognition of BACS payments, whereby BACS payments are now recognised at the settlement date, rather than when they are initiated. This change was implemented in the second half of FY21 as part of the alignment of accounting policies with Interserve and provides operational benefits including simplifying the cash management process and accelerating period end reporting.

As a result of the change in accounting policy, the balance sheet for H1 FY21 has been restated to reclassify amounts between cash and working capital, which has had the result of increasing net cash by £26.3m at 30 September 2020, which compares with a reduction in net debt of £14.9m at 1 April 2020. As a consequence of the accounting policy change, the restated cash generated from operations for H1 FY21 increased by £11.4m.

There has been no impact on the income statement, earnings per share or net assets as a result of this restatement.

## Retirement benefit schemes

Net retirement benefit liabilities have reduced to £32.5m, compared with £42.5m at 31 March 2021, principally due to Mitie's contributions and scheme investment returns, partially offset by a reduction in the discount rate related to movements in corporate bond yields. The net liabilities at 30 September 2021 include a net accounting surplus of £3.1m (FY21: £3.0m) related to a scheme acquired with the Interserve business. There is also an accounting surplus related to a joint venture acquired with Interserve, Mitie's £2.7m share of which is reported within interest in joint ventures and associates on the balance sheet.

The latest funding valuation of the Mitie Group defined benefit scheme as at 31 March 2020, indicated an actuarial deficit of £92.1m. The Group has negotiated a deficit recovery plan with the trustees totalling £93m over seven years, of which £16m has been paid to 30 September 2021.

## Cash flow and net debt

| £m | H1 FY22 | Restated[1] H1 FY21 |
|---|---|---|
| Operating profit before other items (continuing operations) | **85.0** | 18.2 |
| Add back: depreciation, amortisation & impairment | 24.7 | 21.5 |
| Other movements (including Other Items) | (9.8) | (5.9) |
| Working capital movements[1] | 31.2 | 69.4 |
| Cash generated from operations | **131.1** | 103.2 |
| Capex, capital leases, dividends from JVs, interest & tax | (45.2) | (25.5) |
| Free cash inflow | **85.9** | 77.7 |
| Rights issue | - | 191.8 |
| Acquisitions & disposals | 17.1 | - |
| Other | (7.8) | (0.5) |
| Decrease in net debt during the period | **95.2** | 269.0 |
| Closing net cash | **8.5** | 116.0 |
| Average net (debt) | **(59.9)** | (69.3) |
| Leverage covenant | **<0x** | <0x |
| Interest cover covenant | **11.5x** | 9.3x |

[1] Working capital balances for H1 FY21 have been restated due to a change in accounting policy related to BACS payments with an increase in cash generated from operations of £11.4m for H1 FY21 and an increase of £26.3m in net cash at 30 September 2020 (see Note 1 to the condensed consolidated financial statements)

The higher cash generated from operations is largely driven by the increased operating profit before Other Items, due to the factors noted above. Other movements within cash generated from operations include cash outflow on Other Items and pension deficit payments, partially offset by the add back of non-cash charges relating to share-based payments.

Capex, capital leases, dividends from JVs, interest and tax resulted in a cash outflow of £45.2m, which is higher than in the prior year due to increased investment in Project Forté intangible assets and higher lease rentals following the acquisition of Interserve and the associated expansion of the vehicle fleet. Despite this increase, the Group reported increased free cash inflow of £85.9m, compared with the prior period.

The Group received net proceeds of £17.1m from acquisitions and disposals, primarily related to the disposal of the Document Management business (gross proceeds of £40m before debt-free/cash-free and normalised working capital reductions of £3.3m) and the acquisition of DAEL Ventures Limited (consideration of £14.8m). No dividends were paid in the period (H1 FY21: £nil).

## Working capital

Working capital movements for H1 FY22 resulted in a cash inflow of £31.2m (H1 FY21: £69.4m), principally due to higher payables related to delivery of the increase in revenue. Total trade receivables and accrued income were broadly unchanged during the period, despite the significant increase in revenue, reflecting strong working capital management. Working capital movements in H1 FY21 benefited from the TTP scheme described above.

## Net debt

Average daily net debt of £59.9m for H1 FY22 was £9.4m lower than in H1 FY21, despite the benefit in H1 FY21 of taxes deferred under the TTP scheme (and repaid in H2 FY21). Excluding the benefit of TTP, average net debt in H1 FY22 improved by £126m.

The Group reported closing net cash of £8.5m as at 30 September 2021 (FY21: net debt of £86.7m), reflecting strong cash generation from the business in the first half of the year.

## Total Financial Obligations (TFO)

| £m | H1 FY22 | FY21 | Restated[1] H1 FY21 |
|---|---|---|---|
| Net (cash)/debt[1] | (8.5) | 86.7 | (116.0) |
| Supply chain finance | - | - | 4.1 |
| Customer invoice discounting | 59.6 | 51.7 | 73.6 |
| Pension deficit | 32.5 | 42.5 | 62.0 |
| **Total Financial Obligations (TFO)** | **83.6** | **180.9** | **23.7** |

[1] Net cash balance and customer invoice discounting for H1 FY21 have been restated due to a change in accounting policy related to BACS payments (see Note 1 to the condensed consolidated financial statements)

Mitie closed its supply chain finance programme in December 2020. Period-end TFO for H1 FY21 benefited from the proceeds from the rights issue (£191.8m) and deferred tax payments under the TTP scheme (£130m). Since H1 FY21, £105.0m cash has been invested in the Interserve acquisition and remaining TTP amounts have been repaid, resulting in an increase in period-end TFO for FY21, which has subsequently been reduced by strong cash generation from the business in H1 FY22.

## Liquidity and covenants

As at 30 September 2021, the Group had £401.5m of committed funding arrangements. These comprised a £250m RCF maturing in 2022 and £151.5m of USPP notes. The RCF was replaced in October 2021 by a new £150m facility maturing in 2025 on significantly more favourable terms. The refinancing of the £121.5m USPP notes due to mature in December 2022 has been agreed on more favourable terms, with 8–12-year maturities and with a draw down in December 2022. The remaining £30m of USPP notes are due to mature in December 2024.

With effect from 10 June 2021, DBRS Morningstar assigned a credit rating of BBB with a stable outlook to Mitie.

Under the terms of Mitie's new and renegotiated facilities, Mitie's two key covenant ratios are now calculated on a post-IFRS 16 basis, with appropriate adjustments for leases. These are leverage (ratio of consolidated total net borrowings to adjusted consolidated EBITDA) and interest cover (ratio of consolidated EBITDA to consolidated net finance costs), with a maximum of 3.0x and minimum of 4.0x respectively.

As at 30 September 2021, the Group was operating well within these ratios at < 0x leverage and 11.5x interest cover. A reconciliation of the calculations is set out in the table below:

| £m | | H1 FY22 (R12M) | Restated[1] H1 FY21 (R12M) |
|---|---|---|---|
| **Operating profit before other items[2]** | | **129.8** | **74.6** |
| Add: depreciation, amortisation & impairment | | 50.1 | 43.7 |
| **Headline EBITDA** | | **179.9** | **118.3** |
| Add: covenant adjustments[3] | | 14.4 | 7.2 |
| IFRS 16 EBITDA adjustment[4] (H1 FY21 only) | | - | (26.2) |
| Leases adjustment[5] (H1 FY22 onwards) | | (32.7) | - |
| **Consolidated EBITDA** | **(a)** | **161.6** | **99.3** |
| Full-year effect of acquisitions & disposals | | 8.9 | - |
| **Adjusted consolidated EBITDA** | **(b)** | **170.5** | **99.3** |
| **Net finance costs** | | **19.8** | **15.5** |
| Less: covenant adjustments | | (1.9) | (1.7) |
| IFRS 16 finance costs adjustment[4] (H1 FY21 only) | | - | (3.1) |
| Leases adjustment[6] (H1 FY22 onwards) | | (3.8) | - |
| **Consolidated net finance costs** | **(c)** | **14.1** | **10.7** |
| **Interest cover (ratio of (a) to (c))** | | **11.5x** | **9.3x** |
| **Net (cash)** | | **(8.5)** | **(116.0)** |
| Accounting policy change for recognition of BACS | | - | 26.3 |
| Impact of hedge accounting and upfront fees | | 2.4 | 4.3 |
| IFRS 16 net debt adjustment[4] (H1 FY21 only) | | - | (92.9) |
| Leases adjustment[7] (H1 FY22 onwards) | | (114.4) | - |
| **Consolidated total net (cash)** | **(d)** | **(120.5)** | **(178.3)** |
| **Leverage (ratio of (d) to (b))** | | **< 0x** | **< 0x** |

[1] Net cash balance for H1 FY21 has been restated due to a change in accounting policy related to BACS payments (see Note 1 to the condensed consolidated financial statements), however consolidated total net cash for covenant purposes remains unchanged
[2] Continuing and discontinued operations
[3] Covenant adjustments to EBITDA relate to share based payments charges and pension administration expenses and past service costs
[4] IFRS 16 adopted in financial covenants from H1 FY22 onwards
[5] Leases adjustment for EBITDA relates to depreciation charge for leased assets and interest charges for lease liabilities
[6] Leases adjustment for net finance costs relates to interest charges for lease liabilities
[7] Leases adjustment for net cash relates to lease liabilities

## Key risk factors and uncertainties affecting our business

There are a number of potential risk factors and uncertainties that could impact the financial performance of the Group and its future success. These risks and our plans to mitigate them were described in the Group's Annual Report and Accounts for the year ended 31 March 2021 on pages 54 to 65. The risks have not changed materially since 31 March 2021, but more recently we are seeing signs of labour shortages, increases in staff attrition and labour inflation. We are mitigating the former by ensuring our colleagues feel valued and have fair remuneration and rewards packages. The latter is partially recoverable under our contractual terms with customers, and will be further offset by our Group efficiency programme.

## Responsibility statement

The Directors of Mitie Group plc confirm that, to the best of their knowledge:

- the unaudited condensed consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standard 34 *Interim Financial Reporting*; and
- the interim management report as required by rules 4.2.7R and 4.2.8R of the Disclosure Guidance and Transparency Rules, includes a fair review of:
    - important events during the six months ended 30 September 2021 and their impact on the condensed consolidated financial statements;
    - a description of the principal risks and uncertainties for the second half of the year; and
    - related parties' transactions and changes therein.

The names and functions of the Directors of Mitie Group plc are available on the Group's website: www.mitie.com/investors/corporate-governance/our-board.

On behalf of the Board

**Phil Bentley**
Chief Executive Officer
17 November 2021

## INDEPENDENT REVIEW REPORT TO MITIE GROUP PLC

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related notes 1 to 20.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### Directors' responsibilities

The half-yearly financial report is the responsibility of and has been approved by the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group will be prepared in accordance with UK-adopted international accounting standards. The condensed set of financial statements included in this interim financial report has been prepared in accordance with UK-adopted International Accounting Standard 34, "Interim Financial Reporting".

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021 is not prepared, in all material respects, in accordance with UK-adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting its responsibilities in respect of half-yearly financial reporting in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP
Chartered Accountants
London
17 November 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Condensed consolidated income statement
## For the six months ended 30 September 2021

| | Notes | 30 September 2021 Before other items £m | 30 September 2021 Other items[2] £m | 30 September 2021 Total £m | Restated[1] 30 September 2020 Before other items £m | Restated[1] 30 September 2020 Other items[2] £m | Restated[1] 30 September 2020 Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue including share of joint ventures and associates | 2 | **1,912.0** | **–** | **1,912.0** | 942.8 | – | 942.8 |
| Less: share of revenue of joint ventures and associates | | **(39.3)** | **–** | **(39.3)** | – | – | – |
| **Group revenue** | | **1,872.7** | **–** | **1,872.7** | 942.8 | – | 942.8 |
| Cost of sales | | **(1,651.0)** | **–** | **(1,651.0)** | (834.5) | – | (834.5) |
| **Gross profit** | | **221.7** | **–** | **221.7** | 108.3 | – | 108.3 |
| Administrative expenses | | **(139.5)** | **(23.2)** | **(162.7)** | (90.1) | (11.6) | (101.7) |
| Share of profit of joint ventures and associates | | **2.8** | **(1.8)** | **1.0** | – | – | – |
| **Operating profit/(loss)[3]** | 2 | **85.0** | **(25.0)** | **60.0** | 18.2 | (11.6) | 6.6 |
| Finance income | | **–** | **–** | **–** | 0.1 | – | 0.1 |
| Finance costs | | **(10.0)** | **–** | **(10.0)** | (7.6) | – | (7.6) |
| **Net finance costs** | | **(10.0)** | **–** | **(10.0)** | (7.5) | – | (7.5) |
| **Profit/(loss) before tax** | | **75.0** | **(25.0)** | **50.0** | 10.7 | (11.6) | (0.9) |
| Tax | 5 | **(7.6)** | **(5.6)** | **(13.2)** | (2.7) | 0.3 | (2.4) |
| **Profit/(loss) from continuing operations after tax** | | **67.4** | **(30.6)** | **36.8** | 8.0 | (11.3) | (3.3) |
| **Discontinued operations** | | | | | | | |
| Profit/(loss) from discontinued operations before tax | 4 | **3.0** | **13.0** | **16.0** | 3.3 | (3.3) | – |
| Tax | 5 | **(0.6)** | **–** | **(0.6)** | (0.6) | – | (0.6) |
| **Profit/(loss) from discontinued operations after tax** | 4 | **2.4** | **13.0** | **15.4** | 2.7 | (3.3) | (0.6) |
| **Profit/(loss) for the period attributable to owners of the parent** | | **69.8** | **(17.6)** | **52.2** | 10.7 | (14.6) | (3.9) |
| **Earnings/(loss) per share (EPS) attributable to owners of the parent** | | | | | | | |
| From continuing operations: | | | | | | | |
| Basic | 7 | **4.9p** | | **2.7p** | 0.9p | | (0.4)p |
| Diluted | 7 | **4.5p** | | **2.5p** | 0.9p | | (0.4)p |
| Total Group: | | | | | | | |
| Basic | 7 | **5.1p** | | **3.8p** | 1.2p | | (0.4)p |
| Diluted | 7 | **4.7p** | | **3.5p** | 1.2p | | (0.4)p |

Notes:

1. The Group disposed the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021. The results of these operations are included within discontinued operations. Refer to Note 1 and Note 4.
2. Other items are as described in Note 3.
3. Including impairment losses on trade receivables and accrued income of £0.7m (2020: £0.9m gain).

# Condensed consolidated statement of comprehensive income
## For the six months ended 30 September 2021

| | Notes | 30 September 2021 £m | 30 September 2020 £m |
|---|---|---|---|
| **Profit/(loss) for the period** | | **52.2** | (3.9) |
| | | | |
| **Items that will not be reclassified to profit or loss in subsequent periods** | | | |
| Remeasurement of net defined benefit pension liability | 17 | **5.3** | (19.7) |
| Share of other comprehensive expense of joint ventures | | **(0.1)** | – |
| Tax (charge)/credit relating to items that will not be reclassified to profit or loss in subsequent periods | | **(1.0)** | 3.7 |
| | | **4.2** | (16.0) |
| **Items that may be reclassified to profit or loss in subsequent periods** | | | |
| Exchange differences on translation of foreign operations | | **0.8** | 0.2 |
| Loss on hedge of a net investment taken to equity | | **–** | (0.2) |
| Net gains/(losses) on cash flow hedges taken to equity[1] | | **0.2** | (0.6) |
| Tax charge relating to items that may be reclassified | | **–** | (0.1) |
| | | **1.0** | (0.7) |
| | | | |
| **Other comprehensive income/(expense) for the period** | | **5.2** | (16.7) |
| | | | |
| **Total comprehensive income/(expense) for the period attributable to owners of the parent** | | **57.4** | (20.6) |

Note:

1. Net gains/(losses) on cash flow hedges taken to equity include a fair value gain of £3.0m (2020: £4.9m loss) on derivative financial instruments used for hedging private placement notes. This gain is netted against reclassifications related to foreign exchange losses on private placement notes of £2.8m (2020: £4.3m gains).

# Condensed consolidated balance sheet
## As at 30 September 2021

| | Notes | 30 September 2021 £m | Restated[1] 31 March 2021 £m | Restated[2] 30 September 2020 £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | 8 | **288.3** | 294.8 | 278.9 |
| Other intangible assets | | **267.9** | 266.2 | 50.0 |
| Property, plant and equipment[3] | | **129.2** | 117.9 | 105.6 |
| Interest in joint ventures and associates | | **10.5** | 11.0 | – |
| Derivative financial instruments | 14 | **17.6** | 14.6 | 23.1 |
| Other receivables | 9 | **6.4** | 8.3 | – |
| Contract assets | | **1.9** | 2.4 | 2.8 |
| Retirement benefit assets | 17 | **3.1** | 3.0 | – |
| Deferred tax assets | | **30.8** | 32.0 | 34.0 |
| **Total non-current assets** | | **755.7** | 750.2 | 494.4 |
| **Current assets** | | | | |
| Inventories | | **11.0** | 12.7 | 8.3 |
| Trade and other receivables | 9 | **697.2** | 678.8 | 379.7 |
| Contract assets | | **1.4** | 1.5 | 1.5 |
| Derivative financial instruments | | **–** | – | 0.2 |
| Current tax receivable | | **1.9** | 3.5 | – |
| Cash and cash equivalents | 12 | **300.3** | 196.2 | 365.9 |
| **Total current assets** | | **1,011.8** | 892.7 | 755.6 |
| **Total assets** | | **1,767.5** | 1,642.9 | 1,250.0 |
| **Current liabilities** | | | | |
| Trade and other payables | 10 | **(758.4)** | (701.8) | (563.4) |
| Deferred income | | **(85.8)** | (84.8) | (33.5) |
| Current tax payable | | **(4.0)** | (3.8) | (0.7) |
| Financing liabilities | 13 | **(30.6)** | (28.7) | (24.1) |
| Provisions | 11 | **(55.3)** | (55.5) | (36.9) |
| **Total current liabilities** | | **(934.1)** | (874.6) | (658.6) |
| **Net current assets** | | **77.7** | 18.1 | 97.0 |
| **Non-current liabilities** | | | | |
| Trade and other payables | 10 | **(0.5)** | (0.5) | (0.3) |
| Deferred income | | **(25.7)** | (30.1) | (13.1) |
| Financing liabilities | 13 | **(259.2)** | (250.1) | (249.1) |
| Provisions | 11 | **(62.8)** | (68.1) | (11.0) |
| Retirement benefit liabilities | 17 | **(35.6)** | (45.5) | (62.0) |
| Deferred tax liabilities | | **(21.4)** | (12.2) | (2.7) |
| **Total non-current liabilities** | | **(405.2)** | (406.5) | (338.2) |
| **Total liabilities** | | **(1,339.3)** | (1,281.1) | (996.8) |
| **Net assets** | | **428.2** | 361.8 | 253.2 |

Notes:

1. The comparatives as at 31 March 2021 have been restated for measurement period adjustments in respect of the Interserve acquisition. Refer to Note 1 and Note 16.
2. As reported in the Annual Report and Accounts 2021, the Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 30 September 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.
3. Includes right-of-use assets of £105.4m (31 March 2021: £93.6m; 30 September 2020: £84.9m). During the six months ended 30 September 2021, right-of-use assets increased due to property additions of £14.3m and plant and vehicles additions of £16.5m, partially offset by depreciation of £15.0m, impairment of £0.2m, disposal of businesses of £1.5m and modification of lease terms of £2.3m.

## Condensed consolidated balance sheet continued
As at 30 September 2021

| | Notes | 30 September 2021 £m | 31 March 2021 £m | 30 September 2020 £m |
|---|---|---|---|---|
| **Equity** | | | | |
| Share capital | | **35.7** | 35.6 | 29.4 |
| Share premium account | | **130.6** | 130.6 | 130.6 |
| Merger reserve | | **358.6** | 358.6 | 270.2 |
| Own shares reserve | | **(25.8)** | (28.8) | (31.1) |
| Other reserves[1] | | **19.1** | 14.5 | 9.1 |
| Hedging and translation reserve | | **(1.3)** | (2.3) | (1.1) |
| Retained losses | | **(88.7)** | (146.4) | (153.9) |
| **Equity attributable to owners of the parent** | | **428.2** | 361.8 | 253.2 |

Note:
1. Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve.

# Condensed consolidated statement of changes in equity
## As at 30 September 2021

| | Share capital £m | Share premium account £m | Merger reserve £m | Own shares reserve £m | Other reserves[1] £m | Hedging and translation reserve £m | Retained (losses)/ earnings £m | **Total equity £m** |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | **Six months to 30 September 2021** |
| At 1 April 2021 | 35.6 | 130.6 | 358.6 | (28.8) | 14.5 | (2.3) | (146.4) | **361.8** |
| Profit for the period | – | – | – | – | – | – | 52.2 | **52.2** |
| Other comprehensive income | – | – | – | – | – | 1.0 | 4.2 | **5.2** |
| **Total comprehensive income** | – | – | – | – | – | 1.0 | 56.4 | **57.4** |
| **Transactions with owners** | | | | | | | | |
| Issue of shares | 0.1 | – | – | (0.1) | – | – | – | – |
| Share-based payments | – | – | – | 3.1 | 4.6 | – | 0.2 | **7.9** |
| Tax on share-based payments | – | – | – | – | – | – | 1.1 | **1.1** |
| **Total Transactions with owners** | 0.1 | – | – | 3.0 | 4.6 | – | 1.3 | **9.0** |
| **At 30 September 2021** | 35.7 | 130.6 | 358.6 | (25.8) | 19.1 | (1.3) | (88.7) | **428.2** |

Note:

1. Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve.

| | Share capital £m | Share premium account £m | Merger reserve £m | Own shares reserve £m | Other reserves[1] £m | Hedging and translation reserve £m | Retained (losses)/ earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Six months to 30 September 2020 |
| At 1 April 2020 | 9.3 | 130.6 | 99.9 | (34.2) | 9.5 | (0.4) | (134.2) | **80.5** |
| Loss for the period | – | – | – | – | – | – | (3.9) | **(3.9)** |
| Other comprehensive expense | – | – | – | – | – | (0.7) | (16.0) | **(16.7)** |
| **Total comprehensive expense** | – | – | – | – | – | (0.7) | (19.9) | **(20.6)** |
| **Transactions with owners** | | | | | | | | |
| Issue of shares[2] | 20.1 | – | 173.3 | – | – | – | – | **193.4** |
| Rights issue expenses[3] | – | – | (3.0) | – | – | – | – | **(3.0)** |
| Share-based payments | – | – | – | 3.1 | (0.4) | – | 0.2 | **2.9** |
| **Total Transactions with owners** | 20.1 | – | 170.3 | 3.1 | (0.4) | – | 0.2 | **193.3** |
| **At 30 September 2020** | 29.4 | 130.6 | 270.2 | (31.1) | 9.1 | (1.1) | (153.9) | **253.2** |

Notes:

1. Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve.
2. The rights issue utilised a cash box structure and therefore qualified for merger relief under Section 612 of the Companies Act 2006, so that premium arising of £173.3m was not required to be credited to the share premium account.
3. Under the cash box structure, the Group received £193.4m from the rights issue, after deduction of issue costs of £7.9m. The remaining £3.0m of rights issue expenses were payable by the Group and have been charged against the merger reserve.

# Condensed consolidated statement of cash flows
## For the six months ended 30 September 2021

| | Notes | 30 September 2021 £m | Restated[1] 30 September 2020 £m |
|---|---|---|---|
| Continuing operations – operating profit before other items[2] | 2 | **85.0** | 18.2 |
| Continuing operations – other items[2] | 3 | **(25.0)** | (11.6) |
| Discontinued operations – operating profit after other items[2] | 4 | **15.9** | – |
| Adjustments for: | | | |
| Share-based payments expense | | **7.9** | 2.9 |
| Defined benefit pension costs | 17 | **2.0** | 0.9 |
| Defined benefit pension contributions | 17 | **(7.0)** | (5.9) |
| Depreciation of property, plant and equipment | | **19.3** | 16.2 |
| Amortisation of intangible assets | | **13.5** | 5.7 |
| Amortisation of customer contracts and relationships for joint ventures arising on business combinations | | **1.8** | – |
| Share of profit of joint ventures and associates | | **(2.8)** | – |
| Amortisation of contract assets | | **0.8** | 0.8 |
| Impairment of non-current assets | | **1.5** | 2.9 |
| Loss on disposal of property, plant and equipment | | **–** | 0.3 |
| (Gain)/loss on disposal of businesses | 4 | **(13.0)** | 3.0 |
| Other | | **–** | 0.4 |
| **Operating cash flows before movements in working capital** | | **99.9** | 33.8 |
| | | | |
| Decrease/(increase) in inventories | | **1.6** | (3.5) |
| (Increase)/decrease in receivables[1] | | **(14.6)** | 36.4 |
| Decrease/(increase) in contract assets | | **0.3** | (0.4) |
| Decrease in deferred income | | **(3.0)** | (4.9) |
| Increase in payables[1] | | **55.1** | 46.8 |
| Decrease in provisions | | **(8.2)** | (5.0) |
| **Cash generated from operations** | | **131.1** | 103.2 |
| | | | |
| Income taxes (paid)/received | 5 | **(4.1)** | 1.0 |
| Interest paid[3] | | **(9.8)** | (6.5) |
| **Net cash generated from operating activities** | | **117.2** | 97.7 |
| | | | |
| **Investing activities** | | | |
| Acquisition of businesses, net of cash acquired[4] | 16 | **(13.4)** | – |
| Disposal of businesses, net of cash disposed[5] | 4 | **30.5** | – |
| Interest received | | **–** | 0.2 |
| Purchase of property, plant and equipment | | **(2.8)** | (2.3) |
| Dividends received from joint ventures and associates | | **1.5** | – |
| Purchase of other intangible assets | | **(12.3)** | (5.6) |
| Disposal of property, plant and equipment | | **0.3** | – |
| **Net cash generated from/(used In) investing activities** | | **3.8** | (7.7) |

Notes:

1. As reported in the Annual Report and Accounts 2021, the Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives on the consolidated statement of cash flows for the six months ended 30 September 2020 have been restated, with an overall increase in net cash inflow of £11.4m due to an increase in payables of £11.6m and an increase in receivables of £0.2m.
2. The Group disposed the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021. The results of these operations are included within discontinued operations. Operating profit after other items from discontinued operations comprises profit before net finance income and tax of £2.9m (2020 restated: £3.0m) and gain on disposal before tax of £13.0m (2020: £3.0m loss). Refer to Note 1 and Note 4.
3. Interest paid includes £1.9m (2020: £1.6m) in relation to lease liabilities.
4. Acquisition of businesses is net of cash acquired of £1.4m (2020: £nil).
5. Disposal of businesses is net of cash disposed of £6.1m (2020: £nil) and transaction costs paid for disposals of £0.4m (2020: £nil). See Note 4.

# Condensed consolidated statement of cash flows continued
## For the six months ended 30 September 2021

| | Notes | 30 September 2021 £m | Restated[1] 30 September 2020 £m |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from issue of ordinary shares, net of issue costs | | – | 193.4 |
| Rights issue expenses paid | | – | (1.6) |
| Capital element of lease rentals | | **(17.1)** | (12.3) |
| Repayment of bank loans | | – | (40.6) |
| Payment of arrangement fees | | – | (2.8) |
| **Net cash generated/(used) in financing activities** | | **(17.1)** | 136.1 |
| Net increase in cash and cash equivalents | | **103.9** | 226.1 |
| Net cash and cash equivalents at beginning of the period | | **196.2** | 139.5 |
| Effect of foreign exchange rate changes | | **0.2** | 0.3 |
| **Net cash and cash equivalents at end of the period** | 12 | **300.3** | 365.9 |

Note:

1. As reported in the Annual Report and Accounts 2021, the Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives on the consolidated statement of cash flows for the period ended 30 September 2020 have been restated, with an overall increase in net cash inflow of £11.4m due to an increase in payables of £11.6m and an increase in receivables of £0.2m, and an increase in the comparative net cash and cash equivalents at 30 September 2020 and 31 March 2020 of £26.3m and £14.9m respectively.

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 4.

| Reconciliation of net cash flow to movements in net debt | Notes | 30 September 2021 £m | Restated[1] 30 September 2020 £m |
|---|---|---|---|
| Net increase in cash and cash equivalents | | **103.9** | 226.1 |
| Less: increase in restricted cash | | **(0.9)** | – |
| Net increase in unrestricted cash and cash equivalents | | **103.0** | 226.1 |
| **Cash drivers** | | | |
| Repayment of bank loans | | – | 40.6 |
| Payment of arrangement fees | | – | 2.8 |
| Capital element of lease rentals | | **17.1** | 12.3 |
| **Non-cash drivers** | | | |
| Non-cash movement in bank loans | | **(0.7)** | (0.4) |
| Non-cash movement in private placement notes and associated hedges | | **0.2** | (0.6) |
| Non-cash movement in lease liabilities[2] | | **(24.7)** | (12.0) |
| Effect of foreign exchange rate changes | | **0.3** | 0.2 |
| Decrease in net debt during the period | | **95.2** | 269.0 |
| Opening net debt | | **(86.7)** | (153.0) |
| **Closing net cash** | 15 | **8.5** | 116.0 |

Notes:

1. As reported in the Annual Report and Accounts 2021, the Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparative net cash/debt as at 30 September 2020 and 31 March 2020 have been restated leading to an increase in net cash of £26.3m and a decrease in net debt of £14.9m respectively.
2. Includes lease liabilities in relation to property additions of £13.2m (2020: £13.1m) and plant and vehicles additions of £16.8m (2020: £13.1m), partially offset by disposal of businesses of £1.7m (2020: £nil) and modification of lease terms of £3.6m (2020: £1.1m).

## 1. Basis of preparation and significant accounting policies

### Basis of preparation

Mitie Group plc (the Company) is a company incorporated in the United Kingdom and registered in Scotland. The Company's registered office is at 35 Duchess Road, Rutherglen, Glasgow, G73 1AU. The Group comprises the Company and all its subsidiaries. These unaudited condensed consolidated financial statements (the 'condensed consolidated financial statements') for the six months ended 30 September 2021 have been prepared in accordance with the UK-adopted International Accounting Standard 34, *Interim Financial Reporting,* and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The condensed consolidated financial statements have been reviewed by BDO LLP but have not been audited. They do not include all the information and disclosures required in the annual financial statements, and therefore should be read in conjunction with the Group's consolidated financial statements for the year ended 31 March 2021.

These condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 March 2021 has been delivered to the Registrar of Companies and is available upon request from the Company's registered office or at mitie.com/investors. The independent auditor's report for the year ended 31 March 2021 was unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

The condensed consolidated financial statements were approved by the Board of Directors on 17 November 2021.

### Going concern

The condensed consolidated financial statements for the period ended 30 September 2021 have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the Group's business activities as set out on pages 8 to 29 of the 2021 Annual Report and Accounts, the principal risks and uncertainties as set out on pages 54 to 65 and the viability statement on page 66 of the same.

The Directors have carried out an assessment of the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the condensed consolidated financial statements (the Going Concern Assessment Period). This assessment was based on the latest forecasts using the Group's cash flow model (the Base Case Forecasts), which has been reviewed by the Board. This includes the ongoing impact of COVID-19 on each of the Group's operations. These Base Case Forecasts indicate that the debt facilities currently in place are adequate to support the Group over the Going Concern Assessment Period.

The Group's principal debt financing arrangements as at 30 September 2021 were a £250m revolving credit facility maturing in December 2022 of which £241.4m was undrawn at 30 September 2021, and £151.5m of US private placement (USPP) notes (being the repayment amount after taking account of the cross-currency swaps hedging the principal amount), of which £121.5m are due to mature in December 2022. The revolving credit facility was replaced in October 2021 by a new £150m facility maturing in October 2025 (with an option to extend for a further year, subject to lenders' approval), on significantly more favourable terms. The issue of £120.0m of new USPP notes has also been agreed, under a delayed funding arrangement in December 2022, avoiding any overlap with the existing £121.5m of notes that mature in the same month. The new notes are split equally between 8, 10 and 12 year maturities, and will be issued with an average coupon that is significantly below the current coupon. The remaining £30m of USPP notes are due to mature in December 2024, which is outside of the Going Concern Assessment Period. 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.

Mitie currently operates within the terms of its agreements with its lenders, with consolidated net cash (i.e. net cash adjusted for covenant purposes, including the exclusion of lease liabilities) of £120.5m at 30 September 2021. The Base Case Forecasts indicate that the Group will continue to operate within these terms and that the headroom provided by the Group's strong cash position and the debt facilities currently in place is adequate to support the Group over the Going Concern Assessment Period.

The Directors have also completed reverse stress tests using the Group cash flow model to assess the point at which the covenants, or facility headroom, would be breached. The sensitivities considered have been chosen after considering the Group's principal risks and uncertainties.

The primary financial risks related to adverse changes in the economic environment and / or a deterioration in commercial or operational conditions are listed below. These risks have been considered in the context of the potential further impact of COVID-19, taking into account the continued success of the vaccine roll-out, easing of restrictions and improvements in the economy:

- A downturn in revenues: this reflects the risks of not being able to deliver services to existing customers, or contracts being terminated or not renewed;
- A deterioration of gross margin: this reflects the risks of contracts being renegotiated at lower margins, or planned cost savings not being delivered;
- An increase in costs: this reflects the risks of a shortfall in planned overhead cost savings, including the integration synergies identified as a result of the Interserve acquisition not being delivered, or other cost increases such as sustained higher cost inflation; and
- A downturn in cash generation: this reflects the risks of customers delaying payments due to liquidity constraints, the removal of ancillary debt facilities or any substantial one-off settlements related to commercial issues.

As a result of completing this assessment, the Directors concluded that the likelihood of the reverse stress scenarios arising was remote. In reaching the conclusion of remote, the Directors considered the following:

- The improvement in trading for the Group up to the end of October 2021, compared with the more severe initial adverse impact of COVID-19, in the context of the continued easing of UK lockdown measures and anticipated economic recovery.
- All reverse stress test scenarios would require a very severe deterioration compared to the Base Case Forecasts. Revenue is considered to be the key risk, as this is less within the control of management. Revenue would need to decline by approximately 30% in the year ending 31 March 2022, compared to the Base Case Forecasts, which is considered to be very severe given the high proportion of Mitie's revenue that is fixed in nature and the fact that in a COVID-hit year, Mitie's revenue excluding Interserve declined by only 1.6% for the year ended 31 March 2021.

- In the event that results started to trend significantly below those included in the Base Case Forecasts, additional mitigation actions have been identified that would be implemented, which are not factored into the reverse stress test scenarios. These include cancellation of discretionary bonuses and reduced discretionary spend, including capital investments.

Based on these assessments, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of these condensed consolidated financial statements. In addition, the Directors have concluded that the likelihood of the reverse stress scenarios arising is remote and therefore no material uncertainty exists.

## Prior year accounting policy change

On 30 November 2020, the Group acquired Interservefm (Holdings) Limited (Interserve) and undertook a review to align accounting policies across the enlarged Group. It was identified that Mitie's accounting policy in relation to accounting for Banker's Automated Clearing System (BACS) payments was different to that historically applied by Interserve. Mitie's accounting policy was to recognise BACS payments and receipts at the initiation date, whereas Interserve's was to recognise BACS payments and receipts at the settlement date. Following a review, it was decided to change Mitie's accounting policy in the Annual Report and Accounts 2021 for the year ended 31 March 2021 and recognise BACS payments and receipts at the settlement date, as this would have operational benefits including simplifying the cash management process and accelerating period end reporting.

The change in accounting policy was accounted for retrospectively, and accordingly, the comparative information for 30 September 2020 has been restated which has resulted in a reclassification between trade receivables, trade payables and cash and cash equivalents. As a consequence, net debt has also been restated (as set out in the table below) and cash generated from operations has also been restated (as set out in the footnotes to the statement of consolidated cash flows). There has been no impact on the income statement, earnings per share or net assets.

The impact of the restatement on the consolidated balance sheet at 30 September 2020 is shown below.

| 30 September 2020 | As reported £m | Reclassification £m | **As restated £m** |
|---|---|---|---|
| Cash and cash equivalents | 339.6 | 26.3 | **365.9** |
| Current trade and other receivables | 368.0 | 11.7 | **379.7** |
| Current trade and other payables | (525.4) | (38.0) | **(563.4)** |
| Net current assets | 97.0 | – | **97.0** |
| Net assets | 253.2 | – | **253.2** |
| Net cash | 89.7 | 26.3 | **116.0** |

## Significant accounting policies

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements for the year ended 31 March 2021. This change constituted a change in accounting framework. However, there was no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

In preparing the condensed consolidated financial statements, the Group's accounting policies and methods of computation were the same as those that applied in the preparation of the Group's consolidated financial statements for the year ended 31 March 2021, which were prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

None of the new standards and amendments that are effective for the first time for the year ending 31 March 2022 have had a material effect on the Group.

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

**Statutory and non-statutory measures of performance**

As a result of the non-statutory measures of performance presented in the condensed consolidated financial statements, the accounting policy used in determining the non-statutory measures of performance is set out below which has remained unchanged in the six months ended 30 September 2021.

In the condensed consolidated 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 related 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 3.

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 condensed consolidated financial statements.

## Critical accounting judgements and key sources of estimation uncertainty

In preparing the condensed consolidated financial statements, the critical judgements made by management in the process of applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the preparation of the Group's consolidated financial statements for the year ended 31 March 2021, with the exception of updates detailed below.

**Critical judgements in applying the Group's accounting policies**

*Business combinations - purchase price allocation*
When the Group completes a business combination, the fair values of the identifiable assets and liabilities acquired are recognised through a purchase price allocation process, the determination of which requires management judgement.

*Interserve acquisition*
The Group completed the acquisition of Interserve on 30 November 2020. Under IFRS 3 *Business Combinations*, the fair value of assets and liabilities must be finalised within a 12-month measurement period following the date of acquisition, which would be 29 November 2021 in the case of Interserve. During the period the Group performed further analysis of balances acquired as part of the Interserve transaction and has decreased the net identifiable assets acquired as reported at 31 March 2021 by £7.7m to £131.0m. This is predominantly due to increases in provisions for certain PFI contracts where new information has been received about facts and circumstances that existed as at the acquisition date, which in management's judgement, if known would have affected the measurement of the amounts recognised at the acquisition date.

The provisional value of the consideration for the Group's acquisition of Interserve, has increased by £4.9m to £146.9m. This is due to a reduction in management's best estimate of the amount expected to be received through the completion accounts process and other mechanisms allowed by the Sale and Purchase Agreement (SPA), from £57.6m to £52.7m, primarily reflecting removal of certain liabilities on the acquisition balance sheet and adjustments arising from the completion accounts process. The outcome of the completion accounts process continues to be inherently uncertain, given that this is subject to a commercial negotiation and an expert determination process, and the final amount agreed could therefore be materially different from the estimate.

The changes made to the purchase price allocation have resulted in an increase in the provisional goodwill balance of £12.6m to £15.9m which has been retrospectively adjusted (see Note 16).

The impact of the retrospective adjustment on the consolidated balance sheet at 31 March 2021 is shown below.

| 31 March 2021 | As reported £m | Reclassification £m | As restated £m |
|---|---|---|---|
| Goodwill | 282.2 | 12.6 | **294.8** |
| Total non-current assets | 737.6 | 12.6 | **750.2** |
| Current trade and other receivables | 683.6 | (4.8) | **678.8** |
| Current trade and other payables | (701.5) | (0.3) | **(701.8)** |
| Current deferred income | (84.5) | (0.3) | **(84.8)** |
| Current provisions | (48.3) | (7.2) | **(55.5)** |
| Net current assets | 30.7 | (12.6) | **18.1** |
| Net assets | 361.8 | – | **361.8** |

The fair value of consideration and goodwill recognised are provisional given that the 12-month measurement period, following the date of acquisition, had not yet expired at 30 September 2021.

*DAEL acquisition*
On 5 August 2021, the Group completed the acquisition of DAEL Ventures Limited (DAEL). The most significant fair value adjustment related to attributing value to the acquired intangible assets recognised in the form of customer contracts and relationships.

In determining the fair value of DAEL's customer contracts and relationships, the Group used forecast customer cash flows from the contracts and expected renewal rates and applied an appropriate discount rate specific to the asset. In determining the cash flows, management used judgement to estimate revenue growth, profit margins, contract renewal probability and the average contract duration remaining as well as the discount rate. This analysis indicated a provisional fair value for customer contracts and relationships of £5.0m with a corresponding provisional deferred tax liability in relation to those intangible assets of £1.2m.

*Classification of disposed businesses as discontinued operations*
On 1 June 2021, the Group completed the sale of Mitie Norge AS, Mitie Sverige AB and Mitie Polska Sp z.o.o (together, the Nordics and Poland operations). On 30 September 2021, the Group also completed the sale of Mitie Business Services Limited and Mitie Business Services UK Limited (together, the Document Management business).

The results of the Nordics and Poland operations have been classified as discontinued operations as the disposal related to specific geographical areas of operations and was part of a single co-ordinated plan. The results of the Document Management business have been classified as discontinued operations as the disposed business represented a separate major line of business and the disposal was part of a single co-ordinated plan. Comparative information has been re-presented to show the results of the Nordics and Poland operations and the Document Management business as discontinued operations.

*Allocation of disposed goodwill*
The Group adopted a relative value approach to allocate goodwill to the disposed businesses. As a result, goodwill of £1.4m and £14.4m were allocated to the Nordics and Poland operations and the Document Management business, respectively. These amounts are included in the net assets for the disposed businesses used in the determination of the gain or loss on disposal. Further details are included in Note 4.

**Key sources of estimation uncertainty**

*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 30 September 2021 of £118.1m (31 March 2021 restated: £123.6m). Further details are included in Note 11.

The Group has disclosed a contingent liability in relation to a cyber incident. On 13 May 2020, Interserve Group Limited ('IGL') announced it was subject to a cyber-attack which affected elements of IGL's IT systems (including enterprise resource planning and human resource systems), including elements related to Interserve. The Information Commissioner's Office (the ICO) has advised IGL that it considers it likely that IGL or members of the Interserve Group (which could include Interserve) are in breach or likely to be in breach of certain articles of the UK GDPR and likely to be subject to regulatory action in respect of the matter which could result in a remedial order or fine. Management cannot predict the results of the ICO investigation and therefore the Group is unable to reliably estimate the amount of any potential fine at the reporting date. It has therefore been disclosed as a contingent liability due to uncertainty regarding the amount of the liability. Further details are included in Note 18.

*Onerous contract provisions*
Onerous contract provisions totalling £15.8m have been recognised at 30 September 2021 (31 March 2021 restated: £17.6m). These primarily arose on the acquisition of Interserve and include a measurement period adjustment of £6.4m (See Note 16).

The Group assesses whether a contract is onerous on an individual basis at each reporting date. Determining the carrying value of onerous contract provisions requires assumptions and complex judgements to be made about the future performance of the Group's contracts. The level of uncertainty in the estimates made, either in determining whether a provision is required, or in the measurement of a provision booked, is linked to the complexity of the underlying contract.

The major sources of judgement when measuring the level of provision to book are:

- The level of accuracy in forecasting future variable revenue and costs to complete the contract;
- The ability of the Group to maintain or improve operational performance to ensure cost assumptions are in line with expected levels, including contract specific KPIs;
- Identifying cost saving initiatives that are considered to be reasonably certain in terms of timing and scale; and
- Expectations around the resolution of contract specific disputes and the likelihood of incurring future costs associated with remediation or reactive work.

The future range of possible outcomes in respect to judgements and assumptions made to determine the carrying value of the Group's onerous contract provisions could result in a material increase or decrease in the value of the provisions, and hence on the Group's profitability in the next financial year. To mitigate this, management regularly compares actual contract performance against previous forecasts used to measure the onerous contract provisions and considers if revised judgements are required.

The Directors have assessed the range of possible outcomes on contracts requiring an onerous contract provision, based on facts and circumstances that were present and known at the balance sheet date. To the extent that sensitivities around the major sources of judgement identified above in measuring the provision are, in aggregate, those factors affecting the potential contract outcomes, the assessed range of possible outcomes on these contracts in the next financial year could potentially lead to a gain of up to £13.0m or a further loss of up to £16.2m being recognised.

## 2. Business segment information

At 30 September 2021, the Group had eight reportable segments and the information, as reported, is consistent with information presented to the Board of Directors, which is the Group's chief operating decision maker. Revenue including share of joint ventures and associates, 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 six months ended 30 September 2020 has been represented to reflect changes in management reporting, implemented during the six months ended 30 September 2021. Mitie has reorganised its divisional structure into eight reportable segments: Business Services, Technical Services, Central Government & Defence (CGD), Communities, Care & Custody, Landscapes, Waste and Spain. As part of the reorganisation, three new divisions have been formed following the acquisition of Interserve, namely Communities, CGD and Spain. In addition, Mitie's PFI and Healthcare operations have moved to Communities from Technical Services and Business Services respectively. Care & Custody, Landscapes, Waste and Spain 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.

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

### Income statement information

| | Six months ended 30 September 2021 | | | Restated[4] Six months ended 30 September 2020 | | |
|---|---|---|---|---|---|---|
| | **Revenue[1] £m** | **Operating profit/(loss) before other items[2] £m** | **Operating margin before other items[2] %** | Revenue £m | Operating profit/(loss) before other items[2] £m | Operating margin before other items[2] % |
| Business Services | **775.0** | **65.2** | **8.4** | 445.4 | 20.9 | 4.7 |
| Technical Services | **444.5** | **12.7** | **2.9** | 307.6 | 3.0 | 1.0 |
| CGD | **287.9** | **14.9** | **5.2** | – | – | – |
| Communities | **230.3** | **11.1** | **4.8** | 84.9 | 5.3 | 6.2 |
| Specialist Services | **174.3** | **11.1** | **6.4** | 104.9 | 9.5 | 9.1 |
| *Care & Custody* | ***60.4*** | ***3.4*** | ***5.6*** | *50.7* | *3.5* | *6.9* |
| *Landscapes* | ***19.9*** | ***0.5*** | ***2.5*** | *20.7* | *2.8* | *13.5* |
| *Waste* | ***39.7*** | ***4.5*** | ***11.3*** | *33.5* | *3.2* | *9.6* |
| *Spain* | ***54.3*** | ***2.7*** | ***5.0*** | – | – | – |
| Corporate centre | **–** | **(30.0)** | **–** | – | (20.5) | – |
| **Continuing operations** | **1,912.0** | **85.0** | **4.4** | 942.8 | 18.2 | 1.9 |
| Nordics and Poland | **1.9** | **0.1** | **5.3** | 6.6 | 0.4 | 6.1 |
| Document Management | **25.5** | **2.8** | **11.0** | 23.0 | 2.9 | 12.6 |
| **Discontinued operations** | **27.4** | **2.9** | **10.6** | 29.6 | 3.3 | 11.1 |
| **Total** | **1,939.4** | **87.9** | **4.5** | 972.4 | 21.5 | 2.2 |

Notes:

1. Revenue includes share of joint ventures and associates.
2. Other items are as described in Note 3.
3. No single customer accounted for more than 10% of external revenue in the six months ended 30 September 2021 or in the comparative period. The UK Government is not considered a single customer.
4. Re-presented to classify the Document Management business and operations in the Nordics and Poland as discontinued operations. See Note 4. Certain administrative expenses previously allocated to Nordics and Poland and Document Management, which have been retained within the Group, have been reclassified to continuing operations.

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

| | Six months ended 30 September 2021 | | | Restated[1] Six months ended 30 September 2020 | | |
|---|---|---|---|---|---|---|
| | **From continuing operations £m** | **From discontinued operations £m** | **Total Group £m** | From continuing operations £m | From discontinued operations £m | Total Group £m |
| Operating profit before other items[2] | **85.0** | **2.9** | **87.9** | 18.2 | 3.3 | 21.5 |
| Other items[3] | **(25.0)** | **13.0** | **(12.0)** | (11.6) | (3.3) | (14.9) |
| Net finance (costs)/income | **(10.0)** | **0.1** | **(9.9)** | (7.5) | – | (7.5) |
| **Profit/(loss) before tax** | **50.0** | **16.0** | **66.0** | (0.9) | – | (0.9) |

Notes:

1. The Group discontinued the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021. Refer to Note 1.
2. Operating profit before other items has increased by £9.4m (2020: £37.1m) as a result of UK Government grants received under the Coronavirus Job Retention Scheme. During the period, the £4.1m which was accrued at 31 March 2021 relating to furloughed colleagues employed directly at Mitie's own operations, was repaid to the UK Government.
3. Other items are as described in Note 3.

## Disaggregated revenue

The Group disaggregates revenue from contracts with customers by sector (public and private) 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.

| | Six months ended 30 September 2021 | | | | | |
|---|---|---|---|---|---|---|
| | | | Sector[1,2] | Contract duration for timing of revenue recognition[2] | | |
| | Public sector £m | Private sector £m | Total £m | Less than 2 years £m | More than 2 years £m | Total £m |
| Business Services | **364.0** | **411.0** | **775.0** | **327.5** | **447.5** | **775.0** |
| Technical Services | **124.7** | **319.8** | **444.5** | **61.2** | **383.3** | **444.5** |
| CGD | **250.1** | **37.8** | **287.9** | **22.5** | **265.4** | **287.9** |
| Communities | **228.0** | **2.3** | **230.3** | **1.8** | **228.5** | **230.3** |
| Specialist Services | **123.2** | **51.1** | **174.3** | **71.7** | **102.6** | **174.3** |
| *Care & Custody* | ***60.4*** | – | ***60.4*** | – | ***60.4*** | ***60.4*** |
| *Landscapes* | ***7.2*** | ***12.7*** | ***19.9*** | ***5.9*** | ***14.0*** | ***19.9*** |
| *Waste* | ***17.2*** | ***22.5*** | ***39.7*** | ***19.6*** | ***20.1*** | ***39.7*** |
| *Spain* | **38.4** | ***15.9*** | ***54.3*** | ***46.2*** | ***8.1*** | ***54.3*** |
| **Continuing operations** | **1,090.0** | **822.0** | **1,912.0** | **484.7** | **1,427.3** | **1,912.0** |
| Nordics and Poland | – | **1.9** | **1.9** | – | **1.9** | **1.9** |
| Document Management | **1.7** | **23.8** | **25.5** | **0.1** | **25.4** | **25.5** |
| **Discontinued operations** | **1.7** | **25.7** | **27.4** | **0.1** | **27.3** | **27.4** |
| **Total** | **1,091.7** | **847.7** | **1,939.4** | **484.8** | **1,454.6** | **1,939.4** |

Notes:

1. Sector is defined by the end customer on any contract. For example, if the Group is a subcontractor to a company repairing a public sector building, then the contract would be classified as public sector.
2. Revenue includes share of joint ventures and associates.

| | Restated[2] Six months ended 30 September 2020 | | | | | |
|---|---|---|---|---|---|---|
| | | | Sector[1] | Contract duration for timing of revenue recognition | | |
| | Public sector £m | Private sector £m | Total £m | Less than 2 years £m | More than 2 years £m | Total £m |
| Business Services | 83.9 | 361.5 | 445.4 | 143.5 | 301.9 | 445.4 |
| Technical Services | 57.9 | 249.7 | 307.6 | 22.7 | 284.9 | 307.6 |
| CGD | – | – | – | – | – | – |
| Communities | 84.5 | 0.4 | 84.9 | 3.7 | 81.2 | 84.9 |
| Specialist Services | 67.7 | 37.2 | 104.9 | 23.3 | 81.6 | 104.9 |
| *Care & Custody* | *50.6* | *0.1* | *50.7* | *1.1* | *49.6* | *50.7* |
| *Landscapes* | *5.7* | *15.0* | *20.7* | *10.0* | *10.7* | *20.7* |
| *Waste* | *11.4* | *22.1* | *33.5* | *12.2* | *21.3* | *33.5* |
| *Spain* | – | – | – | – | – | – |
| **Continuing operations** | 294.0 | 648.8 | 942.8 | 193.2 | 749.6 | 942.8 |
| Nordics and Poland | – | 6.6 | 6.6 | – | 6.6 | 6.6 |
| Document Management | 1.7 | 21.3 | 23.0 | 0.1 | 22.9 | 23.0 |
| **Discontinued operations** | 1.7 | 27.9 | 29.6 | 0.1 | 29.5 | 29.6 |
| **Total** | 295.7 | 676.7 | 972.4 | 193.3 | 779.1 | 972.4 |

Notes:

1. Sector is defined by the end customer on any contract. For example, if the Group is a subcontractor to a company repairing a public sector building, then the contract would be classified as public sector.
2. Re-presented to classify the Document Management business and operations in Nordics and Poland as discontinued operations.

## 3. 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 related costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items as other items, together with their related tax effect:

| | Six months ended 30 September 2021 | | | | |
|---|---|---|---|---|---|
| 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** | **(4.9)** | **(20.1)** | **–** | **–** | **(25.0)** |
| Tax[1] | **1.3** | **(6.9)** | **–** | **–** | **(5.6)** |
| Other items after tax | **(3.6)** | **(27.0)** | **–** | **–** | **(30.6)** |
| Discontinued operations | | | | | |
| **Other items before tax** | **–** | **–** | **13.0** | **–** | **13.0** |
| Tax | **–** | **–** | **–** | **–** | **–** |
| **Other items after tax** | **–** | **–** | **13.0** | **–** | **13.0** |
| Total Group | | | | | |
| **Other items before tax** | **(4.9)** | **(20.1)** | **13.0** | **–** | **(12.0)** |
| Tax | **1.3** | **(6.9)** | **–** | **–** | **(5.6)** |
| **Other items after tax** | **(3.6)** | **(27.0)** | **13.0** | **–** | **(17.6)** |

Note:

1. Includes £9.7m charge as a result of the increase in the rate of UK corporation tax from 1 April 2023. This primarily relates to the remeasurement of the deferred tax liability on the customer contracts and relationships intangible arising on the acquisition of Interserve. See Note 5.

| | Six months ended 30 September 2020[1] | | | | |
|---|---|---|---|---|---|
| Continuing operations | Restructure costs £m | Acquisition & disposal related costs £m | Loss on disposal £m | Other exceptional items[2] £m | Total £m |
| **Other items within administrative expenses before tax** | (7.7) | (7.7) | – | 3.8 | (11.6) |
| Tax | 0.7 | 0.3 | – | (0.7) | 0.3 |
| **Other items after tax** | (7.0) | (7.4) | – | 3.1 | (11.3) |
| Discontinued operations | | | | | |
| **Other items before tax** | (0.3) | – | (3.0) | – | (3.3) |
| Tax | – | – | – | – | – |
| **Other items after tax** | (0.3) | – | (3.0) | – | (3.3) |
| Total Group | | | | | |
| **Other items before tax** | (8.0) | (7.7) | (3.0) | 3.8 | (14.9) |
| Tax | 0.7 | 0.3 | – | (0.7) | 0.3 |
| **Other items after tax** | (7.3) | (7.4) | (3.0) | 3.1 | (14.6) |

Notes:

1. The Group disposed the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021. The results of these operations are included within discontinued operations. Refer to Note 1 and Note 4.
2. For the six months ended 30 September 2020, £3.9m related to net settlement income from a legal dispute and £0.1m cost related to a regulatory investigation.

### Restructure costs

The Group is undertaking a major transformation programme involving the restructuring of operations to reposition the business for its next phase of growth, which includes Project Forté and Property. The costs are analysed below:

| | Six months ended 30 September 2021 | | | Six months ended 30 September 2020 | | |
|---|---|---|---|---|---|---|
| | Continuing operations £m | Discontinued operations £m | Total £m | Continuing operations £m | Discontinued operations £m | Total £m |
| Group transformation programme: | | | | | | |
| Project Forté [1] | **(5.1)** | – | **(5.1)** | (3.3) | – | (3.3) |
| Property[2] | **0.2** | – | **0.2** | (3.6) | – | (3.6) |
| Other transformation projects | – | – | – | (0.8) | (0.3) | (1.1) |
| **Restructure costs** | **(4.9)** | – | **(4.9)** | (7.7) | (0.3) | (8.0) |
| Tax | **1.3** | – | **1.3** | 0.7 | – | 0.7 |
| **Restructure costs net of taxation** | **(3.6)** | – | **(3.6)** | (7.0) | (0.3) | (7.3) |

Notes:

1. Project Forté 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 Forté will also drive further Group-wide organisational consolidation, automation of processes and further offshoring of back office activities. Cumulative costs of £26.3m have been recognised within Other Items on Project Forté since its launch in 2019, of which £3.3m were non-cash costs. The project is expected to complete by March 2022.
2. Programme to restructure the property portfolio to align with the new operating model, which involves the vacation of office space. Cumulative costs of £12.6m have been recognised within Other Items since its launch in 2019, which predominantly relate to non-cash impairment charges in relation to right-of-use assets recognised on property leases.

The costs associated with the Group transformation programme incurred in the six months ended 30 September 2021 include, £2.4m of external consultancy costs (2020: £nil), a net gain on termination of leases of £0.4m (2020: £nil), a right-of-use asset impairment of £0.2m (2020: £3.6m), £0.1m of redundancy costs (2020: £1.5m), £0.1m of pension curtailment costs (2020: £nil) and fixed-term staff costs of £2.5m (2020: £2.3m) to manage and implement the changes. In the six months ended 30 September 2020 the Group also incurred intangible asset impairments of £0.5m and other restructuring costs of £0.1m.

### Acquisition and disposal related costs

| | Six months ended 30 September 2021 | Six months ended 30 September 2020 |
|---|---|---|
| | Continuing operations and total £m | Continuing operations and total £m |
| Interserve acquisition related costs[1] | **(0.7)** | (6.2) |
| Interserve integration costs[2] | **(7.4)** | – |
| Interserve amortisation of acquisition related intangible assets[3] | **(10.2)** | – |
| Total Interserve acquisition costs | **(18.3)** | (6.2) |
| Other amortisation of acquisition related intangible assets | **(1.1)** | (1.2) |
| Other transaction related projects | **(0.2)** | (0.3) |
| Other acquisition transaction costs | **(0.5)** | – |
| **Acquisition and disposal costs** | **(20.1)** | (7.7) |
| Tax[4] | **(6.9)** | 0.3 |
| **Acquisition and disposal costs net of taxation** | **(27.0)** | (7.4) |

Notes:

1. Comprises professional fees of 0.6m (2020: £5.7m) and fixed term staff costs of £0.1m (2020: £0.5m)
2. Comprises staff related integration costs of £2.5m, professional fees of £1.6m, redundancy costs of £1.1m, property related costs of £0.7m, software intangible impairment £0.7m and other integration costs of £0.8m.
3. Includes £8.4m (2020: £nil) amortisation on customer contracts and relationships arising on the acquisition of Interserve and £1.8m (2020: £nil) related to the Group's share of the amortisation of customer contracts and relationship assets arising on the acquisition of Landmarc Support Services Limited which has been equity accounted. See Note 16.
4. Includes £9.7m charge as a result of the increase in the rate of UK corporation tax from 1 April 2023. This primarily relates to the remeasurement of the deferred tax liability on the customer contracts and relationships intangible arising on the acquisition of Interserve. See Note 5.

### Gain/(loss) on disposal

A net gain on disposal of businesses of £13.0m (2020: £3.0m net loss on disposal) has been recognised in other items. See Note 4 for further details.

## 4. Discontinued operations, disposal of subsidiaries and disposal group held for sale

On 1 June 2021, the Group completed the sale of Mitie Norge AS, Mitie Sverige AB and Mitie Polska Sp z.o.o (together, the Nordics and Poland operations). On 30 September 2021, the Group completed the sale of Mitie Business Services Limited and Mitie Business Services UK Limited (together, the Document Management business). The results of the Nordics and Poland operations and the Document Management business have been classified as discontinued operations at 30 September 2021 and comparative information has been re-presented.

The Group recognised a net loss on disposal of £3.0m in relation to the disposal of the Nordics and Poland operations and a net gain on disposal of £16.0m in relation to the disposal of the Document Management business.

### Gain/(loss) on disposal of discontinued operations

| | | | Six months ended 30 September 2021 | Six months ended 30 September 2020 |
|---|---|---|---|---|
| | Nordics and Poland £m | Document Management £m | Total £m | Total £m |
| Total consideration | **0.3** | **36.7** | **37.0** | (3.3) |
| Net assets disposed[1] | **(2.9)** | **(20.1)** | **(23.0)** | – |
| Recycling of foreign exchange loss in reserves | **(0.4)** | **–** | **(0.4)** | – |
| Transaction costs | **–** | **(0.6)** | **(0.6)** | – |
| Release of indemnity provision | **–** | **–** | **–** | 0.3 |
| **Net gain/(loss) on disposal of discontinued operations as reported in other items (see Note 3)** | **(3.0)** | **16.0** | **13.0** | (3.0) |
| Profit before tax before other items | **0.1** | **2.9** | **3.0** | 3.3 |
| Other items | **–** | **–** | **–** | (0.3) |
| Profit before tax | **0.1** | **2.9** | **3.0** | 3.0 |
| Tax | **–** | **(0.6)** | **(0.6)** | (0.6) |
| Profit for the period after tax | **0.1** | **2.3** | **2.4** | 2.4 |
| **Total (loss)/profit for the period** | **(2.9)** | **18.3** | **15.4** | (0.6) |

Note:

1. Net assets disposed in the Nordics and Poland operations include goodwill of £1.4m and cash balances of £1.5m. Net assets disposed in the Document Management business include goodwill of £14.4m and cash balances of £4.6m.

### Income statement of discontinued operations

| | Six months ended 30 September 2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Nordics and Poland | | | Document Management | | | 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 |
| Revenue | **1.9** | **–** | **1.9** | **25.5** | **–** | **25.5** | **27.4** | **–** | **27.4** |
| Cost of sales | **(1.7)** | **–** | **(1.7)** | **(21.6)** | **–** | **(21.6)** | **(23.3)** | **–** | **(23.3)** |
| **Gross profit** | **0.2** | **–** | **0.2** | **3.9** | **–** | **3.9** | **4.1** | **–** | **4.1** |
| Administrative expenses | **(0.1)** | **–** | **(0.1)** | **(1.1)** | **–** | **(1.1)** | **(1.2)** | **–** | **(1.2)** |
| **Operating profit** | **0.1** | **–** | **0.1** | **2.8** | **–** | **2.8** | **2.9** | **–** | **2.9** |
| Net finance income | **–** | **–** | **–** | **0.1** | **–** | **0.1** | **0.1** | **–** | **0.1** |
| **Profit before tax** | **0.1** | **–** | **0.1** | **2.9** | **–** | **2.9** | **3.0** | **–** | **3.0** |
| Tax | **–** | **–** | **–** | **(0.6)** | **–** | **(0.6)** | **(0.6)** | **–** | **(0.6)** |
| **Profit for the period** | **0.1** | **–** | **0.1** | **2.3** | **–** | **2.3** | **2.4** | **–** | **2.4** |
| Net (loss)/gain on disposal | **–** | **(3.0)** | **(3.0)** | **–** | **16.0** | **16.0** | **–** | **13.0** | **13.0** |
| **Total profit/(loss) for the period** | **0.1** | **(3.0)** | **(2.9)** | **2.3** | **16.0** | **18.3** | **2.4** | **13.0** | **15.4** |

Note:

1. Other items are as described in Note 3.

| | Six months ended 30 September 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Nordics and Poland | | | Document Management | Catering | Healthcare | Total discontinued operations | | |
| | Before other items £m | Other items[1] £m | Total £m | Before other items and total £m | Other items[1] and total £m | Other items[1] and total £m | Before other items £m | Other items[1] £m | Total £m |
| Revenue | 6.6 | – | 6.6 | 23.0 | – | – | 29.6 | – | 29.6 |
| Cost of sales | (5.8) | – | (5.8) | (19.5) | – | – | (25.3) | – | (25.3) |
| **Gross profit** | 0.8 | – | 0.8 | 3.5 | – | – | 4.3 | – | 4.3 |
| Administrative expenses | (0.4) | (0.3) | (0.7) | (0.6) | – | – | (1.0) | (0.3) | (1.3) |
| **Operating profit/(loss) and Profit/(loss) before tax** | 0.4 | (0.3) | 0.1 | 2.9 | – | – | 3.3 | (0.3) | 3.0 |
| Tax | – | – | – | (0.6) | – | – | (0.6) | – | (0.6) |
| **Profit/(loss) for the period** | 0.4 | (0.3) | 0.1 | 2.3 | – | – | 2.7 | (0.3) | 2.4 |
| Net (loss)/gain on disposal | – | – | – | – | (3.3) | 0.3 | – | (3.0) | (3.0) |
| **Total profit/(loss) for the period** | 0.4 | (0.3) | 0.1 | 2.3 | (3.3) | 0.3 | 2.7 | (3.3) | (0.6) |

Note:

1. Other items are as described in Note 3.

## Cash flows from discontinued operations

| | **Six months ended 30 September 2021 £m** | Six months ended 30 September 2020 £m |
|---|---|---|
| Net cash generated from operating activities | – | 2.9 |
| Net cash used in investing activities | – | (0.1) |
| Net cash used in financing activities | **(0.2)** | (0.3) |
| **(Decrease)/increase in cash and cash equivalents** | **(0.2)** | 2.5 |

The cashflow recognised arising from the disposal of operations net of cash disposed and transaction costs, and included within cash flows from investing activities is made up as follows:

| | **Six months ended 30 September 2021** | | |
|---|---|---|---|
| | **Nordics and Poland £m** | **Document Management £m** | **Total £m** |
| Cash consideration | **0.3** | **36.7** | **37.0** |
| Cash disposed | **(1.5)** | **(4.6)** | **(6.1)** |
| Cash transaction costs | **–** | **(0.4)** | **(0.4)** |
| **Disposal proceeds net of cash disposed and transaction costs** | **(1.2)** | **31.7** | **30.5** |

## 5. Tax

The tax charge for the period has been calculated based upon the effective tax rate expected to apply to the Group for the year ending 31 March 2022 using rates substantively enacted by 30 September 2021.

The rate of tax on profits before other items from continuing operations for the period was 10.1% (2020 restated: 25.2%). The rate has reduced as a result of the change in the rate of UK corporation tax (see below). The Group's effective tax rate before other items and the impact of the change in tax rate (see below) for the period has been calculated as 21.1%. The effective rate of tax on earnings before other items is principally influenced by recurring non-tax deductible expenses, primarily share-based payment charges.

The increase in the rate of UK corporation tax from 19% to 25% from 1 April 2023 was substantively enacted during the period. As a result, deferred tax balances have been calculated at 19% or 25% depending upon when the balance is expected to reverse and consequently the rate increase has had the impact of increasing deferred tax assets and liabilities by £4.4m and £5.9m respectively. This has resulted in a net £1.5m charge in the period, of which £8.2m credit relates to profit before other items and a £9.7m charge relates to other items. The £8.2m credit primarily relates to the remeasurement of the deferred tax asset for accelerated capital allowances and retirement benefit liabilities. The £9.7m charge primarily relates to the remeasurement of the deferred tax liability on the customer contracts and relationships intangible arising on the acquisition of Interserve.

The rate of tax on other items from continuing operations was (22.4)% (2020 restated: 2.6%) which was primarily affected by the impact of the change in tax rates.

The Group expects its sustainable effective tax rate to be slightly above the UK statutory rate.

Corporation tax payments for the period amounted to £4.1m (2020: £1.0m repayment), of which £2.8m was paid in the UK and £1.3m overseas. The 2020 repayment related solely to the UK.

The Group has unutilised income tax losses of £221.6m (31 March 2021: £243.8m; 30 September 2020: £63.3m). A deferred tax asset has been recognised in respect of £117.9m (31 March 2021: £156.3m; 30 September 2020: £56.4m) of these losses to the extent that it is probable that taxable profits will be generated in the future and be available for utilisation. The increase in unutilised income tax losses since 30 September 2020 has arisen due to the acquisition of Interserve.

## 6. Dividends

During the six months ended 30 September 2021, the Group paid no dividends (2020: £nil). The Board has declared an interim dividend for the year ending 31 March 2022 of 0.4p per share (2020: no interim dividend declared). This dividend will be paid on 2 February 2022 to all shareholders on the register at close of business on 17 December 2021.

## 7. Earnings per share

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

| | Six months ended 30 September 2021 | | | Restated[1] Six months ended 30 September 2020 | | |
|---|---|---|---|---|---|---|
| | **From continuing operations £m** | **From discontinued operations £m** | **Total Group £m** | From continuing operations £m | From discontinued operations £m | Total Group **£m** |
| Net profit before other items attributable to owners of the parent | **67.4** | **2.4** | **69.8** | 8.0 | 2.7 | 10.7 |
| Other items net of tax | **(30.6)** | **13.0** | **(17.6)** | (11.3) | (3.3) | (14.6) |
| **Net profit/(loss) attributable to owners of the parent** | **36.8** | **15.4** | **52.2** | (3.3) | (0.6) | (3.9) |

Note:

1. The Group disposed the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021. The results of these operations are included within discontinued operations above. Refer to Note 1 and Note 4.

| Number of shares | **Six months ended 30 September 2021 million** | Six months ended 30 September 2020 million |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic EPS[1] | **1,376.4** | 900.4 |
| Effect of dilutive potential ordinary shares[2] | **114.3** | - |
| Weighted average number of ordinary shares for the purpose of diluted EPS[1,2] | **1,490.7** | 900.4 |

Notes:

1. The weighted average number of ordinary shares in issue during the period excludes those accounted for in the own shares reserve.
2. The dilutive potential ordinary shares relate to instruments that could potentially dilute basic earnings per share in the future, such as share-based payments. The diluted earnings or loss per share uses the weighted average number of shares adjusted for potentially dilutive ordinary shares, unless it has the effect of increasing the earnings, or decreasing the loss, per share from continuing operations. The Group made a loss in the six months ended 30 September 2020 from continuing operations, hence the diluted loss per share needed to be the same amount as the basic loss per share. As a consequence, for the six months ended 30 September 2021, nil (2020: 14.3 million) shares have been excluded from the diluted weighted average number of ordinary shares.

| | Six months ended 30 September 2021 | | | Restated[1] Six months ended 30 September 2020 | | |
|---|---|---|---|---|---|---|
| | **From continuing operations pence per share** | **From discontinued operations pence per share** | **Total Group pence per share** | From continuing operations pence per share | From discontinued operations pence per share | Total Group pence per share |
| Basic earnings before other items[2] | **4.9** | **0.2** | **5.1** | 0.9 | 0.3 | 1.2 |
| Basic earnings/(loss) | **2.7** | **1.1** | **3.8** | (0.4) | – | (0.4) |
| Diluted earnings before other items[2] | **4.5** | **0.2** | **4.7** | 0.9 | 0.3 | 1.2 |
| Diluted earnings/(loss) | **2.5** | **1.0** | **3.5** | (0.4) | – | (0.4) |

Notes:

1. The Group disposed the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021. The results of these operations are included within discontinued operations above. Refer to Note 1 and Note 4.
2. Other items are as described in Note 3.

## 8. Goodwill

| | £m |
|---|---|
| **Cost** | |
| At 31 March 2020 and 30 September 2020 | 311.4 |
| Arising on business combinations[1] | 15.9 |
| At 31 March 2021[1] | 327.3 |
| Arising on business combinations[2] | 9.3 |
| Disposal of businesses[3] | (15.8) |
| **At 30 September 2021** | **320.8** |
| | |
| **Accumulated impairment losses** | |
| **At 30 September 2020, 31 March 2021 and 30 September 2021** | **32.5** |
| | |
| **Net book value** | |
| **At 30 September 2021** | **288.3** |
| At 31 March 2021[1] | 294.8 |
| At 30 September 2020 | 278.9 |

Notes:

1. The comparatives for 31 March 2021 have been restated to adjust for measurement period adjustments in respect of the Interserve acquisition, with the goodwill arising on the Interserve acquisition increasing from £3.3m to £15.9m. Refer to Note 1 and Note 16.
2. The Group acquired DAEL Ventures Limited during the six months ended 30 September 2021. Refer to Note 16.
3. The Group disposed the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021. The disposed goodwill was £14.4m and £1.4m respectively. Refer to Note 4.

## 9. Trade and other receivables

| | 30 September 2021 £m | Restated[1] 31 March 2021 £m | Restated[2] 30 September 2020 £m |
|---|---|---|---|
| Trade receivables | **345.9** | 362.4 | 187.4 |
| Accrued income | **225.5** | 208.7 | 129.4 |
| Prepayments | **33.7** | 27.0 | 30.1 |
| Other receivables[3] | **98.5** | 89.0 | 32.8 |
| **Total** | **703.6** | 687.1 | 379.7 |
| | | | |
| Included in current assets | **697.2** | 678.8 | 379.7 |
| Included in non-current assets[3] | **6.4** | 8.3 | – |
| **Total** | **703.6** | 687.1 | 379.7 |

Notes:

1. The comparatives as at 31 March 2021 have been restated for measurement period adjustments in respect of the Interserve acquisition. Refer to Note 1 and Note 16.
2. As reported in the Annual Report and Accounts 2021, the Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 30 September 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.
3. At 30 September 2021 other receivables included the £52.7m (31 March 2021 restated: £52.7m; 30 September 2020: £nil) provisional value for the adjustment to consideration which represents management's best estimate of the amount expected to be recovered by the Group through the completion accounts and other SPA mechanisms on the Interserve acquisition. The outcome of the completion accounts process continues to be inherently uncertain, given that this is subject to a commercial negotiation and an expert determination process, and the final amount agreed could therefore be materially different from the estimate. See Note 16.

Trade receivables at 30 September 2021 represent 27 days credit on sales (31 March 2021: 30 days; 30 September 2020 restated: 28 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 £73.6m, as restated, as at 30 September 2020 to £59.6m as at 30 September 2021 (31 March 2021: £51.7m).

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

## 10. Trade and other payables

| | 30 September 2021 £m | Restated[1] 31 March 2021 £m | Restated[2] 30 September 2020 £m |
|---|---|---|---|
| Trade payables | **144.6** | 131.4 | 169.8 |
| Other taxes and social security | **132.7** | 122.6 | 200.0 |
| Other payables | **94.3** | 32.7 | 16.7 |
| Accruals | **387.3** | 415.6 | 177.2 |
| **Total** | **758.9** | 702.3 | 563.7 |
| | | | |
| Included in current liabilities | **758.4** | 701.8 | 563.4 |
| Included in non-current liabilities | **0.5** | 0.5 | 0.3 |
| **Total** | **758.9** | 702.3 | 563.7 |

Notes:

1. The comparatives as at 31 March 2021 have been restated for measurement period adjustments in respect of the Interserve acquisition. Refer to Note 1 and Note 16.
2. As reported in the Annual Report and Accounts 2021, the Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 30 September 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

Trade payables at 30 September 2021 represent 28 days credit on trade purchases (31 March 2021: 26 days; 30 September 2020 restated: 69 days).

In the year ended 31 March 2021, the Group discontinued its supply chain finance arrangements. At 30 September 2020 included within trade payables was £4.1m relating to payments due to UK suppliers which made use of bank provided supply chain finance arrangements.

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

## 11. Provisions

| | Legal costs £m | Restructuring £m | Insurance reserve £m | Contract specific costs £m | Pension £m | Dilapidations £m | **Total £m** |
|---|---|---|---|---|---|---|---|
| At 31 March 2021 | 2.5 | 2.2 | 27.9 | 54.1 | 23.8 | 5.9 | **116.4** |
| Measurement period adjustments [1] | 0.4 | – | 0.7 | 6.4 | – | (0.3) | **7.2** |
| At 31 March 2021[1] | 2.9 | 2.2 | 28.6 | 60.5 | 23.8 | 5.6 | **123.6** |
| Additional provisions in the period | – | 0.1 | 5.1 | 0.7 | – | 1.3 | **7.2** |
| Utilised in the period | (0.7) | (0.8) | (6.9) | (4.0) | (0.1) | (0.2) | **(12.7)** |
| **At 30 September 2021** | 2.2 | 1.5 | 26.8 | 57.2 | 23.7 | 6.7 | **118.1** |
| Included in current liabilities | 2.2 | 0.3 | 9.4 | 19.0 | 23.7 | 0.7 | **55.3** |
| Included in non-current liabilities | – | 1.2 | 17.4 | 38.2 | – | 6.0 | **62.8** |
| Total | 2.2 | 1.5 | 26.8 | 57.2 | 23.7 | 6.7 | **118.1** |

Note:

1. The comparatives as at 31 March 2021 have been restated for measurement period adjustments in respect of the Interserve acquisition. Refer to Note 1 and Note 16.

The provisions balance includes the following items:

The legal costs provisions relate to external legal costs in respect of parental company guarantees provided as a result of the Interserve acquisition. The amount is expected to be fully utilised in the year ending 31 March 2022.

The restructuring provision relates to costs of organisational change associated with the Group's property transformation programme and is expected to be fully utilised over the next four years.

The insurance reserve provides for 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 provision is based on information currently available, however it is inherent in the nature of the business that the ultimate liability may vary.

Included within the contract specific costs provision of £57.2m at 30 September 2021 are onerous contract provisions of £15.8m (31 March 2021 restated: £17.6m) and contract specific provisions of £41.4m (31 March 2021 restated: £42.9m).

Onerous contract provisions are made where the forecast costs of completing a contract exceed the forecast income generation over the life of the project. These provisions primarily relate to certain long-term PFI contracts. It is expected that the majority of these provisions will be utilised over an average period of 13 years. Given the long term nature of these contracts, any changes to key assumptions made when estimating their future losses might have an impact on the Group's results. The Group utilised £2.3m of onerous contract provisions during the period.

Contract specific provisions have been made primarily to cover remedial and rectification costs required to meet clients' contractual terms. £14.6m of this balance relates to a significant liability risk on a certain contract, which is subject to a dispute, £6.6m relates to a commercial dispute settlement for an Interserve contract, and the remaining £20.2m relates to other potential commercial claims and rectification work for other contracts, including the estimated costs of rectification works associated with certain property maintenance contracts of the discontinued Social Housing business. The Group utilised £1.7m of contract specific provisions during the period, with the remaining provision expected to be utilised over the next seven years.

The pension provision balance at 30 September 2021 primarily relates to the Section 75 employer debt liabilities of Robert Prettie & Co Limited and Mitie FM Limited (formerly Interserve (Facilities Management) Limited as a result of their participation in the Plumbing Scheme of £21.7m. 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 Note 18.

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 and is expected to be utilised in the next five years.

## 12. Cash and cash equivalents

| | 30 September 2021 £m | 31 March 2021 £m | Restated[1] 30 September 2020 £m |
|---|---|---|---|
| Cash and cash equivalents | **300.3** | 196.2 | 365.9 |

Note:

1. The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 30 September 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The Group operates cash-pooling arrangements with certain banks for cash management purposes.

At 30 September 2021, included within cash and cash equivalents is £19.6m (31 March 2021: £18.7m; 30 September 2020: £nil) which is subject to various constraints on the Group's ability to utilise these balances. These constraints primarily relate to amounts held in project bank accounts and cash held through a joint operation.

The carrying amount of the assets approximates their fair value.

## 13. Financing liabilities

| | 30 September 2021 £m | 31 March 2021 £m | 30 September 2020 £m |
|---|---|---|---|
| Bank loans – under committed facilities | **7.2** | 6.6 | 6.5 |
| Private placement notes[1] | **168.2** | 165.4 | 173.2 |
| Lease liabilities | **114.4** | 106.8 | 93.5 |
| **Total** | **289.8** | 278.8 | 273.2 |
| | | | |
| Included in current liabilities | **30.6** | 28.7 | 24.1 |
| Included in non-current liabilities[1] | **259.2** | 250.1 | 249.1 |
| **Total** | **289.8** | 278.8 | 273.2 |

Note:

1. Including £nil (31 March 2021: £0.1m, 30 September 2020: £nil) within non-current liabilities of forward foreign exchange contracts.

During the period, the Group had access to a £250.0m revolving credit facility which was due to expire in December 2022. The revolving credit facility and the private placement notes are unsecured but have financial and non-financial covenants and obligations commonly associated with these arrangements. The Group was in compliance with these covenants as at 30 September 2021 and hence all amounts are classified in line with repayment dates.

At 30 September 2021, the Group had available £241.4m (31 March 2021: £241.4m; 30 September 2020: £240.9m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

In October 2021, the Group agreed terms on a new £150m revolving credit facility and terminated the existing facility. The new facility expires in October 2025 (with an option to extend a further year, subject to lenders' approval) and is on significantly more favourable terms. In November 2021, the Group agreed the issue of £120.0m of new USPP notes, under a delayed funding arrangement in December 2022, avoiding any overlap with the existing £121.5m of notes that mature in the same month. The new notes are split equally between 8, 10 and 12 year maturities, and will be issued with an average coupon that is significantly below the current coupon.

## 14. Financial instruments

The Group's principal financial assets are cash and cash equivalents, trade receivables from customers, accrued income, contingent consideration receivable and derivative financial instruments. The derivative financial instruments are designated as cash flow hedges and are measured at fair value. The receivable for the adjustment to consideration on the Interserve acquisition is also measured at fair value through profit and loss. All other financial assets are held and measured at amortised cost.

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

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.

### Derivative financial instruments

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 US$153.0m of private placement notes are exchanged for fixed interest cash flows denominated in sterling. The Group also holds a series of forward foreign exchange contracts to hedge future US dollar cash flows arising from amendment fees on US$153.0m of private placement notes.

A fair value gain of £3.0m (2020: £4.9m loss) was recognised in other comprehensive income during the period. This gain was netted off against reclassifications related to foreign exchange losses on private placement notes of £2.8m (2020: £4.3m gain). All cash flow hedges were assessed to be highly effective at 30 September 2021.

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

| | 30 September 2021 £m | 31 March 2021 £m | 30 September 2020 £m |
|---|---|---|---|
| Cross-currency interest rate swaps | **17.6** | 14.6 | 23.3 |
| Forward foreign exchange contracts[1] | **–** | (0.1) | – |
| Total | **17.6** | 14.5 | 23.3 |

Note:

1. Forward foreign exchange contracts are included in non-current financing liabilities on the balance sheet.

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 period.

### 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 £17.6m (31 March 2021: £14.5m; 30 September 2020: £23.3m), being predominantly the fair value of interest rate swaps. The maximum exposure to credit risk on cash and cash equivalents at the balance sheet date is £300.3m (31 March 2021: £196.2m; 30 September 2020 restated: £365.9m).

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 of £13.1m (31 March 2021: £10.5m; 30 September 2020: £4.5m) and £10.1m (31 March 2021: £9.6m; 30 September 2020: £3.6m), respectively. The Group performs an impairment analysis at each reporting date and 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, including assessment of Impacts caused by COVID-19. No material changes to credit risk have been noted since 31 March 2021.

## 15. Analysis of net cash/(debt)

| | 30 September 2021 £m | 31 March 2021 £m | Restated[1] 30 September 2020 £m |
|---|---|---|---|
| Cash and cash equivalents (Note 12) | **300.3** | 196.2 | 365.9 |
| Adjusted for: restricted cash | **(19.6)** | (18.7) | – |
| Bank loans (Note 13) | **(7.2)** | (6.6) | (6.5) |
| Private placement notes[2] (Note 13) | **(168.2)** | (165.4) | (173.2) |
| Derivative financial instruments hedging private placement notes (Note 14) | **17.6** | 14.6 | 23.3 |
| **Net cash/(debt) before lease obligations** | **122.9** | 20.1 | 209.5 |
| Lease liabilities | **(114.4)** | (106.8) | (93.5) |
| **Net cash/(debt)** | **8.5** | (86.7) | 116.0 |

Notes:

1. The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 30 September 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.
2. Including £nil (31 March 2021: £0.1m; 30 September 2020: £nil) of forward foreign exchange contracts.

Net cash/(debt) excludes amounts in respect of customer invoice discounting referred to in Note 9 and amounts in respect of supply chain financing referred to in Note 10.

## 16. Acquisitions

### Current period acquisition

On 5 August 2021, the Group completed the acquisition of the entire issued share capital of DAEL Ventures Limited (DAEL) for a total cash consideration of £14.8m. DAEL is a leading provider of acquisition, design, and construction services in the UK for mobile telecoms infrastructure. This acquisition will broaden Mitie's expertise in the fast-growing telecoms sector, delivering end-to-end service for customers and giving Mitie market-leading capabilities.

DAEL contributed £5.0m of revenue and £0.2m of operating profit before other items to the Group's results for the six months ended 30 September 2021. Based on estimates made of the full period impact of the acquisition of DAEL, had the acquisition taken place on 1 April 2021, Group revenue and operating profit before other items for the period would have increased by approximately £10.5m and £0.6m respectively, resulting in total Group revenue of £1,883.2m and total Group operating profit before other items of £85.6m.

The Group's provisional assessment of the fair values of the assets and liabilities recognised as a result of the acquisition has been based on the total fair value of the consideration. As the acquisition completed near to the reporting period end, management continues to seek further information to complete accounting on the business combination within the one year measurement period. The provisional purchase price allocation is as follows:

| | Book value £m | Fair value adjustments £m | **Provisional fair value £m** |
|---|---|---|---|
| Customer relationships | – | 5.0 | **5.0** |
| Property, plant and equipment | 0.9 | – | **0.9** |
| Trade and other receivables | 8.3 | – | **8.3** |
| Cash and cash equivalents | 1.4 | – | **1.4** |
| Trade and other payables | (8.6) | – | **(8.6)** |
| Deferred tax liabilities | (0.3) | (1.2) | **(1.5)** |
| Net identifiable assets acquired | 1.7 | 3.8 | **5.5** |
| Goodwill | | | **9.3** |
| Consideration | | | **14.8** |

Goodwill on the acquisition of DAEL mainly represents the premium associated with taking over the operations which are considered to enhance the Group's ability to deliver across the telecoms sector and the assembled workforce acquired.

Outflow of cash to acquire subsidiaries, net of cash acquired, is as follows:

| | **30 September 2021 £m** |
|---|---|
| Cash consideration | **14.8** |
| Less: cash balance acquired | **(1.4)** |
| Net outflow of cash – investing activities | **13.4** |

Transaction costs associated with the acquisition of DAEL for the six months ended 30 September 2021 were £0.5m and are shown as other items in the consolidated income statement. See Note 3.

### Prior period acquisition

On 30 November 2020, the Group announced that it had completed the acquisition of the entire issued share capital of Intervefm (Holdings) Limited (Interserve). Interserve is a leading UK-focused facilities management business, providing services across multiple end-markets. The acquisition will allow Mitie to develop in strategic growth areas, enhance Mitie's position as a leading UK facilities management company, and accelerate the delivery of Mitie's long-term technology-led vision.

Initial consideration for the acquisition comprised the issuance of 248.4 million ordinary shares valued using the closing share price at 30 November 2020, representing c.17.5% of the share capital of Mitie Group plc, and cash consideration of £120.0m determined on the basis that Interserve would be delivered cash-free/debt-free and with an agreed normalised level of working capital. The actual cash payment made at completion was £105.0m, being the £120.0m cash consideration adjusted for the estimated debt, debt like items and working capital as at the completion date (which will be validated by a completion accounts process).

The provisional value of consideration has been adjusted by £4.9m to £146.9m following an adjustment which relates to the completion accounts process for this transaction. This provisional value represents management's best estimate of the amount expected to be received through the completion accounts process. The adjustment to consideration as a result of the ongoing completion accounts process has reduced the fair value of consideration and therefore goodwill by £52.7m with a corresponding receivable being recorded.

The Group's assessment of the fair values of the assets and liabilities recognised as a result of the acquisition has been based on the provisional value of the consideration due to the inherent uncertainty in the outcome of the completion accounts process. The provisional purchase price allocation is as follows:

| | As disclosed at 31 March 2021 | | | At 30 September 2021 | |
|---|---|---|---|---|---|
| | Book value £m | Fair value adjustments £m | Provisional fair value £m | Fair value adjustments £m | **Provisional fair value £m** |
| Customer contracts and relationships | – | 219.3 | 219.3 | – | **219.3** |
| Other intangible assets | 3.6 | (0.2) | 3.4 | – | **3.4** |
| Property, plant and equipment | 4.6 | 0.5 | 5.1 | – | **5.1** |
| Right-of-use assets | 16.9 | (3.4) | 13.5 | – | **13.5** |
| Interest in joint ventures and associates | 7.0 | 3.7 | 10.7 | – | **10.7** |
| Deferred tax assets | 19.6 | (19.6) | – | – | **–** |
| Inventories | 6.3 | – | 6.3 | – | **6.3** |
| Trade and other receivables | 214.9 | – | 214.9 | 0.1 | **215.0** |
| Cash and cash equivalents | 40.4 | – | 40.4 | – | **40.4** |
| Trade and other payables | (223.6) | 1.1 | (222.5) | (0.3) | **(222.8)** |
| Deferred income | (59.4) | – | (59.4) | (0.3) | **(59.7)** |
| Financing liabilities | (18.1) | 3.9 | (14.2) | – | **(14.2)** |
| Current tax liabilities | (1.6) | – | (1.6) | – | **(1.6)** |
| Provisions | (66.7) | – | (66.7) | (7.2) | **(73.9)** |
| Pension assets | 0.3 | – | 0.3 | – | **0.3** |
| Deferred tax liabilities | – | (10.8) | (10.8) | – | **(10.8)** |
| Net identifiable (liabilities)/assets acquired | (55.8) | 194.5 | 138.7 | (7.7) | **131.0** |
| Goodwill[1] | | | 3.3 | 12.6 | **15.9** |
| Total consideration | | | 142.0 | 4.9 | **146.9** |
| Cash consideration | | | 105.0 | – | **105.0** |
| Shares consideration | | | 94.6 | – | **94.6** |
| Adjustment to consideration[2] | | | (57.6) | 4.9 | **(52.7)** |
| Total consideration | | | 142.0 | 4.9 | **146.9** |

Notes:

1. Goodwill does not qualify for separate recognition and largely represents the value attributed to the assembled workforce acquired.
2. Adjustment to consideration represents management's best estimate of the amount expected to be recovered by the Group through the completion accounts and other SPA mechanisms. The outcome of the completion accounts process continues to be inherently uncertain, given that this is subject to a commercial negotiation and an expert determination process, and the final amount agreed could therefore be materially different from the estimate.

During the period the Group performed further analysis of balances acquired as part of the Interserve transaction which included working capital adjustments to receivables, payables and deferred income. The activities that were undertaken by the Group in the fair value measurement exercise resulted in a £7.2m adjustment to increase provisions and a £4.9m adjustment to increase consideration as a result of the ongoing completion accounts process. The adjustments made to both the fair value of net identifiable assets acquired and the fair value of total consideration has resulted in a consequential increase of £12.6m to goodwill, culminating in a balance of £15.9m recognised. There was no material impact to the post acquisition income statement.

The acquisition accounting for the Interserve transaction was disclosed as provisional within the Group's full year results to 31 March 2021. As such, the Group is using the 12-month measurement period in accordance with IFRS 3 Business Combinations to finalise the fair value measurement of particular assets, liabilities, and items of consideration (relating to the completion accounts process). The measurement period closes for this transaction on 29 November 2021 and hence, fair value amounts are disclosed as provisional as at 30 September 2021.

As noted above, the Group has recognised fair value adjustments of £7.2m to increase provisions acquired, of which £6.4m relates to onerous contract provisions. This was predominantly the result of the review performed by management of PFI contracts where new information received about obligations that existed at the date of acquisition and the quantification of estimated costs led to a remeasurement of the liability. Management performed additional investigative surveys and received additional information from customers.

## 17. 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. During the six months ended 30 September 2021, the Group made a total contribution to defined contribution schemes of £5.4m (2020: £3.3m) and contributions to the auto-enrolment scheme of £8.5m (2020: £6.1m), which are included in the income statement charge.

The defined benefit schemes include the Mitie Group plc Pension Scheme (Group scheme), the Interserve Scheme Part C (Interserve scheme) and two smaller schemes; MacLellan Group 2000 Retirement Benefit Scheme and THK Insulation Limited Retirement Benefits Scheme. Due to the size of the smaller schemes, the Directors present the results and position of these schemes within this Note within Other schemes with Admitted Body schemes, largely sections of Local Government pension 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. In addition, Interserve Scheme Part B (Landmarc), is held within interest in joint ventures and associates.

### Defined benefit schemes

Amounts recognised in the condensed consolidated income statement are as follows:

| | 30 September 2021 | | | | 30 September 2020 | | |
|---|---|---|---|---|---|---|---|
| | Group scheme £m | Interserve scheme £m | Other schemes £m | Total £m | Group scheme £m | Other schemes £m | Total £m |
| Current service cost | **(0.1)** | **(0.5)** | **(0.8)** | **(1.4)** | (0.2) | (0.1) | (0.3) |
| Total administration expense | **(0.3)** | **(0.2)** | **–** | **(0.5)** | (0.6) | – | (0.6) |
| Amounts recognised in operating profit before other items | **(0.4)** | **(0.7)** | **(0.8)** | **(1.9)** | (0.8) | (0.1) | (0.9) |
| Past service cost (including curtailment loss) | **–** | **–** | **(0.1)** | **(0.1)** | – | – | – |
| Net interest (cost)/income | **(0.4)** | **0.1** | **–** | **(0.3)** | (0.6) | – | (0.6) |
| Amounts recognised in profit/(loss) before tax | **(0.8)** | **(0.6)** | **(0.9)** | **(2.3)** | (1.4) | (0.1) | (1.5) |

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

| | 30 September 2021 | | | | 30 September 2020 | | |
|---|---|---|---|---|---|---|---|
| | Group scheme £m | Interserve scheme £m | Other schemes £m | Total £m | Group scheme £m | Other schemes £m | Total £m |
| Actuarial losses arising due to changes in financial assumptions | **(7.0)** | **(0.9)** | **(2.3)** | **(10.2)** | (46.4) | (2.9) | (49.3) |
| Actuarial (losses)/gains arising from liability experience | **–** | **(0.1)** | **0.1** | **–** | 8.7 | 0.1 | 8.8 |
| Actuarial losses due to changes in demographic assumptions | **(1.5)** | **–** | **–** | **(1.5)** | – | – | – |
| Movement in asset ceiling | **–** | **–** | **(1.7)** | **(1.7)** | – | 0.3 | 0.3 |
| Return on scheme assets, excluding interest income | **13.5** | **1.2** | **4.0** | **18.7** | 19.8 | 0.7 | 20.5 |
| Amounts recognised in condensed consolidated statement of comprehensive income | **5.0** | **0.2** | **0.1** | **5.3** | (17.9) | (1.8) | (19.7) |

The amounts included in the condensed consolidated balance sheet are as follows:

| | 30 September 2021 | | | | 31 March 2021 | | | | 30 September 2020 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Group scheme £m | Interserve scheme £m | Other schemes £m | Total £m | Group scheme £m | Interserve scheme £m | Other schemes £m | Total £m | Group scheme £m | Other schemes £m | Total £m |
| Fair value of scheme assets | **232.4** | **32.3** | **80.6** | **345.3** | 215.3 | 30.7 | 35.3 | 281.3 | 214.1 | 12.8 | 226.9 |
| Present value of defined benefit obligations | **(263.6)** | **(29.2)** | **(85.0)** | **(377.8)** | (256.7) | (27.7) | (39.4) | (323.8) | (272.9) | (16.0) | (288.9) |
| Net pension (liability)/asset | **(31.2)** | **3.1** | **(4.4)** | **(32.5)** | (41.4) | 3.0 | (4.1) | (42.5) | (58.8) | (3.2) | (62.0) |

All figures above are shown before deferred tax.

Movements in the present value of defined benefit obligations were as follows:

| | Group scheme £m | Interserve scheme £m | Other schemes £m | Total £m |
|---|---|---|---|---|
| At 1 April 2021 | 256.7 | 27.7 | 39.4 | 323.8 |
| Participation in additional schemes[1] | – | – | 41.0 | 41.0 |
| Current service cost | 0.1 | 0.5 | 0.8 | 1.4 |
| Interest cost | 2.7 | 0.3 | 0.8 | 3.8 |
| Contributions from scheme members | – | – | 0.2 | 0.2 |
| Actuarial losses arising due to changes in financial assumptions | 7.0 | 0.9 | 2.3 | 10.2 |
| Actuarial losses/(gains) arising from experience | – | 0.1 | (0.1) | – |
| Actuarial losses due to changes in demographic assumptions | 1.5 | – | – | 1.5 |
| Movement in asset ceiling | – | – | 1.7 | 1.7 |
| Benefits paid | (4.4) | (0.3) | (0.6) | (5.3) |
| Past service cost (including curtailments) | – | – | (0.5) | (0.5) |
| **At 30 September 2021** | **263.6** | **29.2** | **85.0** | **377.8** |

Note:
1. During the period, the Group recognised additional defined benefit obligations and scheme assets related to participation in certain sections of Local Government pension schemes, with no impact on the net pension liability.

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

| | Group scheme £m | Interserve scheme £m | Other schemes £m | Total £m |
|---|---|---|---|---|
| At 1 April 2021 | 215.3 | 30.7 | 35.3 | 281.3 |
| Participation in additional schemes[1] | – | – | 41.0 | 41.0 |
| Interest income | 2.3 | 0.4 | 0.8 | 3.5 |
| Actuarial gains on assets | 13.5 | 1.2 | 4.0 | 18.7 |
| Contributions from the sponsoring companies | 6.0 | 0.5 | 0.5 | 7.0 |
| Contributions from scheme members | – | – | 0.2 | 0.2 |
| Expenses paid | (0.3) | (0.2) | – | (0.5) |
| Benefits paid | (4.4) | (0.3) | (0.6) | (5.3) |
| Past service cost (including curtailments) | – | – | (0.6) | (0.6) |
| **At 30 September 2021** | **232.4** | **32.3** | **80.6** | **345.3** |

Note:
1. During the period, the Group recognised additional defined benefit obligations and scheme assets related to participation in certain sections of Local Government pension schemes, with no impact on the net pension liability.

Principal accounting assumptions:

| | Group scheme | | | Interserve scheme | | Other schemes | | |
|---|---|---|---|---|---|---|---|---|
| | **30 September 2021 %** | 31 March 2021 % | 30 September 2020 % | **30 September 2021 %** | 31 March 2021 % | **30 September 2021 %** | 31 March 2021 % | 30 September 2020 % |
| Key assumptions used for IAS 19 valuation: | | | | | | | | |
| Discount rate | **2.05** | 2.10 | 1.65 | **2.10** | 2.10 | **2.05 - 2.10** | 2.10 | 1.65 |
| Expected rate of pensionable pay increases | **2.65** | 2.50 | 2.85 | **2.70** | 2.50 | **2.65 - 2.70** | 2.50 | 2.85 |
| Retail price inflation | **3.40** | 3.25 | 2.85 | **3.40** | 3.25 | **3.40** | 3.25 | 2.85 |
| Consumer price inflation | **2.65** | 2.50 | 2.05 | **2.70** | 2.50 | **2.65 - 2.70** | 2.50 | 2.05 |
| Future pension increases | **3.40** | 3.25 | 3.35 | **3.50** | 3.30 | **3.40 - 3.50** | 3.25 | 3.35 |

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

| | 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%) | (6.9) |
| Increase in retail price inflation* | 0.1% | 1.5% | 5.6 |
| Increase in consumer price inflation (excluding pay) | 0.1% | 0.9% | 3.2 |
| Increase in life expectancy | 1 year | 4.1% | 14.8 |

* Including other inflation-linked assumptions (consumer price 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 obligations to some extent.

## 18. Contingent liabilities and assets

### Contingent liabilities

#### Cyber incident

On 13 May 2020, Interserve Group Limited (IGL) announced that it was subject to a cyber-attack which affected elements of IGL's IT systems (including enterprise resource planning and human resource systems), including elements related to Interserve. Once the cyber-attack was discovered, IGL commenced work with the National Cyber Security Centre and strategic response team to investigate, contain and remedy the situation.

The attack was reported to the ICO on 5 May 2020. The ICO has advised IGL that it considers it likely that IGL or members of the Interserve Group (which could include Interserve) are in breach or likely to be in breach of certain articles of the UK GDPR and that IGL or members of the Interserve Group (which could include Interserve) are likely to be subject to regulatory action in respect of the matter which could result in a remedial order or fine.

The share purchase agreement entered into for the acquisition of Interserve gives Mitie the benefit of indemnity protection provided by How Group Limited, a subsidiary of IGL, for a two-year period from the Interserve acquisition date. This is expected to be sufficient to cover any penalty imposed by the ICO in relation to Interserve entities, however, the results of the ICO investigation cannot be predicted and the Group may be liable to pay a penalty that exceeds the level of indemnity cover of £40 million.

Management understands that the ICO investigation is ongoing. However, whilst any fine is likely to be issued within the two-year period covered by the SPA indemnity, the Group is unable to reliably estimate the amount of any potential fine at the reporting date.

#### Contractual disputes, guarantees and indemnities

The Group is, 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.

The Group is currently aware of potential liabilities relating to certain of the PFI contracts in the Interserve business. Management is in the process of investigating the extent to which a liability to provide rectification works exists, the result of which may or may not involve legal proceedings. Whilst management is collating the required information to assess the potential exposure, no reliable estimate of the contingent liability, or the likely timing of any settlement amount, can be made at the reporting date.

Management will continue to monitor events as matters progress.

In addition, the Company and its subsidiaries have provided performance and financial guarantees, issued by financial institutions on its behalf, amounting to £32.2m (31 March 2021: £27.2m; 30 September 2020: £19.6m) in the ordinary course of business. These are not expected to result in any material financial loss.

#### Multi-employer pension schemes

When the Group (or a subsidiary of the Group) exits multi-employer pension 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).

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 had occurred to trigger this debt as Mitie Property Services (UK) Limited still employed an active member of the Plumbing Scheme when the Scheme was closed to the accrual of future benefits on 30 June 2019.

#### Employment claims

The Group is, 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.

### Contingent assets

Management is working to ensure that, through a combination of insurance claims and recourse to suppliers, a proportion of the unrecovered £12.3m costs incurred in respect of rectification works for the Social Housing property maintenance contracts, including £5.2m recorded in provisions at 30 September 2021, are recovered. The amount and timing of further recoveries is yet to be determined.

Management is also in advanced negotiations with a customer to settle a dispute for an estimated amount of £4.5m, which is management's best estimate of the settlement, and it is considered probable that this amount will be received within a 12-month period.

## 19. 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.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company. During the period, the Group made donations and gifts in kind of £0.1m (2020: £0.1m) to the Mitie Foundation.

During the period ended 30 September 2021 there were £11.0m transactions with joint ventures or associates. The amount due from joint ventures and associates at 30 September 2021 was £1.7m (31 March 2021: £0.3m; 30 September 2020: £nil).

During the period ended 30 September 2021, the Group generated revenue of £0.1m (2020: £0.2m) relating to Informa plc, a company whose chairman is also Mitie Group plc's non-executive chairman. The balance outstanding from Informa plc at 30 September 2021 was £0.1m (31 March 2021: £nil; 30 September 2020; £nil).

During the period ended 30 September 2021, the Group generated revenue of £0.1m (2020: £nil) and at 30 September 2021 had an outstanding receivable of £0.1m (31 March 2021: £nil; 30 September 2020: £nil) relating to St James' Place plc, and revenue of £0.1m (2020: £nil) and no balance outstanding (31 March 2021: £nil; 30 September 2020: £nil) relating to Essentra plc and NCC Group plc, companies which have non-executive directors who are also non-executive directors of Mitie Group plc.

All transactions with these related parties were made on terms equivalent to those that prevail in arm's length transactions. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

## 20. Events after the reporting period

On 1 November 2021, the Group announced that it had acquired the entire issued share capital of Rock Power Connections Limited (Rock), a leading independent connections provider (IPC). Rock has nationwide coverage and specialises in the design and installation of new high voltage electricity supplies, the renewal of industrial and commercial customers' electrical assets up to 132kV and the installation of EV charging points for non-residential blue-chip customers. This acquisition will bolster Mitie's existing EV expertise, enhancing the Group's ability to offer a truly end-to-end solution to meet clients' net zero goals. The transaction consideration comprises an initial payment of £10m, with two deferred payments in aggregate of up to £4.5m by 31 March 2023, linked to stretching performance targets.

Rock will be acquired cash free, debt free, with a normalised level of working capital and will be accretive to earnings in the first 12 months of ownership. The acquisition will be funded from existing facilities. The initial accounting for the business combination has not been completed at the time the condensed consolidated financial statements are authorised for issue.

On 17 November 2021, the Group acquired the entire issued share capital of Esoteric Limited, a niche provider of leading counter espionage and specialist countermeasure services, on a cash free, debt free basis.

In October 2021, the Group agreed terms on a new £150m revolving credit facility and terminated the existing facility. The new facility expires in October 2025 (with an option to extend a further year, subject to lenders' approval) and is on significantly more favourable terms. In November 2021, the Group agreed the issue of £120.0m of new USPP notes, under a delayed funding arrangement in December 2022, avoiding any overlap with the existing £121.5m of notes that mature in the same month. The new notes are split equally between 8, 10 and 12 year maturities, and will be issued with an average coupon that is significantly below the current coupon.

## Appendix – Alternative Performance Measures

The Group presents various Alternative Performance Measures (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 related 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 3.

| Operating profit | | Six months ended 30 September 2021 £m | Six months ended 30 September 2020[1] £m |
|---|---|---|---|
| Operating profit from continuing operations | Statutory measures | **60.0** | 6.6 |
| Adjust for: restructure costs | Note 3 | **4.9** | 7.7 |
| Adjust for: acquisition and disposal related costs | Note 3 | **20.1** | 7.7 |
| Adjust for: other exceptional items | Note 3 | **–** | (3.8) |
| Operating profit before other items from continuing operations | Performance measures | **85.0** | 18.2 |
| Operating profit from discontinued operations[1] | Statutory measures | **15.9** | – |
| Adjust for: restructure costs | Note 3 | **–** | 0.3 |
| Adjust for: (gain)/loss on disposal | Note 3 | **(13.0)** | 3.0 |
| Operating profit before other items from discontinued operations | Performance measures | **2.9** | 3.3 |
| Operating profit before other items – Group | Performance measures | **87.9** | 21.5 |

Note:

1. Operating profit from discontinued operations comprises the profit before net finance income and tax of £2.9m (2020 restated: £3.0m) and gain on disposal before tax of £13.0m (2020: £3.0m loss).

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

| | Six months ended 30 September 2021 £m | | | Restated[1] Six months ended 30 September 2020[2,3] £m | | |
|---|---|---|---|---|---|---|
| **Operating profit/(loss)** | **Reported results** | **Adjust for: other items (Note 3)** | **Performance measures** | Reported results | Adjust for: other items (Note 3) | Performance measures |
| **Segment** | | | | | | |
| Business Services | **65.0** | **0.2** | **65.2** | 20.5 | 0.4 | 20.9 |
| Technical Services | **6.5** | **6.2** | **12.7** | 4.1 | (1.1) | 3.0 |
| CGD | **14.8** | **0.1** | **14.9** | – | – | – |
| Communities | **12.0** | **(0.9)** | **11.1** | 5.3 | – | 5.3 |
| Specialist Services | **10.9** | **0.2** | **11.1** | 9.4 | 0.1 | 9.5 |
| *Care & Custody* | ***3.4*** | **–** | ***3.4*** | *3.5* | – | *3.5* |
| *Landscapes* | ***0.5*** | **–** | ***0.5*** | *2.8* | – | *2.8* |
| *Waste* | ***4.5*** | **–** | ***4.5*** | *3.1* | *0.1* | *3.2* |
| *Spain* | ***2.5*** | ***0.2*** | ***2.7*** | – | – | – |
| Corporate centre | **(49.2)** | **19.2** | **(30.0)** | (32.7) | 12.2 | (20.5) |
| **Total from continuing operations** | **60.0** | **25.0** | **85.0** | 6.6 | 11.6 | 18.2 |
| Catering | **–** | **–** | **–** | (3.3) | 3.3 | – |
| Healthcare | **–** | **–** | **–** | 0.3 | (0.3) | – |
| Nordics and Poland | **(2.9)** | **3.0** | **0.1** | 0.1 | 0.3 | 0.4 |
| Document Management | **18.8** | **(16.0)** | **2.8** | 2.9 | – | 2.9 |
| **Total from discontinued operations** | **15.9** | **(13.0)** | **2.9** | – | 3.3 | 3.3 |
| **Total – Group** | **75.9** | **12.0** | **87.9** | 6.6 | 14.9 | 21.5 |

Notes:

1. The Group disposed the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021.
2. Revenue from continuing operations for the six months ended 30 September 2020 has been represented following the Group reorganising its divisional structure.
3. The reported operating profit from discontinued operations comprises the profit before net finance income and tax of £2.9m (2020 restated: £3.0m) and gain on disposal before tax of £13.0m (2020: £3.0m loss).

## Appendix – Alternative Performance Measures continued

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

| Earnings per share | | Six months ended 30 September 2021 p | Restated[1] Six months ended 30 September 2020 p |
|---|---|---|---|
| Statutory basic earnings/(loss) per share | Statutory measures | **3.8** | (0.4) |
| Adjust for: earnings per share from discontinued operations | | **(1.1)** | – |
| Statutory basic earnings/(loss) per share from continuing operations | | **2.7** | (0.4) |
| Adjust for: other items per share from continuing operations | | **2.2** | 1.3 |
| Basic earnings before other items per share from continuing operations | Performance measures | **4.9** | 0.9 |

Note:

1. The Group disposed the operations in the Nordics and Poland and the Document Management business during the six months ended 30 September 2021. The results of these operations are included within discontinued operations. Refer to Note 1 and Note 4.

### 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.

| | Six months ended 30 September 2021 £m | | | | Six months ended 30 September 2020[1] £m | | |
|---|---|---|---|---|---|---|---|
| Revenue from continuing operations | Group revenue | Share of revenue of joint ventures and associates | Adjust for acquisition of businesses[2] | Performance measures | Group revenue | Adjust for acquisition of businesses[2] | Performance measures |
| **Segment** | | | | | | | |
| Business Services | **775.0** | **–** | **(76.1)** | **698.9** | 445.4 | – | 445.4 |
| Technical Services | **444.5** | **–** | **(75.5)** | **369.0** | 307.6 | – | 307.6 |
| CGD | **253.5** | **34.4** | **(287.9)** | **–** | – | – | – |
| Communities | **225.4** | **4.9** | **(140.4)** | **89.9** | 84.9 | – | 84.9 |
| Specialist Services | **174.3** | **–** | **(54.3)** | **120.0** | 104.9 | – | 104.9 |
| *Care & Custody* | ***60.4*** | **–** | **–** | ***60.4*** | *50.7* | – | *50.7* |
| *Landscapes* | ***19.9*** | **–** | **–** | ***19.9*** | *20.7* | – | *20.7* |
| *Waste* | ***39.7*** | **–** | **–** | ***39.7*** | *33.5* | – | *33.5* |
| *Spain* | ***54.3*** | **–** | ***(54.3)*** | **–** | – | – | – |
| **Total for continuing operations** | **1,872.7** | **39.3** | **(634.2)** | **1,277.8** | 942.8 | – | 942.8 |

Notes:

1. The Group disposed the operations in the Nordics and Poland and the Document Management business during the six months ended 30 September 2021.
2. Comprises revenue of £629.2m (2020: £nil) and £5.0m (2020: £nil) in relation to the acquisitions of Interserve and DAEL respectively.

### Net debt

Net debt is defined as the excess of total borrowings over cash and cash equivalents. It is a measure that provides additional information on the Group's financial position. 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. In addition, restricted cash which is subject to various constraints on the Group's ability to utilise these balances, has been excluded from the net debt measure.

A reconciliation from reported figures is presented below:

| Net debt | | 30 September 2021 £m | 31 March 2021 £m | Restated[1] 30 September 2020 £m |
|---|---|---|---|---|
| Cash and cash equivalents[1] | | **300.3** | 196.2 | 365.9 |
| Adjusted for: restricted cash | Note 12 | **(19.6)** | (18.7) | – |
| Financing liabilities | Note 13 | **(289.8)** | (278.8) | (273.2) |
| Derivative financial instruments hedging private placement notes | | **17.6** | 14.6 | 23.3 |
| Net debt | Performance measures | **8.5** | (86.7) | 116.0 |

Note:

1. As reported in the Annual Report and Accounts 2021, the Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives as at 30 September 2020 have been restated with a reclassification between trade and other receivables, trade and other payables and cash and cash equivalents as set out in Note 1. There has been no change in net assets.

The Group uses an average net debt measure as this reflects its financing requirements throughout the period. The Group calculates its average net debt based on the daily closing figures, including its foreign currency bank loans translated at the closing exchange rate for the previous month end. The average net debt includes the fair value of the derivative financial instruments which are used to hedge the US$ private placement notes. This measure shows average net debt of £59.9m for the six months ended 30 September 2021, compared with average net debt of £47.1m for the year ended 31 March 2021 and £69.3m for the six months ended 30 September 2020.

### Free cash flow

Free cash flow is a measure representing the cash that the Group generates after accounting for cash flows to support operations and maintain its capital assets. It is a measure that provides additional information on the Group's financial performance as it highlights the cash that is available to the Group after operating and capital expenditure requirements are met. The table below reconciles net cash generated from operating activities to free cash inflow.

| Free cash flow | | Six months ended 30 September 2021 £m | Six months ended 30 September 2020 £m |
|---|---|---|---|
| Net cash generated from operating activities[1] | Statutory measures | **117.2** | 97.7 |
| Less: net increase in restricted cash | | **(0.9)** | – |
| Interest received | | **–** | 0.2 |
| Dividends received from joint ventures and associates | | **1.5** | – |
| Purchase of property, plant and equipment | | **(2.8)** | (2.3) |
| Purchase of other intangible assets | | **(12.3)** | (5.6) |
| Disposal of property, plant and equipment | | **0.3** | – |
| Capital element of lease rentals paid | | **(17.1)** | (12.3) |
| Free cash inflow | Performance measures | **85.9** | 77.7 |

Note:

1. As reported in the Annual Report and Accounts 2021, the Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparatives on the consolidated statement of cash flows for the six months ended 30 September 2020 have been restated, with an overall increase in net cash generated from operations of £11.4m due to an increase in payables of £11.6m and an increase in receivables of £0.2m.

### Return on invested capital

Return on invested capital (ROIC) is a measure of how efficiently the Group utilises its invested capital to generate profits. The table below reconciles the Group's net assets to invested capital and summarises how the ROIC is derived, based on a 12-month rolling continuing operating profit before other items after tax.

| | | As at 30 September 2021 £m | Restated[1,2] As at 31 March 2021 £m | Restated[1,2,3] As at 30 September 2020 £m |
|---|---|---|---|---|
| Net assets | Statutory measures | **428.2** | 361.8 | 253.2 |
| **Add:** | | | | |
| Non-current liabilities | | **405.2** | 406.5 | 338.2 |
| Current provisions | | **55.3** | 55.5 | 36.9 |
| Amortisation of acquisition related intangibles including joint ventures and associates related to the Interserve acquisition[4] | | **10.2** | 6.7 | – |
| **Deduct:** | | | | |
| Non-current derivative financial assets | | **(17.6)** | (14.6) | (23.1) |
| Current derivative financial assets | | **–** | – | (0.2) |
| Non-current deferred tax assets | | **(30.8)** | (32.0) | (34.0) |
| Cash and cash equivalents[3] | | **(300.3)** | (196.2) | (365.9) |
| **Invested capital** | Performance measures | **550.2** | 587.7 | 205.1 |
| **Continuing operating profit before other items[2,5]** | | **124.4** | 57.6 | 67.9 |
| Tax[2,5] | | **(25.2)** | (10.7) | (11.7) |
| **Continuing operating profit before other items after tax[2,5]** | | **99.2** | 46.9 | 56.2 |
| **ROIC** | Performance measures | **18.0%** | 8.0% | 27.4% |

Notes:

1. The comparatives as at 31 March 2021 have been restated for measurement period adjustments in respect of the Interserve acquisition. Refer to Note 1 and Note 16.
2. The Group disposed the Document Management business and operations in the Nordics and Poland during the six months ended 30 September 2021. The results of these operations are included within discontinued operations. Excluded from continuing operations is £5.4m for the 12-months ended 30 September 2021 (12-months ended 31 March 2021: £5.8m; 12- months ended 30 September 2020: £6.7m).
3. The Group has changed its accounting policy in relation to the recognition of BACS payments (see Note 1). As a result, the comparative cash and cash equivalents as at 30 September 2020 have been restated as set out in Note 1. There has been no change in net assets.
4. The amortisation of acquired intangible assets related to the Interserve acquisition has been added back on the basis that this would erode invested capital to a significant extent.
5. Operating profit is presented on a rolling 12-month basis. The tax charge has been calculated, at the effective tax rate for the period, for continuing operations based on a rolling 12-month tax rate of 20.3% (31 March 2021: 18.5%; 30 September 2020: 17.2%) and excludes the one-off impact caused by the increase in the UK corporation tax rate effective from 1 April 2023.