Mitie Group plc

Preliminary announcement of results for the year ended 31 March 2016

Financial highlights

	2016	2015	yoy % change
Revenue	**£2,231.9m**	£2,273.8m	**-1.8**
Operating profit before other items*	**£128.9m**	£128.6m	**+0.2**
Operating profit	**£112.5m**	£56.0m	**+100.9**
Profit before tax	**£96.8m**	£41.5m	**+133.3**
Earnings per share before other items*	**25.0p**	24.8p	**+0.8**
Basic earnings per share	**21.3p**	9.7p	**+119.6**
Dividend per share	**12.1p**	11.7p	**+3.4**

- Operating profit before other items of £128.9m, generating a 5.8% margin (2015: £128.6m, 5.7%)
- Operating profit has grown 100.9% to £112.5m, generating basic EPS growth of 119.6%
- Strong dividend growth of 3.4% to 12.1 pence per share
- Cash conversion of 75.2% (2015: 126.5%); five-year average 100.3%
- Net debt of £178.3m or 1.2x EBITDA (2015: £177.8m)

Good overall progress

- Good performance in Facilities Management business (84% of group revenues); very strong operating profit margin of 6.3%
- Market leading integrated FM business accounts for one-third of revenues and after a successful period of retentions and extensions, have no major rebids until 2019; this underpins the strength of our long-term prospects
- Revenue growth in FY16 was impacted by lower discretionary and project spend, as well as some delayed starts on new contracts
- Recent flow of new FM contract awards will see a return to modest revenue growth in FY17
- Property Management business (13% of group revenues) delivered good growth and substantial margin improvement
- Recovery underway in Healthcare business (3% of group revenues)

Capital allocation

- We prioritise the use of our cash to: invest for organic growth; acquire small bolt-on businesses; grow dividends at least in line with the underlying earnings of the group; and buy back shares to offset share issues under share schemes and the Mitie model
- In addition, we are initiating a buyback programme to return surplus cash to shareholders whilst maintaining modest year-end gearing levels of between 1 to 1.5x EBITDA; this will be up to £20m in the financial year ending March 2017 and will be reviewed annually going forward. Shares purchased will be cancelled

Well positioned for the future

- 82% of 2016/17 budgeted revenue secured (prior year: 85%)
- Sales pipeline buoyant at £9.1bn (2015: £9.7bn) and order book remains strong at £8.5bn (2015: £9.0bn)
- We remain the number one FM provider in the UK and continue to see a good range of opportunities, particularly in the private sector where our partnership model and technology-led approach sets us apart

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

“Mitie has had a good year, with strong margins and profits. I am delighted that the dividend is increasing for the 27th consecutive year.

“We are a pure services business with a strong position in our chosen markets. We operate long-term contracts for a blue chip client base and are well diversified across the private and public sectors.

“Our business model is flexible, resilient, low risk and has proven to be responsive to client needs and market conditions over three decades.

“We continue to see a range of good outsourcing opportunities across our key markets and anticipate modest growth in the coming year. We remain positive about the group’s prospects for the future.”

* Other items are described in Note 3

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Mitie will be presenting its preliminary results for the year ended 31 March 2016 at 09.30 on Monday 23 May 2016. A live webcast of the presentation will be available online at www.mitie.com/investors at 09.30. The recorded webcast of the presentation and a copy of the accompanying slides will also be available on our website later in the day. Mitie expects to publish its Annual Report and Accounts (containing financial statements that comply with IFRS) in June 2016 and copies will be available from Mitie's registered office and on its website www.mitie.com. Mitie's Annual General Meeting will take place at 11.30 on 12 July 2016.

Legal disclaimer

This announcement contains forward-looking statements. Such statements do not relate strictly to historical facts and can be identified by the use of words such as 'anticipate', 'expect', 'intend', 'will', 'project', 'plan', and 'believe' and other words of similar meaning in connection with any discussion of future events. These statements are made by the Directors of Mitie in good faith based on the information available to them as at 23 May 2016 and will not be updated during the year. These statements, by their nature, involve risk and uncertainty because they relate to, and depend upon, events that may or may not occur in the future. Actual events may differ materially from those expressed or implied in this document and accordingly all such statements should be treated with caution. Nothing in this document should be construed as a profit forecast.

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

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

Overview

This has been a year of good overall progress for Mitie. We have had a steady flow of new contract awards and have now successfully re-bid or extended all of our major integrated facilities management contracts. Although we faced some unanticipated macroeconomic headwinds that impacted sales growth, we have maintained strong margins, and good operating profit before other items. Cash conversion remains high and we have achieved substantial growth in earnings per share.

The short-term momentum of the business has been impacted by a number of economic pressures during the year. These include lower UK growth rates, further government spending cuts, increasing labour costs and uncertainty relating to the upcoming EU referendum. Despite these economic pressures, we have made good progress and demonstrated what a truly resilient business model we have.

Our FM business continues to perform well, particularly in the area of integrated FM where we have successfully re-bid or extended all of our major integrated contracts until at least 2019. Significant new contracts have also been secured with Deloitte, Thales, dmg media, NHS Property Services, CTIL and Ladbrokes with a combined annual value in excess of £80m. Revenues were slightly lower than the prior year, partly due to new contract awards being mobilised late in the financial year, and also as a result of some project works being delayed or cancelled. However, with new contracts starting in the new financial year, a good pipeline of sales opportunities and a number one market position in the UK, we are positive about the potential for long-term growth.

We have seen growth in our property management business and although healthcare had a challenging year, we continue to see positive long-term opportunities.

We have focused our efforts on what we do best. We have supported our clients as times become tougher by innovating and introducing new outsourcing models. Our customer proposition is constantly evolving to meet client needs and we are adept at incorporating technology to improve our management of property, workplaces and people services.

Results

During the year, revenue decreased by 1.8% to £2,231.9m (2015: £2,273.8m). Operating profit before other items increased by 0.2% to £128.9m (2015: £128.6m), reflecting a margin of 5.8% (2015: 5.7%). Profit before tax increased by 133.3% to £96.8m (2015: £41.5m) and earnings per share before other items increased by 0.8% to 25.0p (2015: 24.8p). Earnings per share has increased by 119.6% to 21.3p (2015: 9.7p).

Cash generation remained good, with cash inflows from operations of £114.6m (2015: £113.2m), representing conversion of EBITDA to cash of 75.2% (2015: 126.5%). The balance sheet is robust with net debt at the year-end of £178.3m or 1.2x EBITDA before other items (2015: £177.8m or 1.2x).

Our order book remains strong at £8.5bn (2015: £9.0bn). Our sales pipeline currently stands at £9.1bn (2015: £9.7bn) and our forward revenue visibility is good, with contracted revenue for the year ending 31 March 2017 at 82% of budgeted revenue (prior year: 85%).

Dividend

The Board's policy is to grow the dividend at least in line with the underlying earnings of the group, while maintaining dividend cover at a prudent level. The final dividend proposed by the Board has increased by 3.1% to 6.7p per share (2015: 6.5p per share), bringing the full year dividend to 12.1p per share (2015: 11.7p per share), an increase of 3.4%. This represents 27 years of consecutive dividend growth, demonstrating our resilient business model and consistent cash generation. Subject to shareholder approval at the Annual General Meeting, the dividend will be paid on 4 August 2016 to shareholders on the register at 24 June 2016.

Capital allocation

We are focused on returning sustainable, long-term value for our shareholders and as part of that we take a disciplined approach to capital allocation. First and foremost, we invest in working capital to support the organic growth of the business. We will also continue to make small, bolt-on acquisitions that add capability to our offering, as well as grow our dividend in line with the policy outlined above. We have a track record of buying back shares to offset share issues under share schemes and the Mitie model, and this policy will continue in the future.

In addition, we are initiating a buyback programme to return surplus cash to shareholders, whilst maintaining modest year end gearing levels of 1 to 1.5x EBITDA. This will be up to £20m in the current financial year and will be reviewed annually going forward. Shares purchased will be cancelled.

Outlook

Mitie is in a strong position. Our business model is flexible and resilient and has proven to be responsive to client needs and market conditions over three decades. We have a blue chip client base, are well diversified across the private and public sectors and we have an experienced and stable management team.

Our focus remains on generating value for shareholders, with profits backed by strong cash flows, whilst maintaining a robust balance sheet and margins within our target range.

We have a substantial order book and sales pipeline. We continue to see a range of good outsourcing opportunities across our key markets and anticipate modest growth in the new financial year. We remain positive about the prospects for the group's future.

Operating review

Facilities Management

Our FM business comprises two divisions. Soft FM includes cleaning and environmental services, security, catering and front of house services. Hard FM provides a range of technical, building maintenance and energy services. We bring these services together with property consultancy and data analysis in a single tailored proposition that we call Integrated Facilities Management. As all of the services in our integrated FM contracts are delivered by our FM businesses, we include relevant revenue and profits on these contracts within Hard and Soft FM below.

	2016	2015	Growth
Revenue			
Soft FM	£1,255.1m	£1,280.3m	(2.0%)
Hard FM	£618.4m	£621.1m	(0.4%)
	£1,873.5m	£1,901.4m	(1.5%)
Operating profit before other items			
Soft FM	£85.4m	£81.9m	4.3%
Hard FM	£31.7m	£31.4m	1.0%
	£117.1m	£113.3m	3.4%
Operating profit margin before other items			
Soft FM	6.8%	6.4%	+0.4ppt
Hard FM	5.1%	5.1%	-
	6.3%	6.0%	+0.3ppt
Order book	**£7.2bn**	£7.6bn	(5.3)%

Key contract awards:

Client	**Total value**	**Time frame**
Dixons Carphone A new FM service contract to provide premises management, maintenance, cleaning, security and front of house for key non-retail locations	£10m	3 years
JLL - Property and Asset Management Awarded multiple soft and hard FM contracts for Investor Client property portfolios across UK.	£100m	3 + 2 years
Sky Extended contract term by five years and changed scope with Europe's leading entertainment company. Mitie will continue to provide a range of services including, mechanical and electrical maintenance, and security, front of house, cleaning, helpdesk, switchboard, mailroom management and waste management.	£190m	8 years
Deloitte LLP Appointed to deliver the complete range of FM services, including cleaning, security, landscaping, pest control, waste management, health and safety management, energy consultancy and helpdesk services across Deloitte's entire UK estate	£40m	5 years

Developments during the year

Our FM businesses had a strong year, with a 93% contract retention rate and some notable successes. We broadly maintained revenues and profits despite a shortfall in project work, due to our success in winning a number of new contracts.

The macroeconomic backdrop in the UK limited our growth during the year, as clients changed their spending patterns. In the first few months of the year, we saw organisations delaying decisions on projects until after the UK general election. Following the election, the private sector resumed activity at a healthy rate but the public sector retained its focus on reducing the deficit and cutting expenditure. In the second half of the year, our markets experienced general uncertainty, following the Government's decision to hold a referendum on the UK's membership of the EU. Together, these factors combined to cause a number of our clients to either delay or cancel projects until after the referendum.

While the day-to-day services that we provide continued as expected, there was some reduction in discretionary spend and projects. In response, we took prompt action and removed any discretionary items of expenditure from our budgets, and also delayed or cancelled some of our own projects. These actions enabled us to maintain a healthy level of profitability across FM as a whole.

Another major factor this year was the impact of a series of initiatives by the UK Government that will result in significant increases to the cost of employing people over the next few years, especially people on lower incomes. Our response is to engage with our clients and discuss the possible options in detail, before implementing the necessary changes. The actions that we take vary depending upon the circumstances of each individual client. While some clients are able to afford and pass on any increases, many are not able to do so. In these instances we work with them to identify changes to either the quantity or scope of services that we provide. Another option that we are finding increasingly appropriate is to increase the extent to which we use technology to support our service delivery. Recent innovations mean that we are now able to track more accurately the needs of our clients, both in terms of the buildings they occupy and the people who use them.

Integrated FM

Key contract awards:

Client	Total value	Time frame
dmg media Multi-year FM contract with increased scope that will see Mitie add mechanical and electrical maintenance, front of house, mailroom and logistic services to its existing security and cleaning service offering.	£30m	5 years
Thales UK Ltd New contract to deliver a range of IFM services across Thales Group's entire UK estate.	£40m	5 years
Rolls-Royce Successfully re-bid the facilities management of Rolls-Royce's UK and specific European properties.	ND	ND
RWE npower Successfully re-bid contract with leading energy company to provide a number of services including cleaning, security, waste management, reprographics, space planning, mechanical and electrical maintenance, pest control, mailroom management and drink and snack vending.	ND	3+2 years

In addition to providing services, our Integrated Facilities Management (IFM) business manages and develops contracts where we manage those services, using technology to analyse data in order to improve efficiency and support our clients' property strategies. We currently manage 19 IFM accounts in the public and private sector across the UK and Ireland (with 4% of its revenue coming from the rest of Europe), representing total revenue for Mitie of £745m.

During the year we achieved excellent results in contract retentions, where we have successfully extended all our major private sector contracts over the last 12 months. There are no significant re-bids in this portfolio over the medium term. In the public sector, we extended our contract term and scope with the Cumbrian Collaboration until 2019.

We successfully re-bid our contract to deliver pan-European integrated FM services for Rolls-Royce. This was the largest contract out to tender during this financial year and we are delighted to be continuing a relationship that first began in 1992, when we provided a single service to Rolls-Royce in the UK.

We also extended the term and scope of our integrated FM contract with Sky for an additional five years. We have supported Sky's operations since 2012 and the new agreement, under which we will provide integrated FM across Sky's entire estate in the UK and Ireland, will extend our partnership to 2021 and generate total revenues of £190m.

In addition, we successfully re-bid our integrated FM contract with RWE npower and were awarded a new contract to provide integrated FM for dmg media, building on our existing work providing security services to the group.

Our success in developing existing client relationships has been complemented by a range of service contracts for new clients, including three significant integrated FM contracts. Each of these contracts is valued at around £40m over five years and includes the potential for additional reactive and project works. In the finance sector, we will deliver a wide range of services for Deloitte, across 34 sites and over 1.3m square feet of office space. We were also awarded a contract to provide services to over 300 UK branches of a new high street bank. In the industrial sector, we have been awarded a new contract to provide services across the UK estate of Thales Group.

Our approach to IFM is to be selective about the opportunities we bid. We have a preference for the private sector due to the greater volume of IFM opportunities, faster procurement turnarounds and the sector's balanced approach to risk transfer, as well as its ability to develop stable long-term relationships.

Our methodology is to:

1. Retain and expand service scope to current IFM clients
2. Develop single/ bundled current service provision into IFM contracts
3. Identify and target new outsourcing clients in key sectors
4. Develop our international capability to service current clients overseas

Our IFM proposition is based on:

- an experienced management team to integrate the contracts, provide one point of contact and lead at a strategic level - providing value-add advice beyond day-to-day operations and enabling a thin client interface;
- 95% in-house service delivery - offering expertise on tap, consistency, flexibility and no people duplication or margin on margin; and
- quality technology and data to enable greater strategic decision-making around the total cost of property ownership and occupation.

Our IFM clients are at the heart of Mitie's future development and we foster very strong relationships with them. Partnering and relationship building are key aspects of our operational expertise, reflecting the size and scope of the contracts we manage. In many cases we see these relationships developing and leading to our team being established as trusted advisors. Alongside the significant investment of senior and experienced resource for our contracts, we also carry out Miclient campaign reviews which support the retention and extension of current relationships. These campaigns help us focus on the importance of contract retention and ensure we contribute to and improve our performance in this area. Each contract features targets which we strive to achieve. In addition, our award-winning top level executive relationship programme helps establish and build relationships with property and facilities directors from current clients as well as prospects at a strategic level. We also conduct regular surveys that help us to gain a deeper understanding of advocacy, pinch points and strengths and weaknesses which are used as a robust feedback loop. Finally, senior members of the IFM Board and Mitie's Executive Board regularly spend time with our largest clients, developing strategic relationships at the highest level and making sure that these clients' concerns and priorities are understood.

We work hard to deepen our relationships with our IFM clients, including through the services provided by our property consultancy business, Source8. In addition to the advisory and business support services Source8 provides to corporate and governmental organisations on implementing real estate, technology and risk management, the business is now supporting some of our IFM clients across their global property portfolios. This is enabling us to execute our strategy of following our clients internationally, and will be an important area for us in the years to come.

Soft FM: Cleaning

Key contract awards:

Client	Total value	Time frame
Farnborough International Air Show A new contract to provide cleaning services at the Farnborough International Air Show	£3m	5 years
Chelsea Harbour Ltd Secured a contract to provide manned security and cleaning services across its large estate.	£7.5m	5 years
Transport For London (TfL) Successfully re-bid street furniture cleaning and maintenance contract with Transport for London.	£16.5m	5 years
St George's University Hospitals NHS Foundation Trust Extended the term and scope of our contract to deliver a full suite of soft FM services in-house and under one management team	£33m	3 years

The cleaning business has had a solid year, supported by the benefits of shifting the business to a more innovative technology-based service.

The structure of this business features regional operations across the UK together with business units specialising in different market sectors such as transport, leisure, retail, manufacturing and healthcare. We are the largest daily office cleaning business in the UK and also the number one events cleaning business – in fact our people clean over 20 million square feet of retail space every day.

In the healthcare sector we have over 3,000 people providing FM services including domestic cleaning, clinical cleaning, patient dining, portering, retail restaurants, linen, helpdesk, waste and recycling, post room, materials, reception, grounds maintenance, pest control and security. We prepare and serve over two million patient meals a year.

The manufacturing team also employs around 3,000 people who provide FM services, including heavy duty industrial cleaning and window cleaning. The scope of the contracts operation includes motor manufacturing, heavy engineering, food manufacturing and distribution centres – all highly specialist areas that require dedicated teams and management.

Our cleaning business is differentiated by the degree of innovation that we bring to the market. For example, we were the first to use microfibre technology, an early adopter of vacuum back-packs and among the first to rigorously enforce ethical procurement policies for uniform suppliers. We were the first to set up independent lean Six Sigma applications, with our own lean software and Lean Academy. We are now taking cleaning to the next level of innovation by investing in and implementing automation, wearable technology, apps focusing on quality, telemetrics, intelligent sensors and real-time energy meterage together with liquid glass and ozone technology.

All these technologies are brought together in our business management system Workplace +, which links workplace planning, traceability and accountability with cloud-based productivity, auditing and reporting systems.

New contracts awarded during the year included Virgin Atlantic, Westfield, Chelsea Harbour and TfL, while we extended the term and scope of our contract with BMW and successfully re-bid Canary Wharf.

For the year ahead, we will be launching a new technical cleaning services business across the UK to expand our flooring, windows and industrial cleaning offer – an area where we see good potential for growth.

Soft FM: Environmental services

Key contract awards:

Client	Total value	Time frame
Network Rail Ltd A new contract with Network Rail to provide environmental on-track support services which will see Mitie deliver a unique, combined service incorporating trackside pest control, fly tipping clearance and sanitation support.	ND	7 years
Lucozade Ribena Suntory Appointed by the soft drinks manufacturer to provide complete waste management services across its entire UK estate	ND	3 years
Hull and East Yorkshire Hospitals NHS Trust Secured a contract to provide waste services across the hospital	ND	5 years

Our environmental services comprise landscaping, pest control and waste management.

Landscapes enjoyed a successful year, with highlights including the implementation of a major contract with JLL, new contracts with NHS Property Services and National Grid and the successful re-bid of contracts with CBRE and BNP Paribas. The business also launched a new look and feel for its brand and developed a customer portal. Sectors targeted for the year ahead include managing agents, retail, distribution, utilities and leisure.

Waste management made good progress, with its market-leading offering that enables clients to realise significant cost benefits at the same time as exceeding their sustainability objectives. It benefits from a differentiated approach that blends waste minimisation, reuse and resource resale, supported by efficient disposal only where necessary. The business was awarded contracts with Lucozade Ribena Suntory and Network Rail during the year and successfully re-bid its biggest contract with Novartis. Target sectors include FMCG, automotive, pharmaceuticals and retail.

Pest Control continues to innovate in its market, winning awards for the high standard of its technicians as well as for quality. Following investment in its PestAlert system, the business now uses drones to survey some sites. Pest Control was awarded contracts with Network Rail, NHS Property Services and Onestop during the year while extending the term and scope of our contract with Bourne Leisure. Target sectors include food manufacturing, retail and distribution.

Soft FM: Security

Key contract awards:

Client	Total value	Time frame
Aberdeen Harbour Ltd A new contract to deliver security services across four key areas of one of the busiest ports in the UK.	ND	3 years
NuGen Appointed by the UK nuclear company to provide security personnel at three of its sites.	ND	3 years
Belfast City Airport A new contract to deliver security services at Belfast City Airport	£6m	3 years
Major retailer A new contract to provide security services across a leading retailer’s 500 stores.	£50m	4 years
Scottish & Southern Energy PLC A new contract to provide 24 hour security personnel across its UK wide portfolio.	ND	3 years

Our security business performed well during the year. Although margin pressure continued in the manned guarding market, we are pleased that this was offset by the successful development of technology, vetting, systems and mobile services. We expect this change in mix to continue in the years ahead.

We have launched an emergency services business which will provide emergency security and mobile services, and will be introducing more technology driven services to detect security threats and protect properties with either fixed or mobile CCTV. We are also looking to develop our car park management services.

The year's major contract awards included an agreement with a large food retailer, where we are adopting a risk-based deployment model utilising software and handheld technology to capture incidents and analyse data. The contract will have a dedicated pod in our Mitec centre for remote CCTV and BMS monitoring. We will also be providing protection for lone and vulnerable workers and providing specialist risk management services. In line with our commitment to greater use of technology, we will be using a mobile and detection model for the contract with the National Grid, with an emphasis on protecting unoccupied buildings.

The business successfully re-bid a number of contracts during the year, including those with Citibank, Channel 4, Financial Times, Pearson and Coventry University.

Procius, our employment screening business, continues to deliver good growth and is now established as one of the UK's largest providers of pre-employment screening, competency management and criminal records checking services. Procius provides services though a central software platform, MyCheck™, which has increased productivity significantly and enabled us to attract new clients such as New Look, Home Retail Group and Eversheds. We will shortly be launching an online service to support organisations seeking to provide references for ex-employees.

Our document management business made good progress in the year. It started the first outsourced print room for a magic circle law firm, delivering both hybrid and digital mail solutions from our offsite facilities in London and Birmingham. We have rolled out our new Pinpoint tracking software across multiple sites for both public and private sector clients and, in addition, launched and delivered our Lean consultancy services across a number of customers and their portfolios.

Soft FM: Catering and front of house

Key contract awards:

Client	Total value	Time frame
Capita Expanded the scope of a contract to provide catering at Capita's key offices	£2.3m	3 years
Vodafone New contract that will see Gather & Gather cater for 9,000 Vodafone employees every day across 12 locations across the UK.	£40m	5 years
LinkedIn Gather & Gather awarded a new contract to provide catering to LinkedIn's EMEA Head Office in Dublin.	ND	3 years
London South Bank University Successfully re-bid a contract to provide reception and student information services across the London campus.	£2.5m	3 years

Following two years of dramatic growth, the Gather & Gather brand now has a substantial presence in the market. We were awarded a new five-year, £40m contract with Vodafone, consolidating the group's position as a leading IFM provider. Gather & Gather also successfully expanded its catering operations in Europe, including in Germany, following the successful re-bid of the Rolls-Royce contract. In Ireland, the business grew revenues by £7m, boosted by key new contracts such as LinkedIn and Eircom. Other successes during the year included Laithwaites Wine and Primark.

Our approach is to create food with personality and attitude, served by people who are passionate about food as well as the quality of service they provide. Sourcing of ingredients is a key part of the Gather & Gather ethos, with local and sustainable always being the preferred option. We pay particular attention to how the food we serve impacts upon the productivity of the people who eat it. We want to be a part of what makes a successful productive workplace that helps our clients to attract and retain the best people.

Sustainability is a big focus area for the business, and we successfully moved from 2 stars to the maximum 3 star sustainability champion rating from the Sustainable Restaurant Association. We also made significant investments in driving technology solutions across the business, including the launch of the Gather & Gather app.

In 2015 we completed the full acquisition of Creativevents, having initially acquired 51% of the business in 2012. Creativevents provides food and beverage services at leisure and entertainment venues, outdoor festivals and corporate events. It reported a good year, securing a number of new events and festivals, as well as a new visitor cafe at The Shard.

Client Services, our business specialising in front-of-house reception services and switchboards, has enjoyed strong retention successes and is looking forward to a successful 2016 under the leadership of new MD Conrad Dean, who came through Mitie's highly successful development academy.

Hard FM

Key contract awards:

Client	Total value	Time frame
Cornerstone Telecommunications Infrastructure Ltd A new contract to manage the network sites for CTIL, a joint venture between Vodafone UK and O2 (Telefonica), to consolidate their sites to create a single grid. The contract will see Mitie deliver FM maintenance services to the network, covering the entire UK.	£70m	5 years
Red Bull Racing A new contract to provide hard FM services to Red Bull Racing in Milton Keynes.	ND	ND
NHS Property Services Appointed by NHS Property Services to supply its Hard FM services of Mechanical and Electrical (M&E) and Building Fabric at locations across England.	£100m	3+1+1 years

The Hard FM business delivers a range of technical building and maintenance services across most market sectors in the UK. We are the largest such organisation in the UK and work closely with our clients to manage their maintenance and energy expenditure.

The year saw a reduction in the number of projects, for reasons previously outlined. Due to this change in business mix, with a smaller proportion of revenues generated by higher-margin variable project works, profitability of this division was negatively impacted. However, we delivered revenues broadly in line with last year due to a steady stream of contract successes.

We were recently awarded a contract worth up to £100m over five years with NHS Property Services, a private company set up by the Department of Health to manage all the ex-primary care trust estates. Following a client-led rationalisation of suppliers, we will be providing hard FM, security, landscaping and pest control. We will be conducting extensive asset and facet surveys, and will use our patented technology to manage, monitor and report on all maintenance and project works.

We have also been awarded a five-year contract with Cornerstone Telecommunications Infrastructure Ltd, a joint venture between Vodafone UK and O2(Telefonica) to manage the network sites for both companies, and consolidate a number of sites to create a single grid. The contract is valued at more than £70m over five years and will see Mitie deliver hard FM services to the network of over 20,000 cell mast sites across the UK. We will use our unique dashboard asset management software, Direct Audits, to provide real time contract and asset data.

We also successfully re-bid our contract with Ladbrokes during the year, which is valued at more than £80m over five years. We will provide a range of services including hard FM, complaint management and other soft services to over 2,000 retail outlets and offices. In addition, Dixons Carphone awarded us a five-year bundled contract which includes hard FM and other soft services.

Our energy consulting business, Utilyx, successfully re-bid contracts with key clients including McDonalds, Barclays, HSBC and John Lewis Partnership, and extended the term of its contracts with Royal Mail and Virgin Active. It has also been awarded new work with current clients including over 40 Energy Saving Opportunity Scheme submissions. This has resulted in positive follow-on projects with organisations including KFC and GLH Hotels.

Property Management

	2016	2015	Growth
Revenue	**£280.4m**	£273.4m	2.6%
Operating profit before other items	**£15.8m**	£10.4m	51.9%
Operating profit margin before other items	**5.6%**	3.8%	+1.8ppt
Order book	**£0.8bn**	£1.0bn	(20%)

Key contract awards:

Client	Total value	Time frame
Home Group Ltd Awarded a contract to provide cyclical external redecorations and pre-painting repairs	£7m	3+2 years
LHC Building Components & Services New social housing contract	ND	4 years
Greenfields Community Housing New painting contract to provide cyclical external and internal redecorations and pre-painting Repairs	£1.3m	2 years

The Property Management business provides a wide range of services to predominantly social housing clients in the UK. It also delivers claims handling and repair services to insurance companies and is the largest commercial painting organisation in the UK.

Our social housing business experienced a year of two halves. In the first half, buoyed by contract awards and increased spending levels from existing clients, it recorded significant growth in both revenue and profits. Over many years we have seen a marked improvement in the second half as our clients look to deliver their budget commitments. However, this was not the case this year, with social housing landlords forced to reassess spending plans as a result of the UK Government reducing rents by 1% a year for four years from April 2016, in an attempt to reduce the housing benefit bill. As social landlords had previously been able to increase rents each year by CPI plus 1%, this equates to around a 12% reduction over the four-year period. Consequently, a number of social landlords are deferring project work and all are concentrating on statutory maintenance work. The result is that the second half saw reduced revenue and profit terms instead of the traditional boost to performance typically achieved during those months.

The Government's actions are driving social landlords to consider different ways to look after their homes. Some are re-tendering services in the traditional way, hoping that competition will drive down prices, while others are looking at new models where the range of services provided and the responsibilities of partners vary. It is worth noting that a feature of the current market is that we are being approached by some of our clients to take over contracts from other providers that are not meeting expectations.

Our response to the changes is to retain a flexible approach to service delivery, enabling us to provide services locally, regionally or nationally as well as either in single services, bundles or in more integrated models.

We are currently expanding our service capability, with a focus on providing an integrated property management solution. This will mean that we will be able to provide clients with a total, integrated service including call centres, property management, responsive and planned maintenance, compliance and energy services, property surveys, asset management consultancy and investment planning across the UK.

As the market leader in painting and repair services, with national coverage, we continued our strong growth trajectory during the year. We secured notable new contracts with Semperian Group Ltd (providing a re-decoration service nationally to schools, hospitals and prisons), Taunton Deane Borough Council, Johnnie Johnson Housing Trust, CityWest Homes, Wandsworth Borough Council, three universities in Glasgow (Strathclyde/Glasgow/Glasgow Caledonian), Heineken UK Ltd, Britannia Hotels and NHS Fife. We targeted improved revenues and associated margins in the private sector, while ensuring that we also secured a number of long-term public sector contracts.

We were proud to win the most prestigious prize in the painting and decorating industry – the Painting and Decorating Association's Premier Trophy Special Award for Excellence. This showcased our diversity of skills as well as the high levels of craftmanship that our teams possess, keeping us ahead of our competition.

Healthcare

	2016	2015	Growth
Revenue	**£78.0m**	£91.4m	(14.7%)
Operating profit before other items	**(£4.0m)**	£4.9m	nm
Operating profit margin before other items	**(5.1%)**	5.4%	nm
Order book	**£0.5bn**	£0.4bn	25.0%

Key contract awards:

Client	**Total value**	**Time frame**
Hampshire County Council A new contract to provide care at home for residents in the Havant and Petersfield area.	£3.2m	4 years
London Borough of Hammersmith & Fulham and Royal Borough of Kensington & Chelsea A new contract with the London Borough of Hammersmith & Fulham and Royal Borough of Kensington & Chelsea to deliver care at home and specialist learning disability support to the local residents.	£36m	4 years
Reading Borough Council A new contract to deliver care in the home to the residents of Reading including low level continuing healthcare services.	£4m	4 years

Our healthcare business provides care at home for people who need help and support due to illness, infirmity or disability. In addition, we also provide nurse-led complex care solutions in the home. The majority of these services are funded by local authorities or the NHS, however we also have a service offering that delivers privately-funded care.

This has been a challenging year for our healthcare business. Our local authority clients have been faced with a multi-year squeeze driven by reduced funding from central government, increasing demand for services caused by demographic shifts and an inability to increase council tax. This has been alleviated to some extent by the UK Government's decision to allow an increase in council tax of up to 2% to fund increasing social care costs. However, most of this increase will be absorbed by wage increases resulting from the new National Living Wage. In the longer term, the funding crisis would be better solved by pooling health and social care budgets and redesigning the commissioning of the services.

During the year we reduced the scale of our operations in the social care business, with MiHomecare reducing from 40 branches to 31 branches.

It is pleasing to see that the business is making progress and achieving better quality scores. We now have a better care business operating in areas where we can develop over the long term.

In future, our approach to the social care market will be highly selective. We will only work with clients who are prepared to pay sustainable rates for care, and this will in turn allow us to pay wage rates which will support our drive to attract and retain quality people. We want to develop long-term relationships with our clients and are looking forward to working with them on developing improved models for the delivery of social care in the future.

We are now seeing examples of our ability to retain existing contracts and also win new contracts at the higher rates that will allow the business to return to profitability over the medium term. Recent awards include contracts with Devon County Council and the London Borough of Barnet.

This has been a year of stability for our complex care business, CompleteCare. The focus has been to consolidate its position as a leading provider of nurse-led homecare by ensuring a pipeline of quality care workers. In addition, we have worked to ensure that the commercial arrangements of all CompleteCare contracts are appropriate for the level of care being provided. The business is now well placed to grow in the future.

Our Care Agency business delivers privately funded care. This can range from the traditional domiciliary care and support to providing carers who will live permanently at a service user's home. Although the Care Agency is currently a relatively small part of the business, the signs are encouraging for its future prospects.

Other developments

To ensure that Mitie is best placed to respond to its changing markets and remains a lean and efficient business, we have made some changes to the way we operate. From 1 April 2016 parts of the soft and hard FM businesses will be combined to operate under one management structure. The management structures of our property management and healthcare businesses will also be combined to create one services business that faces our key public sector markets of social housing, justice and healthcare. These changes will allow us to optimise our back office and support functions, ensuring we provide the best solutions and services to our clients.

As a top ten private sector employer, we welcomed the announcement that a new National Living Wage would be introduced in the UK in April 2016. We are supportive of this move, which ensures that those of our people who are affected are better rewarded and feel more motivated to do the jobs they do. Since the minimum wage was introduced in 1999, we have managed the impact from its annual change as part of the normal course of our business. Having completed discussions with our clients in relation to both the regular annual increase in the minimum wage and the introduction of the National Living Wage in April 2016, we remain confident that our contractual protections ensure that it will not have a material impact on our future earnings.

Financial Review

A strong financial position

Mitie is focused on delivering long term value for our shareholders, our customers and our people. This year's financial results show continued profit growth, improved margin, growth in earnings per share and good cash generation. Mitie is in a strong financial position with low leverage, a robust balance sheet and long term committed financing facilities. These results enabled us to increase our dividend, continuing our strong record of annual dividend growth over each of the last 27 years.

Revenue

Revenue reduced by 1.8% to £2.23bn (2015: £2.27bn). New contract awards towards the end of the year, along with a strong pipeline of opportunities, support our expectation for a return to revenue growth in the year to March 2017.

Operating Profit

Operating profit for the year saw a significant improvement compared to the prior year, increasing by 101% to £112.5m (2015: £56.0m). This improvement reflects both the completion of the exit from the group's historic construction market exposures and an improvement in the trading result from our continuing business where operating profit before other items grew by 0.2% to £128.9m. Our operating profit margin before other items improved to 5.8%, in line with our target range of 5% to 6%, and an increase of 10 bps over last year.

Other Items

Costs of £16.4m disclosed as other items represent the amortisation of acquisition related intangible assets and acquisition related costs. This included a write off of intangible assets of £6.2m attributable to healthcare contracts exited during the year on financial grounds. Last year we completed the exit from our construction market exposures and there have been no net residual charges arising from this activity in the current year (2015: £61.6m). Further details of other items are set out in Note 3.

Generating sustainable shareholder value

Profit before tax was £96.8m (2015: £41.5m). The effective tax rate for the year was 19.9% (20.0% before other items). With the majority of the Group's activities based in the UK, our effective tax rate generally tracks the UK mainstream rate of corporation tax, which was 20% in the year.

Profit after tax was £77.5m (2015: £35.7m) and following a small reduction in the weighted average number of shares for the year to 355.4 million (2015: 359.3 million), drove basic earnings per share of 21.3p, an increase of 120% on the prior year (2015: 9.7p).

In 2013, the Board approved a policy to maintain share numbers at a broadly consistent level year-on-year, with the aim of ensuring that the interests of shareholders are not diluted by the issue of shares that support the group's various share schemes, nor by the issue of shares as consideration for earn outs under the Mitie Model. To this end, in the year to March 2016, the group purchased 2.3 million of its own shares (2015: 3.7 million) at a cost of £6.6m; these shares are held in treasury. The group also purchased 5.2 million of its own shares at a cost of £15.2m and these shares were subsequently cancelled. At 31 March 2016, the group held a total of 10.5 million shares in treasury.

Returning cash to shareholders

The group has a strong track record of dividend growth, having increased dividends in each consecutive year since the group first paid a dividend in 1990, following its listing on the London Stock Exchange in 1987. Growing returns to our shareholders lies at the core of our business model and we will continue our progressive dividend policy to grow dividends at least in line with underlying earnings of the group, while maintaining dividend cover at a prudent level.

The full year dividend recommended by the Board is 12.1p per share (2015: 11.7p per share), reflecting a cover of 2.1x (2015: 2.1x) earnings per share before other items. This year's dividend to shareholders, which fully reflects our continued confidence in the business, represents a dividend growth of 3.4%. During the year, total dividends of £42.3m were paid to shareholders (2015: £40.5m).

In addition to paying dividends, the Board has approved a share buyback programme to further enhance returns to shareholders whilst maintaining a modest year end gearing level of 1.0x-1.5x EBITDA. This will initially be up to £20m in 2017 and will be reviewed annually going forward. Shares purchased will be cancelled.

Return on capital employed

Our return on capital employed (ROCE) for the year is 17.5% (2015: 18.6%). ROCE is calculated as operating profit after tax before other items (adjusted for the pro-forma, full year effect of acquisitions) divided by capital employed. Capital employed is calculated as net assets excluding net debt less non-controlling interests.

Our ROCE demonstrates our ability to generate returns from the capital employed by our business. We focus on our ROCE through the management of our asset base and profit streams and take into consideration returns on capital when we invest to maximise the profitability of the group. By generating returns that exceed our weighted average cost of capital, currently 7.0%, we are ensuring that our investment decisions add value to our business.

Balance sheet

At 31 March 2016, the Group had £415.1m of net assets. Goodwill and other intangible assets of £532.4m (2015: £541.0m) were held on the balance sheet at 31 March 2016; the reduction during the year was driven by a £6.2m write off from the Healthcare intangible assets, along with the usual charge for the amortisation of intangible assets across the group.

This asset profile is typical of a business which is people based and low in capital intensity, and of businesses growing through acquisition.

Our group has a limited requirement for investment in property, plant and equipment and in the technology based intangible assets that support the group and accordingly capital expenditure as a percentage of revenue is 1.1% (2015: 1.0%) and is expected to remain below 2% of revenue going forward. This year we saw increased investment in the technology assets to support the development of our business model, where the provision of technology led services, performance data and analytics are now a core requirement of our larger contracts. This mix of tangible and intangible asset investment will be a continuing feature of our business.

Our principal investment requirement in capital terms is in working capital which supports the group's proposition to our markets. Working capital management is a key focus for the group as is the targeted investment of working capital in key client accounts where we believe that sustainable long term growth can be attained. During the year we have actively invested working capital in support of rebid and contract extension activity in support of a small number of key contracts. This has resulted in an uplift in trade and other receivables due after one year of £27.5m. The return on capital employed for this investment in trade and other receivables is enhancing to the group and offers higher returns at lower risk than M&A activity. Investment in working capital in this manner is in line with the Board's capital allocation strategy in prioritising the investment of capital to support the long term organic growth of the group.

Short term working capital balances at 31 March 2016 were £(31.6m) (2015: £(48.5m)) or £54.4m (2015: £10.0m) after the inclusion of non-current trade and other receivables.

Cash conversion

Our profits are strongly backed by cash flows. Cash conversion measures our success in converting operating profit (measured by earnings before interest, tax, depreciation and amortisation 'EBITDA') to cash and reflects both the quality of our earnings and the effectiveness of our cash management activities. This year, cash inflows from operations were £114.6m (2015: £113.2m), representing cash conversion of 75.2% (2015: 126.5%). Our cash conversion has been consistently strong and the average cash conversion achieved by the group over the last five years is 100.3%. Before other items, cash conversion was 76.1% (2015: 95.1%). The calculation of cash conversion is set out in Note 18. This strong cash performance has been achieved through a clear strategy to actively manage our exposure to trade accounts receivable.

Net debt

As at 31 March 2016, net debt was £178.3m, a small increase of £0.5m on the prior year. Strong free cash flow of £63.1m has enabled us to return £42.3m to shareholders in dividends.

We remain comfortably within each of our banking covenants. As at 31 March 2016, net debt stood at 1.2x EBITDA (2015: 2.0x) and 1.2x EBITDA before other items (2015: 1.2x).

Committed facilities to fund future growth

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

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

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

Acquisitions

On 29 January 2016, we acquired Tascor Medical Services Ltd, the leading UK custodial medical services provider, for total consideration of £0.6m. This business added an annualised £12m to group revenue and an annualised £0.6m to group operating profit, on a pro forma basis.

From the date of ownership, the acquired business has contributed revenue of £2.1m and operating profit of £0.1m to the group, which is in line with our expectations.

Driving entrepreneurialism through equity participation

Mitie operates an entrepreneurial investment programme known as the Mitie Model. Investment companies are structured so that the management team takes an equity stake of up to 49% in a business which they grow over a five to ten-year period, and may eventually be acquired by Mitie in full, should the acquisition criteria in the respective Articles of Association and shareholder agreements be met. Mitie has supported over 100 start-up businesses to grow using the Mitie model. Currently, Mitie holds majority interests in 11 Mitie Model companies with a carrying value of £2.9m, disclosed as non-controlling interests in the balance sheet.

On 24th November 2015 Mitie Group plc acquired the remaining 49% share in Creativevents Limited. The total consideration was £4.7m satisfied in cash paid during the year. The group also settled remaining deferred consideration of £3.8m on the acquisition of Direct Enquiries Holdings Ltd.

Tax contribution

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

Mitie is a significant contributor of revenues to the UK Exchequer, paying £507m in the year to March 2016 (2015: £522m). This comprised £16m of UK corporation tax and £491m of indirect taxes including business rates, VAT and payroll taxes paid and collected.

The group’s tax charge before other items was £22.7m (2015: £24.1m). The effective rate of tax before other items was 20.0% for the year (2015: 21.1%). As Mitie is predominantly UK based, our effective rate of tax reflects the UK corporate rate of tax.

After adjusting for the tax credit of £3.4m (2015: £18.3m) on other items, the income tax charge was £19.3m (2015: £5.8m), an effective rate of 19.9% (2015: 14%).

Pensions

Our financial strength and balance sheet remain unaffected by any significant pensions deficit, with the net deficit of all the defined benefit pension arrangements included on the balance sheet being £35.5m (2015: £35.8m).

During the year ended March 2014 we completed the actuarial triennial valuation of the Mitie Group scheme. The scheme actuarial deficit was £6.0m at 31 March 2014. We have agreed with the trustees that no cash injection into the scheme is currently required, but have committed to potential cash injections of up to a total of £11.1m over ten years should the funding position deteriorate materially.

The accounting deficit on Mitie Group plc’s principal defined benefit scheme at 31 March 2016 was £34.4m (2015: £34.9m). The scheme’s assets have generally performed in line with their respective benchmarks, producing a slightly negative investment return in the year. The valuation of the scheme’s liabilities has decreased slightly over the year due to marginally higher interest rates used to value the future estimated cash flows of those liabilities. These factors combined have resulted in a broadly neutral effect on the reported scheme deficit.

The group also makes contributions to customers’ defined benefit pension schemes under Admitted Body arrangements as well as to other arrangements in respect of certain employees who have transferred to the group under TUPE. Mitie’s net defined benefit pension deficit in respect of schemes in which it is committed to funding amounted to £1.1m (2015: £0.9m).

Consolidated income statement

For the year ended 31 March 2016

		2016			2015		
	Notes	**Before Other Items £m**	**Other Items[1] £m**	**Total £m**	Before Other Items £m	Other Items[1] £m	Total £m
Continuing operations							
Revenue	2	**2,231.9**	**–**	**2,231.9**	2,266.2	7.6	2,273.8
Cost of sales		**(1,909.3)**	**–**	**(1,909.3)**	(1,928.3)	(17.4)	(1,945.7)
Gross profit		**322.6**	**–**	**322.6**	337.9	(9.8)	328.1
Administrative expenses		**(194.3)**	**(16.4)**	**(210.7)**	(210.0)	(62.8)	(272.8)
Share of profit of joint ventures and associates		**0.6**	**–**	**0.6**	0.7	–	0.7
Operating profit	2	**128.9**	**(16.4)**	**112.5**	128.6	(72.6)	56.0
Investment revenue	4	**0.1**	**–**	**0.1**	0.3	–	0.3
Finance costs	5	**(15.8)**	**–**	**(15.8)**	(14.8)	–	(14.8)
Net finance costs		**(15.7)**	**–**	**(15.7)**	(14.5)	–	(14.5)
Profit before tax		**113.2**	**(16.4)**	**96.8**	114.1	(72.6)	41.5
Tax	6	**(22.7)**	**3.4**	**(19.3)**	(24.1)	18.3	(5.8)
Profit for the year		**90.5**	**(13.0)**	**77.5**	90.0	(54.3)	35.7
Attributable to:							
Equity holders of the parent		**88.7**	**(13.0)**	**75.7**	89.3	(54.3)	35.0
Non-controlling interests		**1.8**	**–**	**1.8**	0.7	–	0.7
		90.5	**(13.0)**	**77.5**	90.0	(54.3)	35.7
Earnings per share (EPS)							
Basic	8	**25.0p**	**(3.7)p**	**21.3p**	24.8p	(15.1)p	9.7p
diluted	8	**24.7p**	**(3.6)p**	**21.1p**	24.2p	(14.7)p	9.5p

Notes:

1. Other items are as described in Note 3.

Consolidated statement of comprehensive income

For the year ended 31 March 2016

	Notes	**2016 £m**	2015 £m
Profit for the year		**77.5**	35.7
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of net defined benefit pension liability		**3.0**	(15.0)
Income tax relating to items not reclassified		**(1.7)**	3.0
		1.3	(12.0)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**0.2**	(2.0)
Gains on hedge of a net investment taken to equity		**(0.7)**	1.1
Cash flow hedges:			
Gains arising during the year		**6.7**	13.4
Reclassification adjustment for (losses) included in profit and loss		**(4.4)**	(14.6)
Income tax(charge)/ credit relating to items that may be reclassified		**(0.6)**	0.2
		1.2	(1.9)
Other comprehensive (expense)/income for the financial year		**2.5**	(13.9)
Total comprehensive income for the financial year		**80.0**	21.8
Attributable to:			
Equity holders of the parent		**78.2**	21.1
Non-controlling interests		**1.8**	0.7

Consolidated balance sheet

At 31 March 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Goodwill	9	**465.5**	464.4
Other intangible assets	10	**66.9**	76.6
Property, plant and equipment		**49.3**	53.3
Interest in joint ventures and associates		**0.6**	1.1
Financing assets		**14.4**	8.0
Trade and other receivables		**86.0**	58.5
Deferred tax assets		**10.0**	13.4
Total non-current assets		**692.7**	675.3
Current assets			
Inventories		**9.9**	11.0
Trade and other receivables	12	**446.7**	421.4
Cash and cash equivalents		**93.1**	96.4
Total current assets		**549.7**	528.8
Total assets		**1,242.4**	1,204.1
Current liabilities			
Trade and other payables		**(487.8)**	(476.0)
Current tax liabilities		**(10.4)**	(5.2)
Financing liabilities		**(1.9)**	(1.8)
Provisions	15	**(0.4)**	(4.9)
Total current liabilities		**(500.5)**	(487.9)
Net current assets		**49.2**	40.9
Non-current liabilities			
Trade and other payables		**(2.5)**	(8.0)
Financing liabilities		**(283.9)**	(279.2)
Provisions	15	**(0.5)**	(7.4)
Retirement benefit obligation		**(35.5)**	(35.8)
Deferred tax liabilities		**(4.4)**	(7.5)
Total non-current liabilities		**(326.8)**	(337.9)
Total liabilities		**(827.3)**	(825.8)
Net assets		**415.1**	378.3
Equity			
Share capital		**9.3**	9.4
Share premium account		**127.7**	122.6
Merger reserve		**80.1**	80.1
Share-based payments reserve		**9.4**	7.2
Own shares reserve		**(48.8)**	(47.5)
Other reserves		**0.5**	0.4
Hedging and translation reserve		**(4.6)**	(6.4)
Retained earnings		**238.6**	209.2
Equity attributable to equity holders of the parent		**412.2**	375.0
Non-controlling interests		**2.9**	3.3
Total equity		**415.1**	378.3

Consolidated statement of changes in equity

For the year ended 31 March 2016

	Share capital £m	Share premium account £m	Merger reserve £m	Share-based payments reserve £m	Own shares reserve £m	Other reserves £m	Hedging and translation reserve £m	Retained earnings £m	**Attributable to equity holders of the parent £m**	Non-controlling interests £m	**Total £m**
At 1 April 2014	9.3	118.9	101.2	2.6	(37.2)	0.4	(4.3)	210.0	**400.9**	3.0	**403.9**
Profit for the year							–	35.0	**35.0**	0.7	**35.7**
Other comprehensive expense	–	–	–	–	–	–	(2.1)	(11.8)	**(13.9)**	–	**(13.9)**
Total comprehensive income	–	–	–	–	–	–	(2.1)	23.2	**21.1**	0.7	**21.8**
Shares issued	0.1	3.7	–	–	–	–	–	–	**3.8**	–	**3.8**
Dividends paid	–	–	–	–	–	–	–	(40.5)	**(40.5)**	(0.1)	**(40.6)**
Purchase of own shares	–	–	–	–	(10.7)	–	–	–	**(10.7)**	–	**(10.7)**
Share-based payments	–	–	–	4.6	0.4	–	–	1.4	**6.4**	–	**6.4**
Tax on share-based payment transactions	–	–	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Transfer between reserves	–	–	(21.1)	–	–	–	–	21.1	**–**	–	**–**
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	–	(5.9)	**(5.9)**	(0.3)	**(6.2)**
At 31 March 2015	9.4	122.6	80.1	7.2	(47.5)	0.4	(6.4)	209.2	**375.0**	3.3	**378.3**
Profit for the year	–	–	–	–	–	–	-	75.7	**75.7**	1.8	**77.5**
Other comprehensive expense	–	–	–	–	–	–	1.8	0.7	**2.5**	–	**2.5**
Total comprehensive income	–	–	–	–	–	–	1.8	76.4	**78.2**	1.8	**80.0**
Shares issued	-	5.1	–	–	–	–	–	–	**5.1**	–	**5.1**
Dividends paid	–	–	–	–	–	–	–	(42.2)	**(42.2)**	(0.2)	**(42.4)**
Purchase of own shares	–	–	–	–	(6.6)	–	–	–	**(6.6)**	–	**(6.6)**
Share buybacks	(0.1)	–	–	–	–	0.1	–	(15.3)	**(15.3)**	–	**(15.3)**
Share-based payments	–	–	–	2.2	5.3	–	–	0.3	**7.8**	–	**7.8**
Tax on share-based payment transactions	–	–	–	–	–	–	–	0.1	**0.1**	–	**0.1**
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	–	10.1	**10.1**	(2.0)	**8.1**
At 31 March 2016	9.3	127.7	80.1	9.4	(48.8)	0.5	(4.6)	238.6	**412.2**	2.9	**415.1**

Consolidated statement of cash flows

For the year ended 31 March 2016

	Notes	**2016 £m**	2015 £m
Operating profit		**112.5**	56.0
Adjustments for:			
Share-based payment expense		**5.2**	6.5
Defined benefit pension charge		**4.4**	4.0
Defined benefit pension contributions		**(3.0)**	(3.1)
Acquisition costs	3	**0.3**	0.3
Depreciation of property, plant and equipment		**15.1**	19.7
Amortisation of intangible assets		**18.5**	13.8
Write off of acquisition related intangible assets		**6.2**	–
Other non-cash movement in Other items		**–**	19.0
Share of profit of joint ventures and associates		**(0.6)**	(0.7)
Profit on disposal of businesses		**(0.5)**	–
Loss on disposal of property, plant and equipment		**–**	0.3
Operating cash flows before movements in working capital		**158.1**	115.8
Decrease/(Increase) in inventories		**1.1**	(3.8)
(Decrease)/increase in receivables		**(52.9)**	53.4

	Notes	2016 £m	2015 £m
Increase/(Decrease) in payables		**8.7**	(50.9)
Decrease in provisions		**(0.4)**	(1.3)
Cash generated by operations		**114.6**	113.2
Income taxes paid		**(15.7)**	(15.5)
Interest paid		**(13.4)**	(13.1)
Facility extension fees		**–**	(2.0)
Acquisition costs	3	**(0.3)**	(0.3)
Net cash from operating activities		**85.2**	82.3
Investing activities			
Interest received		**–**	–
Purchase of property, plant and equipment		**(15.7)**	(23.0)
Purchase of subsidiary undertakings, net of cash acquired		**(8.0)**	(0.5)
Dividends received from joint ventures and associates		**0.7**	0.5
Investment in financing assets		**1.9**	(0.3)
Purchase of other intangible assets		**(8.9)**	(3.9)
Disposals of property, plant and equipment		**2.2**	1.8
Net cash outflow from investing activities		**(27.8)**	(25.4)
Financing activities			
Repayments of obligations under finance leases		**(3.1)**	(2.0)
Proceeds on issue of share capital		**5.0**	3.8
Bank loans repaid		**(2.2)**	0.6
Purchase of own shares		**(3.7)**	(10.7)
Share buybacks		**(14.4)**	–
Equity dividends paid		**(42.3)**	(40.5)
Non-controlling interests dividends paid		**(0.2)**	(0.1)
Net cash outflow from financing		**(60.9)**	(48.9)
Net (decrease)/increase in cash and cash equivalents		**(3.5)**	8.0
Net cash and cash equivalents at beginning of the year		**96.4**	89.1
Effect of foreign exchange rate changes		**0.2**	(0.7)
Net cash and cash equivalents at end of the year		**93.1**	96.4
Net cash and cash equivalents comprise:			
Cash at bank		**93.1**	96.4
		93.1	96.4

Reconciliation of net cash flow to movements in net debt

	Notes	2016 £m	2015 £m
Net (decrease)/increase in cash and cash equivalents		**(3.5)**	8.0
Effect of foreign exchange rate changes		**0.2**	(0.7)
Decrease in bank loans		**0.3**	1.4
Non-cash movement in private placement notes and associated hedges		**3.0**	(1.3)
Decrease in finance leases		**(0.5)**	1.4
(Increase)/decrease in net debt during the year		**(0.5)**	8.8
Opening net debt		**(177.8)**	(186.6)
Closing net debt	16	**(178.3)**	(177.8)

Notes to the consolidated financial statements

For the year ended 31 March 2016

1. Basis of preparation and significant accounting policies

The group's financial statements for the year ended 31 March 2016 have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the group's annual financial statements for the year ended 31 March 2015 except for the following amendments, which were effective for the first time in the current period but had no impact on the results or financial position of the group:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

Annual Improvements to IFRSs 2010 -2012 Cycle : the majority of amendments are clarifications rather than substantive changes in existing requirements apart from amendments to IFRS 8 Operating Segments and IAS 24 Related Party Disclosures.

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

The financial information set out in the preliminary announcement does not constitute the company's statutory accounts for the years ended 31 March 2016 or 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the company's Annual General Meeting. The auditor has reported on those accounts; the reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying the reports and did not contain statements under Section 498(2) or (3) Companies Act 2006.

2. Business and geographical segments

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

Business segments – structure during the year

	2016					2015				
	Revenue £m	**Revenue before other items[1] £m**	**Operating Profit before other items[1] £m**	**Operating Profit margin before other items[1] %**	**Profit before tax £m**	Revenue £m	Revenue before other items[1] £m	Operating Profit before other items[1] £m	Operating Profit margin before other items[1] %	Profit before tax £m
Soft FM	**1,255.1**	**1,255.1**	**85.4**	**6.8**	**87.5**	1,280.3	1,280.3	81.9	6.4	79.6
Hard FM	**618.4**	**618.4**	**31.7**	**5.1**	**18.5**	621.1	621.1	31.4	5.1	24.2
Property Management	**280.4**	**280.4**	**15.8**	**5.6**	**15.8**	273.4	273.4	10.4	3.8	9.9
Healthcare	**78.0**	**78.0**	**(4.0)**	**(5.1)**	**(8.6)**	91.4	91.4	4.9	5.4	0.4
Other Items (Note 3)	**–**	**–**	**–**	**–**	**(16.4)**	7.6	–	–	–	(72.6)
Total	**2,231.9**	**2,231.9**	**128.9**	**5.8**	**96.8**	2,273.8	2,266.2	128.6	5.7	41.5

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

No single customer accounted for more than 10% of external revenue in 2016 or 2015.

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

Geographical segments

	2016					2015				
	Revenue £m	**Revenue before other items[1] £m**	**Operating Profit before other items[1] £m**	**Operating Profit margin before other items[1] %**	**Profit before tax £m**	Revenue £m	Revenue before other items[1] £m	Operating Profit before other items[1] £m	Operating Profit margin before other items[1] %	Profit before tax £m
United Kingdom	**2,156.5**	**2,156.5**	**129.2**	**6.0**	**97.4**	2,190.7	2,183.1	126.8	5.8	40.0
Other countries	**75.4**	**75.4**	**(0.3)**	**(0.4)**	**(0.6)**	83.1	83.1	1.8	2.2	1.5
Total	**2,231.9**	**2,231.9**	**128.9**	**5.8**	**96.8**	2,273.8	2,266.2	128.6	5.7	41.5

Note:

1. Other items are described in Note 3.

3. Other items

During the year ended 31 March 2015, the group separately reported as Other items the results of certain design and build contracts and certain business activities in construction related markets from which it was exiting. During the year ended 31 March 2016, no further net charges have arisen in respect of these contracts and business activities. Net cash outflows of £1.5m have been incurred in relation to the final close out of these contracts and business activities.

	2016			2015		
	Restructuring and acquisition related costs £m	**Businesses being exited £m**	**Other items £m**	Restructuring and acquisition related costs £m	Businesses being exited £m	Other items £m
Revenue	**–**	**–**	**–**	–	7.6	7.6
Cost of Sales	**–**	**–**	**–**	–	(17.4)	(17.4)
Administrative expenses:						
Administrative expenses	**–**	**(2.2)**	**(2.2)**	–	(6.1)	(6.1)
Exceptional credit/(charge) in relation to design and build Asset Management contracts in Energy Solutions	**2.2**	**–**	**2.2**	(45.7)	–	(45.7)
Restructuring costs relating to the integration of Complete Group	**–**	**–**	**–**	(0.6)	–	(0.6)
Acquisition costs	**(0.3)**	**–**	**(0.3)**	(0.3)	–	(0.3)
Amortisation of acquisition related intangibles (Note 10)	**(16.1)**	**–**	**(16.1)**	(10.1)	–	(10.1)
Other items before tax	**(14.2)**	**(2.2)**	**(16.4)**	(56.7)	(15.9)	(72.6)
Tax on other items	**3.0**	**0.4**	**3.4**	15.0	3.3	18.3
Other items net of tax	**(11.2)**	**(1.8)**	**(13.0)**	(41.7)	(12.6)	(54.3)

4. Investment revenue

	2016 £m	2015 £m
Interest on bank deposits	**0.1**	0.3
	0.1	0.3

5. Finance costs

	2016 £m	2015 £m
Interest on bank facilities	**1.7**	1.4
Interest on private placement loan notes	**9.6**	9.6
Bank fees	**3.0**	2.8
Interest on obligations under finance leases	**0.2**	0.2
Gain arising on derivatives in a designated fair value hedge	**(0.8)**	(3.7)
Loss arising on adjustment for the hedged item in a designated fair value hedge	**0.9**	3.8
Net interest on defined benefit pension scheme assets and liabilities	**1.2**	0.7
	15.8	14.8

6. Tax

	2016 £m	2015 £m
Current tax	**21.2**	9.7
Deferred tax	**(1.9)**	(3.9)
	19.3	5.8

Corporation tax is calculated at 20.0% (2015: 21.0%) of the estimated taxable profit for the year.

A reconciliation of the tax charge to the elements of profit before tax per the consolidated income statement elements is as follows:

	2016			2015		
	Before other items £m	**Other items £m**	**Total £m**	Before other items £m	Other items £m	Total £m
Profit before tax	**113.2**	**(16.4)**	**96.8**	114.1	(72.6)	41.5
Tax at UK rate of 20.0% (2015: 21%)	**22.7**	**(3.2)**	**19.5**	23.9	(15.2)	8.7
Reconciling tax charges for:						
Non-tax deductible charges	**0.9**	**–**	**0.9**	0.7	0.1	0.8
Energy Solutions contract exit costs	**–**	**–**	**–**	–	(3.2)	(3.2)
Overseas tax rates	**0.2**	**–**	**0.2**	0.1	–	0.1
Impact of change in statutory tax rates	**(0.1)**	**(0.2)**	**(0.3)**	–	–	–
Prior year adjustments	**(1.0)**	**–**	**(1.0)**	(0.6)	–	(0.6)
Tax charge for the year	**22.7**	**(3.4)**	**19.3**	24.1	(18.3)	5.8
Effective tax rate for the year	**20.0%**	**20.7%**	**19.9%**	21.1%	25.2%	14.0%

In addition to the amounts charged to the consolidated income statement, a tax credit relating to retirement benefit costs and hedged items amounting to £2.3m (2015: £3.2m charge) has been taken directly to the statement of comprehensive income and £0.1m relating to share-based payments has been charged (2015: £0.1m credited) directly to equity.

The effective tax rate on profit before other items is generally higher than the statutory tax rate due to entertaining costs, commercial property depreciation and share-based payment charges not being wholly tax deductible and tax losses incurred overseas.

The UK corporation tax rate reduced from 21% to 20% on 1st April 2015. Further reductions to 19% (effective from April 2017) and then 18% (effective from 1st April 2020) were substantively enacted on 26th October 2015. This will reduce the Company's future current tax charge accordingly. The UK deferred tax assets and liabilities at 31st March 2016 have been calculated based on rates of 20%, 19% and 18% in respect of deferred tax expected to reverse before 1st April 2017, 1st April 2020 and after this date respectively.

7. Dividends

	2016 £m	2015 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2015 of 6.5p (2014: 6.1p) per share	**23.1**	21.9
Interim dividend for the year ended 31 March 2016 of 5.4p (2015: 5.2p) per share	**19.2**	18.6
	42.3	40.5
Proposed final dividend for the year ended 31 March 2016 of 6.7p (2015: 6.5p) per share	**23.7**	22.9

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

8. Earnings per share

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

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

	2016 £m	2015 £m
Net profit before other items attributable to equity holders of the parent	**88.7**	89.3
Other items net of tax	**(13.0)**	(54.3)
Net profit attributable to equity holders of the parent	**75.7**	35.0

Number of shares	**2016 million**	2015 million
Weighted average number of Ordinary shares for the purpose of basic EPS	**355.4**	359.3
Effect of dilutive potential Ordinary shares: share options	**4.1**	10.4
Weighted average number of Ordinary shares for the purpose of diluted EPS	**359.5**	369.7

	2016 p	2015 p
Basic earnings per share before other items[1]	**25.0**	24.8
Basic earnings per share	**21.3**	9.7
Diluted earnings per share before other items[1]	**24.7**	24.2
Diluted earnings per share	**21.1**	9.5

Notes:

1. Other items are as described in Note 3.

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

9. Goodwill

Cost	£m
At 1 April 2014	459.6
Acquisition of subsidiaries	5.7
Impact of foreign exchange	(0.9)
At 1 April 2015	464.4
Acquisition of subsidiaries	0.7
Impact of foreign exchange	0.4
At 31 March 2016	**465.5**
Accumulated impairment losses	–
At 1 April 2014	–
At 1 April 2015	–
At 31 March 2016	**–**
Carrying amount	
At 31 March 2016	**465.5**
At 31 March 2015	464.4

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Additions during the year relate to goodwill recognised on one acquisition.

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

	Discount rate 2016 %	Discount rate 2015 %	**Goodwill 2016 £m**	Goodwill 2015 £m
Soft FM	**7.9**	8.7	**171.8**	171.3
Hard FM	**8.0**	8.7	**101.3**	101.3
Property Management	**9.2**	10.0	**85.2**	85.2
Healthcare	**9.1**	10.0	**107.2**	106.6
			465.5	464.4

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

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

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

Discount rates
The pre-tax rates used to discount the forecast cash flows from CGUs are derived from the Company’s post-tax Weighted Average Cost of Capital, which was 7.0% at 31 March 2016 (2015: 7.4%), and adjusted for the risks specific to the market in which the CGU operates. All CGUs have the same access to the group’s treasury functions and borrowing lines to fund their operations.

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

Review of the carrying value of goodwill in the Healthcare CGU
The financial performance of the Healthcare business has deteriorated in the last financial year and that division has reported an operating loss before other items of £4.0m for that period. Management have been taking positive action to reshape the business during the year to meet future market opportunities and are encouraged by contract awards which give confidence that conditions are beginning to improve.

The Directors remain confident in the long-term prospects of the healthcare sector and continue to closely monitor the financial performance of the group's Healthcare cash-generating unit (CGU). In light of recent trading performance a revised long-term business plan for the Healthcare business has been developed with reductions to forecast profits and cash flows. The Directors have reviewed the revised long-term business plan for the Healthcare business and believe that the assumptions on which it is based are reasonable given current performance and market conditions. The Directors continue to see long-term growth opportunities in the domiciliary care and other related healthcare markets, especially in light of the increasing political focus on the current funding of the sector and the expected demographic shift in the UK.

The Directors recognise that there are risks and uncertainties in its Healthcare CGU if the performance of the business does not improve as expected over the longer term in line with the revised business plan. Factors that could cause deterioration in the future cash flows of the business compared to the plan include:

the inability to recruit and retain staff at appropriate wage rates;

the inability to win new and retain existing contracts to provide care hours at sustainable prices; and

an adverse structural change to outsourcing of care in the UK caused by changes in UK Government policy.

The carrying value of goodwill relating to the Healthcare CGU of £107.2m (2015: £106.6m) was £38.2m less than the recoverable amount, being the net present value of the future cash flows that are expected to be generated by the business. These cash flow forecasts are derived from the detailed long term business plan, with a terminal value using an inflationary growth rate assumption of 2.5% based on industry growth forecasts and compound annual revenue growth rates of 16% (using revenue of £78.0m reported for the year ended 31 March 2016 as the reference point for the rate of compound annual revenue growth) underpinning the growth in operating profit in the first five years of the plan. The pre-tax rate used to discount the forecast cash flows for the CGU is 9.1%, which has been adjusted for the risks specific to the market in which the CGU operates.

Further sensitivity testing was performed for the Healthcare CGU as the Directors recognise that it is possible that an impairment to the healthcare goodwill could be identified if the performance of the business does not improve as expected over the longer term in line with the business plan. They have considered the impact of a range of sensitivities on the headroom between the recoverable amount and the carrying value of the goodwill attributable to the Healthcare CGU. The carrying value of goodwill (and other intangible assets) becomes equal to its recoverable amount following the application of the following sensitivities:

an increase in the pre-tax discount rate of 1.9%; or

a fall of 2.0% in the terminal value growth rate to a long-term inflationary assumption of 0.5%; or

a 27% reduction in operating profit in year 5 and subsequent years compared to the revised business plan.

Based on the commentary and analysis above, and considering current market conditions, the Directors have concluded that the value of goodwill of the Healthcare CGU is not impaired.

10. Other intangible assets

	Acquisition related				
	Customer relationships £m	Other £m	**Total acquisition related £m**	Software and development expenditure £m	**Total £m**
Cost					
At 1 April 2014	86.8	10.5	97.3	46.6	143.9
Additions	1.6	0.4	2.0	3.9	5.9
Reclassifications from Property, plant and equipment	–	–	–	5.2	5.2
At 1 April 2015	88.4	10.9	99.3	55.7	155.0
Additions	–	–	–	8.9	8.9
Reclassifications from Property, plant and equipment	–	–	–	8.5	8.5
At 31 March 2016	88.4	10.9	99.3	73.1	172.4
Amortisation					
At 1 April 2014	41.7	8.2	49.9	14.7	64.6
Charge for the year	9.5	0.6	10.1	3.7	13.8
At 1 April 2015	51.2	8.8	60.0	18.4	78.4
Charge for the year	9.5	0.4	9.9	8.6	18.5
Write off of acquisition related intangible assets	6.2	–	6.2	–	6.2
Reclassifications from Property, plant and equipment	–	–	–	2.4	2.4
At 31 March 2016	66.9	9.2	76.1	29.4	105.5
Carrying amount					
At 31 March 2016	21.5	1.7	23.2	43.7	66.9
At 31 March 2015	37.2	2.1	39.3	37.3	76.6

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

The customer relationships relating to the Healthcare business have been impairment tested in accordance with IAS 36 following the losses made by that business. As a result a write off of £6.2m has been recognised as a result of healthcare contracts exited during the year on financial grounds.

11. Financing assets

	2016 £m	2015 £m
Derivative financial instruments	**14.4**	6.8
Loans to joint ventures and associates	**–**	1.2
	14.4	8.0
Included in current assets	**–**	–
Included in non-current assets	**14.4**	8.0
	14.4	8.0

12. Trade and other receivables

	2016 £m	2015 £m
Amounts receivable for the sale of services	**213.5**	202.3
Allowance for doubtful debt	**(3.8)**	(8.4)
Trade receivables	**209.7**	193.9
Amounts recoverable on construction contracts	**2.6**	8.1
Mobilisation costs (Note 13)	**28.6**	30.6
Accrued income	**236.2**	192.6
Prepayments	**36.4**	38.2
Other debtors	**19.2**	16.5
	532.7	479.9
Included in current assets	**446.7**	421.4
Included in non-current assets*	**86.0**	58.5
	532.7	479.9

* Non-current trade and other receivables comprise Mobilisations costs of £17.3m and accrued Income on long-term complex contracts of £68.7m, which are further analysed in notes 13 and 14 respectively

Ageing of trade receivables:

	2016 £m	2015 £m
Neither impaired nor past due	**158.4**	149.7
Not impaired and less than three months overdue	**38.1**	34.6
Not impaired and more than three months overdue	**14.4**	13.5
Impaired receivables	**2.6**	4.5
Allowance for doubtful debt	**(3.8)**	(8.4)
	209.7	193.9

Movement in the allowance for doubtful debt:

	2016 £m	2015 £m
Balance at the beginning of the year	**8.4**	6.2
Impairment losses recognised	**1.3**	5.6
Amounts written off as uncollectable	**(4.3)**	(2.4)
Amounts recovered during the year	**(1.6)**	(1.0)
	3.8	8.4

The average credit period taken on sales of services was 28 days (2015: 26 days).
The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

13. Mobilisation costs

	2016 £m	2015 £m
At 1 April	**30.6**	30.3
Additions	**12.0**	19.6
Amounts recognised in the income statement	**(14.0)**	(19.3)
At 31 March	**28.6**	30.6
Included in current assets	**11.3**	12.4
Included in non-current assets	**17.3**	18.2
	28.6	30.6

14. Accrued Income on long-term complex contracts

	2016 £m	2015 £m
At 1 April	**48.4**	26.9
Amounts recognised in the income statement	**28.7**	21.5
At 31 March	**77.1**	48.4
Included in current assets	**8.4**	8.1
Included in non-current assets	**68.7**	40.3
	77.1	48.4

15. Provisions

	Deferred contingent consideration £m	Insurance reserve £m	**Total £m**
At 1 April 2015	11.4	0.9	**12.3**
Amounts recognised in the income statement			
Amounts recognised through goodwill	0.1	–	**0.1**
Utilised within the captive insurance subsidiary	–	(0.4)	**(0.4)**
Deferred contingent consideration settled in cash during the period	(9.3)	–	**(9.3)**
Amounts recognised through equity	(1.8)	–	**(1.8)**
At 31 March 2016	0.4	0.5	**0.9**
Included in current liabilities			**0.4**
Included in non-current liabilities			**0.5**
			0.9

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

Deferred contingent consideration settled in cash includes £4.7m in respect of the remaining 49% in Creativevents Limited, and £3.8m in respect of the prior year acquisition of the remaining 49% of Direct Enquiries Holdings Limited.

16. Analysis of debt

	2016 £m	2015 £m
Cash and cash equivalents	**93.1**	96.4
Bank loans	**(13.6)**	(13.9)
Private placement notes	**(268.2)**	(263.6)
Derivative financial instruments hedging private placement notes	**14.4**	6.8
Net debt before obligations under finance leases	**(174.3)**	(174.3)
Obligations under finance leases	**(4.0)**	(3.5)
Net debt	**(178.3)**	(177.8)

17. Acquisitions

During the year a net cash outflow of £8.0m arose on the acquisitions set out below:

	£m
Procius Limited	**0.3**
Source Eight Limited	**0.6**
Direct Enquiries Holdings Limited	**3.8**
Creativevents Limited	**4.7**
Mitie Property Services (UK) Limited	**(1.1)**
Tascor Medical Services Limited	**–**
Other	**(0.3)**
Net cash outflow on acquisitions	**8.0**

Current year acquisitions

Entities acquired during the year contributed £2.1m to revenue and £0.1m to the group's operating profit before other items for the period. If the acquisitions had taken place at the start of the period, the group's revenue and operating profit before other items would have been approximately £2,244m and £130m respectively.

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

Purchase of Tascor Medical Services Limited

On 29 January 2016, Mitie acquired the leading UK Custodial Medical Services provider for a total consideration of £0.6m (£nil on a cash free basis), giving rise to goodwill of £0.7m. The transaction has been accounted for by the acquisition method of accounting in accordance with IFRS 3 (2008) and is not material to the group.

Purchase of non-controlling interests

During the year Mitie purchased 49% of the share capital of Creativevents Limited for a cash consideration of £4.7m of which was paid in the year.

During 2016, Mitie reduced its original business valuation of the acquisition of Mitie Property Services (UK) Limited in 2013 which resulted in a net cash inflow of £1.1m.

Prior year acquisitions

The provisional acquisition accounting for prior year acquisitions as disclosed in the 2015 Annual Report and Accounts was reviewed during the period resulting in a reduction of the fair value of net assets acquired of £0.1m and an increase of goodwill of £0.1m. These adjustments comprise an adjustment to estimates made at the end of the prior year and within a year from the date of acquisition in line with the requirements of IFRS 3 'Business Combinations'. The adjustments have not materially changed the net assets of the group and therefore the 2015 comparative information has not been restated.

18. Notes to the consolidated statement of cashflows

	2016			2015		
	Before other items £m	**Other items £m**	**Total £m**	Before other items £m	Other items £m	Total £m
Cash conversion						
Operating profit	**128.9**	**(16.4)**	**112.5**	128.6	(72.6)	56.0
Depreciation	**15.1**	**–**	**15.1**	19.7	–	19.7
Amortisation	**8.6**	**16.1**	**24.7**	3.7	10.1	13.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**152.6**	**(0.3)**	**152.3**	152.0	(62.5)	89.5
Cash generated by operations	**116.1**	**(1.5)**	**114.6**	144.6	(31.4)	113.2
Cash conversion[1]	**76.1%**		**75.2%**	95.1%		126.5%
Free cash flow						
Cash generated by operations			**114.6**			113.2
Purchase of property, plant and equipment			**(15.7)**			(23.0)
Purchase of other intangible assets			**(8.9)**			(3.9)
Disposals of property, plant and equipment			**2.2**			1.8
Income taxes paid			**(15.7)**			(15.5)
Interest paid (including facility extension fees)			**(13.4)**			(15.1)
Free cash flow			**63.1**			57.5

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