Mitie Group plc

Half-yearly financial report

for the six months ended 30 September 2016

	Six months ended 30 September 2016	Six months ended 30 September 2015	Change	%
Revenue	£1,093.6m	£1,123.1m	£(29.5)m	(2.6)
Operating profit before other items[1]	£35.4m	£58.1m	£(22.7)m	(39.1)
Operating profit margin before other items[1]	3.2%	5.2%	(2.0)ppt	
Profit/(loss) Before Tax	£(100.4)m	£45.1m	£(145.5)m	
Basic EPS before other items[1]	6.2p	11.1p	(4.9)p	(44.1)
Basic EPS	(29.5)p	9.9p	(39.4)p	
Dividend per share	4.0p	5.4p	(1.4)p	
Cash Conversion	107.9%	91.4%	16.5ppt	

[1] Excludes other items being £107.1m impairment of goodwill, £10.1m write off of acquisition related intangible assets, £6.0m restructuring costs and £4.9m acquisition related item (HY16: £5m) see note 3 to the condensed consolidated financial statements.

Financial performance and key indicators

- Operating profit before other items of £35.4m (HY16: £58.1m)
- The board has decided to withdraw from the domiciliary healthcare market and has placed the group's domiciliary healthcare business under strategic review. Our healthcare businesses will continue to fulfil all obligations but there will be no investment in new areas of this market. Mitie will manage its withdrawal in an orderly and responsible manner. The board has changed its long-term view of this market. All healthcare goodwill and intangibles have been written off
- Loss before tax of £(100.4)m (HY16:£45.1m) is stated after other items of £128.1m, including full impairment and write off of Healthcare goodwill and acquisition-related intangible of £117.2m and restructuring costs of £6.0m
- Dividend declared at 4.0p (HY16: 5.4p) (1.6x cover; HY16: 2.1x cover)
- Rolling 12 month cash conversion of 107.9% (HY16: 91.4%)
- Net debt at 30 September 2016 was £231.7m or 1.9 x EBITDA (HY16: £221.8m or 1.5x EBITDA)
- Healthy sales pipeline at £9.3bn (March 2016: £9.1bn) and order book at £7.7bn (March 2016: £8.5bn)
- 94% of 2016/17 budgeted revenue secured (HY16: 97%) and 65% of 2017/18 forecast revenue secured (HY16: 68%)

Progress in H1

- As stated in our September trading update, performance in the first half of the year has been impacted by changing market conditions as clients adjust to rising labour costs and economic uncertainty.
- Short term reductions in higher margin project work and discretionary spend have reduced profits in Facilities Management as clients adjust to rising labour costs and macroeconomic conditions with weak UK business confidence affecting client investment plans
- Long-term strength and quality of Mitie's services was reinforced by the award of new contracts with Manchester Airports Group, Manchester health and justice partners, Network Rail, and the Scottish Police Authority and Scottish Fire Rescue Service – valued in excess of £170m over the terms of the contracts.
- Award of Mitie's largest security contract with Sainsbury's valued at an incremental £115m over three years underlines the opportunities for our risk based technology approach
- Local government and housing association funding constraints have delayed contract awards in Property Management causing revenue and profit decline
- Downward pressure on homecare charge rates and a reduction in care volumes has resulted in increased Healthcare losses

Board changes

- As previously announced as a part of our long-term board succession plans, Ruby McGregor-Smith will step down as chief executive on December 12, 2016 after almost ten years in the role and will be replaced by Phil Bentley

Outlook

- Improved performance is expected in the second half of the year due to enhanced revenue visibility from new contract awards and retentions, momentum in levels of project work and the anticipated incremental H2 benefits from restructuring programmes of £10m compared to H1
- Despite this progress, due to ongoing market uncertainties, underlying earnings for FY17 are expected to be below management's previous expectations
- The quality of the business, our people, our long-term client relationships and having no material rebids until 2019, gives us confidence for the performance of Mitie in the years ahead

Ruby McGregor-Smith CBE, Chief Executive of Mitie, commented:

"The first half of this year has been difficult but we are not alone in facing significant macroeconomic challenges. The steps we have taken to counter these impacts include the restructuring of both frontline and support functions across FM and the decision to withdraw from the domiciliary care market. Second half performance is expected to improve with our new operating model as we adapt to market conditions.

"As I step down as CEO I would like to thank everyone at Mitie who has helped make this such an extraordinary place to work. Thank you also to our clients for their support over the past decade. Mitie is a great business and I am confident that it will move from strength to strength in the future."

Roger Matthews, Chairman of Mitie, said:

"I would like to thank Ruby for the significant contribution that she has made to Mitie over her 14 years on the board, the last 10 years as CEO. Under her strong and passionate leadership our FM business has been transformed with the ability to provide a broad range of services to our blue-chip client base. I wish her every success for the future. I am delighted that Phil Bentley has joined Mitie as our future CEO. Phil has demonstrated his leadership skills and strong customer focus at both Cable & Wireless and British Gas and he has an excellent track record of delivering shareholder value."

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Mitie will be presenting its interim results for the period ended 30 September 2016 at 09.30 on Monday 21 November 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.

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 21 November 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.

This statement contains insider information.

Overview

As stated in our September trading update, performance in the first half of the year has been impacted by changing market conditions as clients adjust to rising labour costs and economic uncertainty. These conditions have continued since the update. These include lower levels of higher margin project work and reduced discretionary spending by clients in Facilities Management and a deterioration in the trading performance of our local government facing Healthcare and Property Management businesses. This has caused our profits to be significantly lower than originally expected but our cost efficiency programmes combined with a good level of contract and project starts will produce stronger profitability in the second half of the year. Cash generation is in line with profits.

Due to sustained downward pressure on homecare charge rates and reductions in the volumes of care being commissioned, resulting in increasing losses, the Board has decided to withdraw from the domiciliary healthcare sector. The full carrying value of all healthcare goodwill and acquisition-related intangibles has been written off. The businesses will continue to operate in an orderly and responsible manner and we will fulfil all our obligations during this process. This has been a difficult decision, but it is the right option for the long-term future of Mitie and its strategic focus on FM.

In the first six months of this year we have secured some important new contracts in our core Facilities Management business, where our long-term customer relationships, order book and pipeline remain strong. Our customer proposition, long-term client relationships and innovative technology provides differentiation and a competitive advantage.

Mitie has been operating in the UK facilities management market for almost thirty years and during that time we have experienced a number of economic adjustments and market shifts. Our approach has always been to flex our business model to respond to any changes and put us in the best possible shape to take advantage of future opportunities.

Currently we are in the middle of one of the periods where there is a lot of change happening. Growth in the UK economy is low and wages are rising because of increases to the minimum wage, pension costs and apprentice levies. This, and the resulting differentials in pay, will cause labour to be more expensive in the UK over the coming years. Together with an anticipated increase in the costs of imported goods and services we are likely to see price rises in a range of markets in the future. This period of transition in the UK economy will create pressures for our clients but our evolving outsourcing model will generate more opportunities.

Facilities management companies are not unique in having to address these issues and the actions we are taking will put us in a good place. Our investment in technology, the integration of operating platforms and processes and economies of scale will make sure that Mitie remains a facilities management partner of choice in the future.

Financial performance

Analysis of financial performance for the half year to 30 September 2016

Income Statement	Underlying (unaudited) £m	Healthcare business under review (unaudited) £m	Six months to 30 September 2016 (unaudited) £m	Underlying (unaudited) £m	Healthcare business under review (unaudited) £m	Six months to 30 September 2015 (unaudited) £m
Revenue	**1,058.9**	**34.7**	**1,093.6**	1,084.1	39.0	1,123.1
Cost of sales	**(923.5)**	**(27.8)**	**(951.3)**	(933.5)	(30.2)	(963.7)
Gross profit	**135.4**	**6.9**	**142.3**	150.6	8.8	159.4
Administrative expenses	**(95.9)**	**(11.3)**	**(107.2)**	(90.8)	(10.9)	(101.7)
Share of profit of joint ventures and associates	**0.3**	**–**	**0.3**	0.4	–	0.4
Operating profit before other items	**39.8**	**(4.4)**	**35.4**	60.2	(2.1)	58.1
Other items	**(9.1)**	**(119.0)**	**(128.1)**	(3.1)	(1.9)	(5.0)
Operating profit after other items	**30.7**	**(123.4)**	**(92.7)**	57.1	(4.0)	53.1
Net finance costs	**(7.7)**	**–**	**(7.7)**	(8.0)	–	(8.0)
Profit/(loss) before tax	**23.0**	**(123.4)**	**(100.4)**	49.1	(4.0)	45.1

Basic earnings per share BOI	**7.2p**		**6.2p**	11.5p		11.1p
% change	*(37.4%)*		*(44.1%)*			
Dividend per share			**4.0p**			5.4p
% change			*(25.9)%*			
Cash conversion			**107.9%**			91.4%
ppt change			*16.5ppt*			

Revenue was down 2.6% at £1,093.6m (HY16: £1,123.1m) for the period and operating profit before other items was down from the prior year to £35.4m (HY16: £58.1m) generating an operating profit margin of 3.2% (HY16: 5.2%).

Operating profit margins across the group have been under pressure, with Technical Facilities Management seeing lower volumes in their high margin project work, whilst Property Management's local government clients have reduced their discretionary spend in the face of severe budgetary constraints. To address this reduction in profitability the group has initiated a number of restructuring programmes across all divisions which are anticipated to deliver incremental H2 benefits of £10m compared to H1. £6.0m of one-off costs of change have been incurred in the first half. Total one-off costs of change are expected to total up to £10m by the year end.

Given the further deterioration of the financial performance of the healthcare business and following a review by the Directors, we have concluded that a sustainable long term plan for the group's domiciliary healthcare business cannot be delivered under Mitie's operating model. As a result, the Directors have decided to withdraw from the domiciliary healthcare market and have placed the group's domiciliary healthcare business under strategic review. We are now assessing the future options for this business, which will include, but not be limited to a potential change in ownership. We expect to incur operating losses up to the date of withdrawal from the domiciliary healthcare market and there may be one-off closure costs and gains or losses on disposal, depending on the option implemented.

In light of the decision to withdraw from the domiciliary healthcare market and the healthcare loss recorded in the first half of the year, the group has reconsidered the long term plan for the healthcare business and has undertaken an impairment review of the goodwill and intangible assets. Accordingly, a write off of £107.1m of goodwill and £10.1m of acquisition-related intangibles has been disclosed in the 'Other Items' column of the income statement. Following this write off of healthcare related intangibles, the amortisation of acquired intangibles relating to non-healthcare acquisitions is anticipated to be £2.5m in the second half of the year.

The trading results of the healthcare business have been reported within the group's results before other items and have not been classified as discontinued operations as defined by IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' as a clear route to the group's withdrawal from the domiciliary healthcare market was not in place on 30 September 2016.

Excluding the domiciliary healthcare businesses under strategic review, the underlying results of the business showed operating profit before other items of £39.8m in the period (HY16: £60.2m).Other items totalled £128.1m for the period; this comprised:

	£m
Impairment of Healthcare goodwill	107.1
Write down of Healthcare acquisition related intangible	10.1
One off restructuring costs (associated with cost efficiency programme discussed above)	6.0
Acquisition-related items	4.9
Other items	**128.1**

Note 3 to the condensed consolidated financial statements provides further detail on Other Items.

Net finance costs in the period were £7.7m (HY16: £8.0m).

The effective rate of tax on profit before other items for the period was in line with the UK corporation tax rate at 20.7% (HY16: 20.3%) resulting in basic earnings per share before other items (EPS) of 6.2p per share (HY16: 11.1p per share).

Statutory profit before tax was a loss of £100.4m (HY16 profit before tax: £45.1m), with the period on period movement being driven by the impairment of Healthcare goodwill and the write off of Healthcare intangible assets. Statutory basic EPS was negative 29.5p per share (HY16: positive 9.9p per share).

The impairment charges and write downs recognised in the half year have reduced the distributable reserves of the parent company but the group continues to maintain ample headroom within its distributable reserves for future dividend payments.

Balance sheet and funding

The group’s net assets at 30 September 2016 were £225.3m (FY16: £415.1m); of the £189.8m reduction, £117.2m relates to impairments and write offs in respect of Healthcare goodwill and intangible assets and £49.5m is driven by the revaluation of the defined benefit obligations for the group’s pension schemes.

Goodwill and other intangible assets at 30 September 2016 were £421.4m (FY16: £532.4m). Following the impairment of Healthcare goodwill and the write off of Healthcare intangible fixed assets, the group has undertaken a full impairment review of the remaining goodwill balance and is satisfied that the performance of the remaining CGUs fully supports the carrying value of the associated goodwill.

We have maintained our focus on cash generation. Our profits continue to be backed by strong cash flows, with the conversion of EBITDA to operating cash being 107.9% (HY16: 91.4%) on a rolling 12-month basis, well ahead of our stated long-term target of 80%.

Net debt at the period end was £231.7m (HY16: £221.8m; FY16: £178.3m), 1.9x rolling 12-month EBITDA (HY16: 1.5x) on a pro forma basis.

The group has £527m of committed funding arrangements. During the half year, we extended our multi-currency Revolving Credit Facility (“RCF”) for a further two years, with no change to terms. The £275m RCF will now mature in July 2021. Our £252m of US Private Placements are spread over four maturities between 2017 and 2024.

Mitie’s two key RCF covenant ratios are the leverage (ratio of net debt to EBITDA) and interest cover (ratio of EBITDA to net finance costs). In the twelve months to 30 September 2016 these ratios were 1.7x and 9.8x respectively, well within the covenant limits. The US Private Placements covenants do not differ materially from the RCF.

These ratios are calculated in accordance with the finance agreements, which include adjustments for certain non-cash and one-off items such as impairment charges, therefore these ratios are unaffected by the Healthcare goodwill and intangible asset impairment charges recognised in the current period.

The group operates both defined benefit and defined contribution pension schemes. The net deficit on our defined benefit obligations as at 30 September 2016 had increased by £49.5m to £85.0m (March 2016: £35.5m), the increase since March 2016 has been principally driven by a 120 basis point reduction in the corporate bond yields that are used by the group to determine the discount rate for liabilities.

As the bond yield movement was so large, the pension deficit moved beyond the sensitivity analysis disclosed at the 2016 Annual Report and Accounts. This was due to the relationship between the discount rate and liability tail not being linear at the very low discount rates now being experienced and the relatively young liability profile of the Mitie group pension scheme.

During the year, in accordance with Mitie's capital allocation strategy, the group bought back 9m shares at an average share price of £2.67. £10m of these shares were part of the up to £20m buy-back programme announced in May 2016 but the board does not currently expect to make further buybacks in FY17. The remaining £14.2m have been used to offset the shares issued in connection with the earn-out of 'Mitie Model' businesses. In August, the group purchased employee minority shareholdings of three 'Mitie Model' businesses. The consideration will be satisfied by £1.4m in cash and up to six million Mitie shares; refer to note 10 of the condensed consolidated financial statements for more details.

Dividend

The group has a strong track record of dividend growth and it is the Board's policy to set dividends at least in line with the development of the underlying earnings of the group, whilst maintaining dividend cover at a prudent level.

The interim dividend declared by the Board of 4.0p per share (HY16: 5.4p per share) represents a decrease of 25.9% on the prior year. The dividend represents a cover of 1.6 times earnings before other items per share. The reduction in interim dividend is reflective of current underlying performance.

During the first half, cash dividends of £23.3m were paid to shareholders (HY16: £23.1m). The proposed interim dividend for the six months ended 30 September 2016 was approved by the Board on 21 November 2016 and will be paid on 1 February 2017 to shareholders on the register at close of business on 16 December 2016.

Operating review

Facilities Management (FM)

£m	HY 2017	HY 2016	Growth
Revenue	**922.6**	928.1	(0.6)%
Operating profit before other items	**35.0**	51.7	(32.3)%
Operating profit before other items margin	**3.8%**	5.6%	(1.8)ppt

	Six months to 30 September 2016 £m	Six months to 30 September 2015 £m
Cleaning and environmental services	**183.6**	191.0
Security	**128.3**	120.3
Catering and front of house	**64.0**	58.5
Technical Facilities Management	**192.8**	203.3
Integrated Facilities Management	**353.9**	355.0
Revenue – Facilities Management	**922.6**	928.1

Our FM business is made up of a range of specialist and technical services. Our integrated FM proposition brings together the management of the full range of services and is often complemented by our consultancy offering.

The impact of increases to labour costs has the biggest effect in our cleaning, security and catering businesses. The landscape of rising employment costs such as National Living Wage, pension costs and the apprentice levy has increased clients' willingness to look at alternatives to the traditional way of providing services. This approach has meant that our technology services have been extremely well adopted by clients.

Cleaning and environmental services

Cleaning has had a difficult first six months of the year with cost pressures, contract losses and a lower level of new contract awards than expected, all impacting performance both in terms of revenue and margin. The business has responded to these pressures with a modernisation project and investment in technology continuing with the adoption of WorkPlace+ for our 28,000 people where real time management of the workforce will lead to much greater efficiency and improved logistics. The WorkPlace+ software is already well embedded in Security. We have been one of the first early adopters of robotic machinery trialling them in multiple locations such as transport, retail and health locations, where we are seeing positive returns on investment. We have also developed our quality audit app, Qaudit, which was used to achieve over 100,000 audits in the current financial year, giving clients a real time assessment of the quality of standards across their estates, the tool also has a QR code option for client feedback. We have deployed this feature in Birmingham Airport and have seen over 40,000 responses from passenger users. The development of IoT and 'wearables' has also been a feature of the year with data and trend analysis starting to assist clients in achieving productivity gains. The business has secured a number of very high profile accounts such as Amazon and Hinchingbrooke Hospital because of its technology based approach. For the cleaning element of the contract with Manchester Airport Group we will be using robotic scrubber dryer machinery and other IoT services. The business has also set up a Technical Cleaning Services business unit, targeting manufacturing and pharmaceutical clients, that has started well and we see this part of the business to be a key driver for improvement in the future.
The Pest Control business has made good progress and continues to grow revenues through our innovative 'Intelligent Pest Management' approach, designed to address client pest risk to achieve sustainable improvements in quality and whole life cost. We have also enhanced PestAlert which is our industry leading real time paperless reporting system, allowing clients to understand and be engaged with the status of the pest control issues on their estate. We have resecured contracts with Mitchell & Butler, Young's and Homeserve and are targeting growth in food manufacturing, distribution and retail.

During the first six months of the year we launched a drone service to perform aerial surveys in hard to reach high places for a number of issues ranging from pest management to vegetation control and building surveying. This has been very successful and we now have 12 trained pilots delivering this cost effective and safe service on a nationwide basis.

Waste Management has experienced a slow start to the year following a contract loss with revenue and profits below our expectations. It has continued to innovate in its market and developed its service-offering further in the period. The business has been awarded a contract with JLL and an expanded service offering with a leading global FMCG organisation. The business continues to develop its strategy in its target sectors including FMCG, automotive, pharmaceutical and retail, and has recently been awarded a contract with the Environment Agency to manage more than 100 sites nationally.

Landscapes has continued to develop its aim of being the landscape services provider of choice in its selected sectors of managing agents, retail, transport & logistics, leisure, healthcare and utilities. Additional growth has come from all target sectors and new contracts have started with Merseyrail, NHS Property Services, JP Morgan and The Southern Co-operative. Opportunities for project and winter work with existing clients are increasing. In addition the development of a customer facing portal has allowed our clients to easily access visual and quantitative data relating to the services we provide.

Security

We have seen good growth in our security business across all sectors utilising our unique IP and technology solutions. Clients are adopting a risk-based outcomes focused approach with flexible services and decision making based on data and trend analysis. This approach has seen record sales and retention of key accounts, the continued growth in our technology services has also seen a positive margin increase. The business expects to see further expansion of technology across our clients' estates with a continued outsourcing of control room environments to our Mitec technology centre. The use of its software suites such as WorkPlace+ mobile, Smart (Security Management and Risk Tracker) Procius screening and vetting services and other specialist risk based services is expanding. We have renewed a number of major clients this year such as Citi Group, Technicolour, John Radcliffe Hospital, Strathclyde Passenger Transport, and our new clients include Sainsbury's, London City Airport and BNP Paribas.

Care & Custody, our business focused on the justice market, has built strong client relationships and an established reputation with both the Ministry of Justice and Home Office through successful contract delivery over the past three to five years. Our focus is to build on these relationships, ensure we have a clear understanding of what our clients want, and to design solutions that meet and exceed client expectations. Our contracts in this market are performing well.

There is a very significant pipeline of new business opportunities with the Home Office, Ministry of Justice and the Scottish Prison Service which correlate with our core capability as well as our model of targeting single step adjacent prospects. Our growth in this sector to date has been characterised by developing operationally robust delivery models, and providing value for money that reflects a strong and sustainable relationship with our clients. We will continue to be selective about the opportunities we pursue in order that we do not deviate from this approach.

We expanded the range of services that we provide in our core market by acquiring Care and Custody Health in January 2016, which has a core service offer providing forensic medical services into Police Custody. We were delighted to be awarded the contract to deliver forensic medical services into the Greater Manchester Police custodial estate; a contract which includes liaison and diversion services for the first time. We envisage that this model will be included in future procurements with other Police Forces. There is a strong pipeline of new business opportunities in this sector.

We are highly selective when pursuing new business opportunities within the justice market, and will only operate where commissioning behaviour permits us to recruit and retain front-line people on sustainable pay rates, and where the evaluation criteria places a significant emphasis on quality.

Catering and front of house (including document management)

Our catering business which operates as Gather & Gather has performed in line with expectations with a high volume of new bid and retender activity since April. It has secured a number of new clients in Ireland, where our flexible and entrepreneurial approach continues to challenge the market and stimulate new opportunities.

However the business has been impacted by the current economic uncertainty which has resulted in changing client investment priorities and caused a notable slow-down in the pace of decision-making. In addition over the last three months, food price inflation is returning to the agenda after a prolonged period of stability, and this combined with the adjustments required to mitigate national living wage increases, is necessitating careful monitoring of costs and pre-planning to ensure both clients' and our own commercial interests are protected. In our events business weak demand has reduced revenues and profits.

Gather & Gather's establishment as a true market leader was confirmed during October with two prestigious awards in recognition of our innovative approach. Firstly, the influence of Gather & Gather's founding mission of 'bringing food and people together' to enhance workplace culture and improve effectiveness was recognised with a BIFM Brand Impact Award. This award was swiftly followed up with the fantastic accolade of 'Chef of the Year' at the 2016 Foodservice Catey's for Executive Chef Steve Land in recognition of his fabulous work at Sky. This is great recognition for a business which continues to disrupt the market.

Our events business has performed worse than the prior year, once again providing retail bars, food and hospitality for a range of prestigious clients such as Royal Ascot, RHS Chelsea Flower Show, the Farnborough Air Show and Lords cricket ground. There has been a change in the management team and we look forward to progress in this fast-moving sector, working closely with the Gather & Gather business to share resources and best practice.

Our front of house business, Client Services, has enjoyed a busy first half re-energising the unique culture which has made that business a market leader. Having made a number of changes in the management team, the business is working on several high profile pipeline opportunities, both on a standalone basis, and alongside other group companies as part of IFM. Alongside our established specialism in reception and guest services, Client Services is increasingly finding ways to support our clients' agile working agenda, notably utilising technology as an enabler to facilitate the guest experience.

Our document management business has had a steady first six months and continued its transition towards a more technology led business that is supporting a digital journey for our people, customers and their stakeholders.

The highlight of the period was the award of a multi-million pound hybrid mail contract that underpins the growth in our offsite mail, scanning and archiving facility in Birmingham. We have also established a records management consultancy business in response to a growing need from our customer base. We are currently supporting a number of key clients including an international insurance business and a professional services company to stream-line their records management processes and improve their retention and destruction policies. In addition we continue to develop our supply chain management model with the selection of best in class specialist service partners. We have established long term strategic relationships across key service streams for our customers, including printer and copier fleet management, print management services and stationery and merchandising requirements.

Technical Facilities Management

We deliver a full range of technical and building services to clients across a broad range of market sectors. We manage and maintain all of our clients' mechanical and electrical engineering maintenance needs, as part of our focus on long-term client relationships. We are the largest provider of these services in the UK.

Technical FM has been particularly impacted by delays and deferrals of project work in the first half of this year as typically half of its revenues come from projects. This has resulted in reductions in both revenue and profitability. This has largely been caused by uncertainties both before and after the EU referendum. The level of project activity has however picked up in the past two months and we expect to see an improved performance in the second half of the year. The restructuring programme has been implemented and we expect to see benefits in the second half of the year.

In response to the pressures in the market we are changing the way we support our clients by using technological solutions to improve the performance of their buildings, their assets and their people. Our technology-driven approach enables 'Smarter FM', meaning we will minimise the cost and maximise the effectiveness of maintenance, while providing opportunities to reduce energy spend. We do this by managing buildings in real time and using the live data feeds to optimise building environments. By understanding and using data, we enhance asset utilisation, space maximisation and the performance of people.

Using a combination of existing building systems and environment sensors, Mitie interprets the energy, asset and workspace data of property portfolios and tailors our activities to our clients' exact requirements. We capture the data at our 'Remote Operating Centre' where our analysts review data in real time, make recommendations on how to make maintenance and workspace improvements and reduce energy consumption. We also notify on-site teams of any issues so they can react rapidly.

We use these remote connections to improve service delivery (including energy management, reactive tasks and planned maintenance) and support onsite teams with improved performance data. We monitor and measure the data and deliver management information to continuously improve performance and provide opportunities for savings.

This approach is paying dividends with contract awards during the period including the retention of our technical facilities management contract with Allianz insurance, a new infrastructure award from Heathrow Airport, additional project works with Rolls-Royce in Germany and the extension of our contract with the Scottish Parliament.

In addition to our core maintenance offer, we provide critical specialist services, which broaden our offering and bring valuable new opportunities to the business. These include heating, cooling, lighting, fire and security, water treatment, compliance, building controls and projects.

We are Europe's largest indoor lighting maintenance specialist, with 50 years' experience in design, installation and maintenance. Our water treatment business is performing well, providing a single source for all our clients' water and air quality needs.

Our Resilience solution for data centre environments is the most comprehensive critical engineering solution in the market. Our risk management approach in this area really differentiates our offering. It is relied upon by some of the largest financial and media institutions in the UK, supporting facilities ranging from data centres, trading floors, tele-communications and broadcasting studios to transport infrastructure.

Integrated Facilities Management

The first six months of the year have seen few large scale integrated facilities management tenders in the market, with large numbers of clients deciding to either renew or extend their contracts with existing service providers. This has impacted the performance of IFM as the lack of contract awards in the period has resulted in it performing behind expectations both in terms of revenue and profit. We have relatively few of our IFM contracts up for renewal over the next three years but we were pleased to retain and expand our contract with Manchester Airport Group which includes Stansted and East Midlands Airport.

Mitie has been providing a range of FM services for Manchester Airport since 2008, including cleaning, waste management, gritting and snow clearance. The new contract – valued in excess of £60m over the duration – will see us deliver additional pest control and landscaping services at Manchester Airport, as well as, for the first time the full range of soft services at Stansted and East Midlands Airport. We will also provide hard services including mechanical and electrical maintenance, fixed wire testing, plumbing, life safety systems, building management systems and lightning protection systems across all three airports.

The IFM & Technical FM restructure is progressing well with Sales, HR and Technology changes complete. We have created three new operational segments. We now operate as North, South and National Technical Services which includes our compliance, lighting, projects and energy offers.
We have also successfully deployed a new app based service called MiColleague, which allows clients to easily register and facilitate issues and see the progress of the action taken in real time.

As our clients react to the uncertainties in today's economic climate we are seeing an increase in demand for our consultancy and project management services provided by Source 8.

We were awarded a number of real estate outsourcing contracts during the latter half of FY 2016 and we are seeing increased consulting activity in particular in relation to the increasing use of technology by clients within the built environment. A new Workplace Design and Change management service has been successfully launched within the period which complements our facilities management offer. An expanded remit of work has been agreed with existing FM clients such as Lloyds Banking Group, Rolls-Royce, the Daily Mail Group and Marsh. We have also secured consulting and project management work with IBM, McKinsey and Nokia across EMEA.

We are seeing increasing consulting activity on the opportunities and threats relating to the greater use and integration of technology within the corporate real estate environment. We have secured consulting engagements with HSBC on the use of technology within their built environment (including IP enabled BMS, EMS and lighting control systems) particularly in terms of assessing the Cyber-risk. We are also working with ED&F Man to assist in the development of a risk management framework for the control of cyber and related risks within the organisation and a three year framework for technology, risk and real estate with Willis Group where an engagement has started to design a technology solution to integrate systems across 45 countries.

Property Management

£m	**HY 2017**	HY 2016	**Growth**
Revenue	**130.3**	156.0	(16.5)%
Operating profit before other items	**4.5**	8.5	(47.1)%
Operating profit before other items margin	**3.5%**	5.4%	(1.9)ppt

The social housing market accounts for 74% of the revenues in Property Management. This market has seen a significant impact this year from the statutory 1% annual rent reduction imposed in the 2015 Autumn Statement. This has resulted in all of our social housing clients having to reassess their five year budgets. This process has caused the delay of many projects that would traditionally have started in the first half of the year. This has reduced revenues and profits in the first half. We are now seeing an uplift in awards which should produce an improvement in performance in the second half of the year but we will still expect the performance for the year to be worse than in FY16.

Despite market pressures and its impact on customer spending we have been successful in securing a number of long-term contracts. Our integrated property management services, property asset management consultancy, and services in painting and roofing are making progress by continuing to deliver a market-leading service to local authorities and housing associations across the UK.

With the environment in social housing continuing to be challenging, we are working closely with our clients to offer services that provide solutions to those challenges, e.g. through proposing alternative contracting partnerships, such as Joint Ventures or Wholly Owned Subsidiaries, investing in technology or through social value initiatives such as training and development programmes.

Through sharing our knowledge and skills, we are now looking at new opportunities in private sector housing, which will put us in a stronger position to deliver a truly integrated service for clients in the future.

We've strengthened our internal sales and marketing capability and over the past 6 months, we've seen an increase in our sales pipeline. We have targeted integrated property management, partnerships and single services opportunities that provide an opportunity to offer clients solutions that leverage Mitie's capability. We're now in a stronger position to deliver future growth.

Contract awards during the period include a responsive repair and voids contract with Circle Housing Group, a refurbishment contract with the Royal Borough of Kingston upon Thames, a mechanical and electrical services contract with the London Borough of Southwark and a window and door replacement contract with the Sanctuary Group in Hackney.

We are constantly looking at ways to innovate, using technology to deliver a better service to clients and residents. We recently rolled out Mirepair, a web-based, workflow management tool, on one of our contracts at Golding Homes, which will improve productivity and promote agile working by providing a mobile-based solution. We will continue this roll out throughout 2016/17 across our other national contracts.

We are passionate about supporting the local communities we serve and to demonstrate our commitment to social value, we recently signed a partnering agreement with HACT, the housing ideas and innovation charity. HACT are the pioneers of an industry-leading initiative that measures the impact of social value. Through the HACT tool, Mitie will be able to accurately qualitatively and quantitatively measure the cumulative effect of all its social value activities across its contracts. We also launched an up-skilling programme across the division where we've committed to deliver an NVQ Level 2 Trailblazer Apprenticeship in Property Maintenance. The twelve-month programme has seen 705 operatives taking up the training to date.

Healthcare

£m	**HY 2017**	HY 2016	**Growth**
Revenue	**40.7**	39.0	4.4%
Operating (loss)/profit before other items	**(4.1)**	(2.1)	n/a
Operating (loss)/profit before other items margin	**(10.1)%**	(5.4)%	(4.7)ppt

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 an extremely challenging period for our healthcare business with revenue and profits deteriorating more than previously expected.

Following publication of the group's annual results in May 2016, the Directors have been monitoring the domiciliary healthcare market and the performance of the group's healthcare business unit.

We have continued to follow our policy, as explained in the 2016 Annual Report and Accounts, to be highly selective in our approach to the domiciliary healthcare market and only work with clients prepared to pay a sustainable rate for the high quality of care we deliver. The Directors believed that there would be sufficient demand at sustainable rates to support the turnaround of the business.

Subsequent changes in the healthcare market and the experience of our healthcare business over the last six months have caused the Directors to re-consider the group's strategy for domiciliary healthcare services. In particular:

- We had expected that the recent increases in the minimum wage would help improve recruitment rates for new care workers. We have seen the labour market remain tight and we continue to face challenges in recruiting sufficient numbers of highly qualified care workers. This is constraining our ability to expand the business and restricting our ability to limit the use of relatively more expensive agency staff.

- We were expecting to bid for a series of new domiciliary care contracts specifically identified by our business development team. However, over the last six months, we have decided not to bid for certain new work as our minimum service standards were unaffordable. Additionally, proposed contract terms were onerous for the group, such as the requirement to accept funding risk on defined benefit pension obligations. This has constrained our opportunity for growth in the healthcare market.

- Our commitment to high quality, well-managed services requires a high level of investment in our people, technology and controls to manage operational risks. The cost of this investment has proved to be unsustainable in the current market and the group's domiciliary healthcare business has reported increased financial losses in the first half of the year.

We have therefore concluded that a sustainable long term plan for the group's domiciliary healthcare business cannot be delivered under Mitie's operating model. As a result, the Directors have decided to withdraw from the domiciliary healthcare market and have placed the group's domiciliary healthcare business under strategic review. We are now assessing the future options for this business, which will include, but not be limited to a potential change in ownership. The business will continue to operate in an orderly and responsible manner and we will fulfil all our obligations during this process.

Strategy

Our strategy has six pillars and is appropriate post our exit from the homecare sector as we refocus on facilities management. The pillars are as follows:

1. Maintain our position as the leading provider of FM services in the UK
2. Increase the range and scale of services we provide to our top 200 clients, in the UK and internationally
3. Attract, retain and develop the best people in our industry
4. Increase the provision of technology-led services
5. Grow our public services businesses by developing relationships with key clients
6. Expand the scale and breadth of our higher value consultancy services

Technology

Technology is increasingly being used by our businesses to differentiate our offer and improve the efficiency of the services that we provide. This is especially relevant in a period of increasing labour costs. Our security business in particular has seen good growth in its technology services and its risk based approach. Security has had a record year for sales and contract retention with a wider service scope utilising our full technology suite of applications and products to supplement the traditional model of manpower + access control + camera services. The Cleaning business has also seen greater client appreciation of technology in what has always been a very traditional labour intensive market. The market is now starting to change and our early adoption of technology such as robotics, telemetric equipment and IoT devices using data and route mapping has seen an increase in sales and longer term retention on key accounts. The longer term outlook for the sector is strongly led by offsite services and technology applications to maximise productivity and certainty of compliance, we are well placed in these markets to ensure we take full advantage of the changing landscape.

Our people

The key differentiator for Mitie is its people. We make sure that we have the appropriate resources and structures in place to attract, retain and motivate our diverse, skilled workforce. We recognise their achievements with our Mitie Stars programme and we are pleased to report that this year we have received over 3,000 nominations from colleagues and customers for the actions and dedication of our people and our teams across the business. This is the highest in the nine years of the programme.

Health and safety is always the first thing on the agenda at every meeting and during the first half we were proud to see this commitment recognised by the award of our ninth consecutive Gold Medal from the Royal Society for the Prevention of Accidents (RoSPA). The RoSPA scheme, which is the largest and longest running programme of its kind in the UK, recognises commitment to the prevention of accidents and ill health.

Key factors affecting our business, principal risks and uncertainties

Underpinning the ability to achieve the group's strategic objective of delivering sustainable, profitable growth is the system of risk management and internal control. The assessment and management of risk is undertaken by every business segment, which have a comprehensive risk management process in place, with business risk registers feeding through to the group risk register reviewed by our Board. The overall risk assessment is then reviewed on a top down basis with a focus on the identification and reporting of the group’s principal risks and uncertainties. We continue to analyse our risk profile using four categories: strategic; financial; operational; and regulatory.

In our annual report and accounts 2016 we listed on pages 34-36 the eight trends that are shaping our industry. They were the modest macro-economic growth in the UK, a more partnership based approach in working with private sector clients, public sector funding constraints, the increasing cost of labour, greater globalisation, changing demographics, changing workplaces and an increasing use of technology. We also explained in the section on our principal risks and uncertainties on pages 57-60 the potential impact of uncertainty around the EU referendum, government spending plans and the regulatory impact of changes to the cost of labour. All of these factors have impacted the first half of the year to one extent or another. Some have been positive such as private sector partnership and increasing technology which bodes well for the future but our short term performance has been impacted by uncertainty around the referendum which has delayed projects and increased labour costs which have affected discretionary spending. The recent increase in risk has affected our clients’ confidence to invest in their estates and has impacted the group’s financial performance as a result.

Our on-going review of principal risks and uncertainties for the second half of the year to March 2017 has not identified any significant changes from those detailed on pages 57-60 in our 2016 annual report and accounts, except that the risk of continuing uncertainty in the economic environment (including Brexit), explained on page 57 of the 2016 annual report, clearly now reflects uncertainty created as a consequence of the referendum result to exit the European Union, including uncertainty as to currency stability and the resultant inflationary pressures.

There have not been any significant events after 30 September 2016 (the balance sheet date).

Statement of Directors' responsibilities

The Directors of Mitie Group plc confirm that, to the best of their knowledge, this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report includes a fair view of the information required by rules 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules. The names and functions of the Directors of Mitie Group plc are as listed in the group's 2016 Annual Report (available on the group's website: www.mitie.com), except as described below.

Board changes

As announced on 10th October 2016, Phil Bentley has joined the Board on 1st November and will be appointed CEO on the 12th December 2016 when Ruby McGregor-Smith steps down from the Board. Ruby will remain employed by Mitie until 31 March 2017 and will work closely with Phil to ensure an effective transition with clients, employees and other stakeholders as required.

Outlook

Improved performance is expected in the second half of the year due to enhanced revenue visibility from new contract awards and retentions, momentum in levels of project work and the anticipated incremental H2 benefits from restructuring programmes of £10m compared to H1. Despite this progress, due to ongoing market uncertainties, underlying earnings for FY17 are expected to be below management's previous expectations

The quality of the business, our people, our long-term client relationships and having no material rebids until 2019, gives us confidence for the performance of Mitie in the years ahead

Independent review report to Mitie Group plc

For the six months ended 30 September 2016

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2016 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
21 November 2016

Condensed consolidated income statement

For the six months ended 30 September 2016

		30 September 2016 (unaudited)			30 September 2015 (unaudited)		
	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	**1,093.6**	**–**	**1,093.6**	1,123.1	–	1,123.1
Cost of sales		**(951.3)**	**–**	**(951.3)**	(963.7)	–	(963.7)
Gross profit		**142.3**	**–**	**142.3**	159.4	–	159.4
Administrative expenses		**(107.2)**	**(128.1)**	**(235.3)**	(101.7)	(5.0)	(106.7)
Share of profit of joint ventures and associates		**0.3**	**–**	**0.3**	0.4	–	0.4
Operating profit/(loss)	2	**35.4**	**(128.1)**	**(92.7)**	58.1	(5.0)	53.1
Net finance costs		**(7.7)**	**–**	**(7.7)**	(8.0)	–	(8.0)
Profit/(loss) before tax	2	**27.7**	**(128.1)**	**(100.4)**	50.1	(5.0)	45.1
Tax	5	**(5.7)**	**3.8**	**(1.9)**	(10.1)	0.9	(9.2)
Profit/(loss) for the period		**22.0**	**(124.3)**	**(102.3)**	40.0	(4.1)	35.9
Attributable to:							
Equity holders of the parent		**21.5**	**(124.3)**	**(102.8)**	39.3	(4.1)	35.2
Non-controlling interests		**0.5**	**–**	**0.5**	0.7	–	0.7
		22.0	**(124.3)**	**(102.3)**	40.0	(4.1)	35.9
Earnings per share							
– basic	7	**6.2p**	**(35.7)p**	**(29.5)p**	11.1p	(1.2)p	9.9p
– diluted	7	**6.1p**	**(35.3)p**	**(29.2)p**	10.7p	(1.1)p	9.6p

1 Other items are as described in Note 3.

Condensed consolidated statement of comprehensive income

For the six months to 30 September 2016

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m
Profit/(loss) for the period	**(102.3)**	35.9
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of net defined benefit pension liability	**(48.0)**	4.6
Income tax relating to items not reclassified	**8.6**	(0.9)
	(39.4)	3.7
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**0.7**	(0.6)
Loss on a hedge of a net investment taken to equity	**(0.7)**	(0.1)
Cash flow hedges:		
- Gains/(losses) arising during the period	**13.4**	(2.8)
- Reclassification adjustment for (losses)/gains included in profit and loss	**(14.6)**	2.6
Income tax credit relating to items that may be reclassified	**0.2**	0.1
	(1.0)	(0.8)
Other comprehensive income/(expense) for the financial period	**(40.4)**	2.9
Total comprehensive income/(expense) for the financial period	**(142.7)**	38.8
Attributable to:		
Equity holders of the parent	**(143.2)**	38.1
Non-controlling interests	**0.5**	0.7

Condensed consolidated balance sheet

At 30 September 2016

	Notes	**30 September 2016 (unaudited) £m**	30 September 2015 (unaudited) £m	31 March 2016 (audited) £m
Non-current assets				
Goodwill	8	**359.0**	464.4	465.5
Other intangible assets		**62.4**	68.7	66.9
Property, plant and equipment		**40.4**	54.2	49.3
Interest in joint ventures and associates		**0.3**	1.1	0.6
Financing assets	12	**30.9**	4.1	14.4
Trade and other receivables	9	**83.9**	68.3	86.0
Deferred tax assets		**18.4**	11.9	10.0
Total non-current assets		**595.3**	672.7	692.7
Current assets				
Inventories		**9.2**	9.9	9.9
Trade and other receivables	9	**473.6**	460.1	446.7
Cash and cash equivalents	12	**62.5**	53.0	93.1
Total current assets		**545.3**	523.0	549.7
Total assets		**1,140.6**	1,195.7	1,242.4
Current liabilities				
Trade and other payables		**(495.2)**	(461.1)	(487.8)
Current tax liabilities		**(3.9)**	(11.3)	(10.4)
Financing liabilities	12	**(1.6)**	(1.5)	(1.9)
Provisions	14	**(0.9)**	(6.8)	(0.4)
Total current liabilities		**(501.6)**	(480.7)	(500.5)
Net current assets		**43.7**	42.3	49.2
Non-current liabilities				
Trade and other payables		**(3.0)**	(8.4)	(2.5)
Financing liabilities	12	**(323.5)**	(276.2)	(283.9)
Provisions	14	**(0.4)**	(0.7)	(0.5)
Retirement benefit obligation	15	**(85.0)**	(32.8)	(35.5)
Deferred tax liabilities		**(1.8)**	(6.8)	(4.4)
Total non-current liabilities		**(413.7)**	(324.9)	(326.8)
Total liabilities		**(915.3)**	(805.6)	(827.3)
Net assets		**225.3**	390.1	415.1
Equity				
Share capital	16	**9.2**	9.4	9.3
Share premium account		**130.6**	126.0	127.7
Merger reserve		**91.8**	80.1	80.1
Own shares reserve		**(46.2)**	(52.8)	(48.8)
Other reserves		**5.3**	8.0	9.9
Hedging and translation reserve		**(5.7)**	(7.3)	(4.6)
Retained earnings		**37.7**	222.9	238.6
Equity attributable to equity holders of the parent		**222.7**	386.3	412.2
Non-controlling interests		**2.6**	3.8	2.9
Total equity		**225.3**	390.1	415.1

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2016

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves* £m	Hedging and translation reserve £m	Retained earnings £m	**Attributable to equity holders of the parent £m**	Non-controlling interests £m	Total £m
At 31 March 2015	9.4	122.6	80.1	(47.5)	7.6	(6.4)	209.2	**375.0**	3.3	378.3
Profit for the period	–	–	–	–	–	–	35.2	**35.2**	0.7	35.9
Other comprehensive income/(expense)	–	–	–	–	–	(0.9)	3.8	**2.9**	–	2.9
Total comprehensive income/(expense)	–	–	–	–	–	(0.9)	39.0	**38.1**	0.7	38.8
Shares issued	–	3.4	–	–	–	–	–	**3.4**	–	3.4
Dividends paid	–	–	–	–	–	–	(23.1)	**(23.1)**	(0.2)	(23.3)
Purchase of own shares	–	–	–	(6.6)	–	–	–	**(6.6)**	–	(6.6)
Share buybacks	–	–	–	–	–	–	(4.4)	**(4.4)**	–	(4.4)
Share-based payments	–	–	–	1.3	0.4	–	1.5	**3.2**	–	3.2
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	0.7	**0.7**	–	0.7
At 30 September 2015	9.4	126.0	80.1	(52.8)	8.0	(7.3)	222.9	**386.3**	3.8	390.1
Profit for the period	–	–	–	–	–	–	40.5	**40.5**	1.1	41.6
Other comprehensive income/(expense)	–	–	–	–	–	2.7	(3.1)	**(0.4)**	–	(0.4)
Total comprehensive income/(expense)	–	–	–	–	–	2.7	37.4	**40.1**	1.1	41.2
Shares issued		1.7	–	–	–	–	–	**1.7**	–	1.7
Dividends paid	–	–	–	–	–	–	(19.1)	**(19.1)**	–	(19.1)
Share buybacks	(0.1)	–	–	–	0.1	–	(10.9)	**(10.9)**	–	(10.9)
Share-based payments	–	–	–	4.0	1.8	–	(1.2)	**4.6**	–	4.6
Tax on share-based payments	–	–	–	–	–	–	0.1	**0.1**	–	0.1
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	9.4	**9.4**	(2.0)	7.4
At 31 March 2016	9.3	127.7	80.1	(48.8)	9.9	(4.6)	238.6	**412.2**	2.9	415.1
Profit for the period	–	–	–	–	–	–	(102.8)	**(102.8)**	0.5	(102.3)
Other comprehensive (expense)/income	–	–	–	–	–	(1.1)	(39.3)	**(40.4)**	–	(40.4)
Total comprehensive (expense)/income	–	–	–	–	–	(1.1)	(142.1)	**(143.2)**	0.5	(142.7)
Shares issued	0.1	2.9	11.7	–	–	–	–	**14.7**	–	14.7
Dividends paid	–	–	–	–	–	–	(23.3)	**(23.3)**	(0.1)	(23.4)
Purchase of own shares	–	–	–	(0.1)	–	–	–	**(0.1)**	–	(0.1)
Share buybacks	(0.2)	–	–	–	0.2	–	(24.3)	**(24.3)**	–	(24.3)
Share-based payments	–	–	–	2.7	(4.8)	–	4.4	**2.3**	–	2.3
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	(15.6)	**(15.6)**	(0.7)	(16.3)
At 30 September 2016	**9.2**	**130.6**	**91.8**	**(46.2)**	**5.3**	**(5.7)**	**37.7**	**222.7**	**2.6**	**225.3**

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

Condensed consolidated statement of cash flows

For the six months ended 30 September 2016

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m
Operating profit/(loss)	**(92.7)**	53.1
Adjustments for:		
Share-based payment expense	**2.6**	3.3
Defined benefit pension charge	**2.2**	2.6
Defined benefit pension contributions	**(1.4)**	(1.6)
Acquisition costs	**0.7**	–
Depreciation of property, plant and equipment	**7.3**	8.3
Amortisation of intangible assets	**8.4**	8.8
Share of profit of joint ventures and associates	**(0.3)**	(0.4)
Impairment of Goodwill and Intangible assets	**117.2**	–
Loss/(gain) on disposal of property, plant and equipment	**0.1**	(0.4)
Operating cash flows before movements in working capital	**44.1**	73.7
Decrease in inventories	**0.7**	1.1
Increase in receivables	**(25.0)**	(48.7)
Increase/(decrease) in payables	**7.4**	(15.7)
Increase/(decrease) in provisions	**0.4**	(0.2)
Cash generated by operations	**27.6**	10.2
Income taxes paid	**(10.8)**	(3.1)
Interest paid	**(6.7)**	(7.5)
Acquisition costs	**(0.7)**	–
Net cash inflow/(outflow) from operating activities	**9.4**	(0.4)
Investing activities		
Interest received	**–**	0.4
Purchase of property, plant and equipment	**(5.7)**	(10.0)
Purchase of subsidiary undertakings, net of cash acquired	**(1.4)**	(3.7)
Dividends received from joint ventures and associates	**0.3**	0.7
Investment in financing assets	**–**	0.2
Purchase of other intangible assets	**(8.6)**	(1.0)
Disposals of property, plant and equipment	**0.1**	2.0
Net cash outflow from investing activities	**(15.3)**	(11.4)

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m
Financing activities		
Repayments of obligations under finance leases	**(0.8)**	(1.0)
Proceeds on issue of share capital	**0.5**	3.4
Bank loans raised	**21.8**	0.5
Purchase of own shares	**–**	(6.6)
Share buybacks	**(24.3)**	(4.4)
Equity dividends paid	**(23.3)**	(23.1)
Non-controlling interest dividends paid	**(0.1)**	(0.2)
Net cash outflow from financing	**(26.2)**	(31.4)
Net decrease in cash and cash equivalents	**(32.1)**	(43.2)
Net cash and cash equivalents at beginning of the period	**93.1**	96.4
Effect of foreign exchange rate changes	**1.5**	(0.2)
Net cash and cash equivalents at end of the period	**62.5**	53.0
Net cash and cash equivalents comprise:		
Cash at bank	**62.5**	53.0

Reconciliation of net cash flow to movement in net debt	Notes	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m
Net decrease in cash and cash equivalents		**(32.1)**	(43.2)
Effect of foreign exchange rate changes		**1.5**	(0.2)
Increase in bank loans		**(21.8)**	(0.6)
Non-cash movement in private placement notes and associated hedges		**(1.9)**	(0.2)
Decrease in finance leases		**0.9**	0.2
Increase in net debt during the period		**(53.4)**	(44.0)
Opening net debt		**(178.3)**	(177.8)
Closing net debt	12	**(231.7)**	(221.8)

Notes to the condensed consolidated financial statements

For the six months to 30 September 2016

1. Basis of preparation

The condensed consolidated financial statements for the six months to 30 September 2016 have been prepared on the basis of the accounting policies set out in the 2016 Annual Report and Accounts. These accounting policies are drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and have been prepared in accordance with IAS 34 'Interim Financial Reporting' and with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The condensed consolidated financial statements for the six months to 30 September 2016 have been reviewed by Deloitte LLP but have not been audited. They do not include all the information and disclosures required in the annual financial statements, and therefore should be read in conjunction with the group's annual financial statements as at 31 March 2016.

The financial information presented for the six months ended 30 September 2016 does not represent full statutory accounts within the meaning of Section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 March 2016 has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under Section 498 of the Companies Act 2006.

Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the group's annual financial statements for the year ended 31 March 2016.

Going concern and principal risks and uncertainties

The Directors have considered the Financial Reporting Council guidance on going concern and the principal risks and uncertainties affecting the group which, in the directors' view, are unchanged from those described on pages 57 and 60 of the group's 2016 Annual Report. Except that the risk of continuing uncertainty in the economic environment (including Brexit) clearly now reflects uncertainty created as a consequence of the referendum result to exit the European Union, including uncertainty as to currency stability and the resultant inflationary pressures.

The directors have considered the group's financial position with reference to latest forecasts and the actual performance for the half-year period. The group benefits from a well-diversified portfolio of service offerings and has a broad, diverse customer base. The group currently operates well within the financial covenants associated with its committed funding lines and its £252m of US Private Placement debt expiring in December 2017, December 2019, December 2022 and December 2024.

The group benefits from a committed multi-currency revolving credit facility of £275m, which will mature in July 2021, together with the US Private Placements, this gives the group total committed funding of £527m, of which £238m was undrawn at 30 September 2016.

After making enquiries, whilst the current economic environment continues to be uncertain, the Directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the group continues to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements.

2. Business and geographical segments

Business segments

The group manages its business on a service division basis. With effect from 1 April 2016, the divisional structure was reorganised into three trading divisions being Facilities Management, Property Management and Healthcare. These divisions are the basis on which the group reports its primary segmental information.

These segments are unchanged from the previous reporting period except that Soft FM and Hard FM, which were previously reported separately, are now one division called Facilities Management and Tilley Roofing has transferred from Facilities Management to Property Management.

	Six months to 30 September 2016 (unaudited)				Six months to 30 September 2015 – represented (unaudited)			
	Revenue £m	**Operating profit before other items £m**	**Operating profit margin before other items %**	**Profit/ (loss) before tax £m**	Revenue £m	Operating profit before other items £m	Operating profit margin before other items %	Profit/ (loss) before tax £m
Facilities Management	**922.6**	**35.0**	**3.8**	**29.8**	928.1	51.7	5.6	46.1
Property Management	**130.3**	**4.5**	**3.5**	**4.4**	156.0	8.5	5.4	8.4
Healthcare	**40.7**	**(4.1)**	**(10.1)**	**(6.5)**	39.0	(2.1)	(5.4)	(4.4)
Other items* (Note 3)	**–**	**–**	**–**	**(128.1)**	–	–	–	(5.0)
Total	**1,093.6**	**35.4**	**3.2**	**(100.4)**	1,123.1	58.1	5.2	45.1

* Other items can be analysed by business segment as follows: Facilities Management £8.3m (2015: £3.0m); Property Management £0.8m (2015: nil); and Healthcare £119.0m (2015: £2.0m).

Facilities Management revenue can be analysed as follows:

	Six months to 30 September 2016 £m	Six months to 30 September 2015 £m
Cleaning and environmental services	**183.6**	191.0
Security	**128.3**	120.3
Catering and front of house	**64.0**	58.5
Technical Facilities Management	**192.8**	203.3
Integrated Facilities Management	**353.9**	355.0
Revenue – Facilities Management	**922.6**	928.1

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

Geographical segments

	Six months to 30 September 2016 (unaudited)				Six months to 30 September 2015 (unaudited)			
	Revenue £m	**Operating profit before other items £m**	**Operating profit before other items margin %**	**Profit/ (loss) before tax £m**	Revenue £m	Operating profit before other items £m	Operating profit before other items margin %	Profit/ (loss) before tax £m
United Kingdom	**1,048.9**	**34.6**	**3.3**	**(101.0)**	1,086.4	58.3	5.4	45.6
Other countries	**44.7**	**0.8**	**1.8**	**0.6**	36.7	(0.2)	(0.5)	(0.5)
Total	**1,093.6**	**35.4**	**3.2**	**(100.4)**	1,123.1	58.1	5.2	45.1

Note: Revenue and operating profit exclude other items which are analysed in Note 3 and are all incurred in the United Kingdom.

3. Other items

The group separately reports acquisition costs, the amortisation of acquisition related intangible assets, exceptional items and their related tax effect as other items:

	Six months to 30 September 2016 (unaudited)					Six months to 30 September 2015 (unaudited)
	Impairment of Goodwill £m	**Write off of acquisition related intangible £m**	**Restructuring costs £m**	**Acquisition related items £m**	**Total £m**	Other items - Acquisition related items £m
Administrative expenses	**(107.1)**	**(10.1)**	**(6.0)**	**(4.9)**	**(128.1)**	(5.0)
Other items before tax	**(107.1)**	**(10.1)**	**(6.0)**	**(4.9)**	**(128.1)**	(5.0)
Tax		**1.9**	**1.1**	**0.8**	**3.8**	0.9
Other items after tax	**(107.1)**	**(8.2)**	**(4.9)**	**(4.1)**	**(124.3)**	(4.1)

Exceptional items – Restructuring costs

The restructuring costs included in other items relate to one-off costs of organisational change associated with our cost efficiency and change programmes, which are expected to total up to £10m for the financial year. These one-off incremental expenses are analysed below:

	Six months to 30 September 2016 (unaudited) £m	Six months to 30 September 2015 (unaudited) £m
Redundancy payments	**(4.1)**	–
Cost of change team	**(1.0)**	–
Provision in respect of property closure costs	**(0.9)**	–
Exceptional items - Restructuring costs	**(6.0)**	–

Acquisition related items

Acquisition related items include the amortisation charge for acquisition related intangibles £4.3m (2015: £5.0m) and the accrual of contingent consideration that is required to be treated as remuneration £0.5m (2015: nil).

4. Business under Strategic Review

Following publication of the group's annual results in May 2016, the Directors have been monitoring the domiciliary healthcare market and the performance of the group's healthcare business unit.

We have continued to follow our policy, as explained in the 2016 Annual Report and Accounts, to be highly selective in our approach to the domiciliary healthcare market and only work with clients prepared to pay a sustainable rate for the high quality of care we deliver. The Directors believed that there would be sufficient demand at sustainable rates to support the turnaround of the business.

Subsequent changes in the healthcare market and the experience of our healthcare business over the last six months have caused the Directors to re-consider the group's strategy for domiciliary healthcare services. In particular:

- We had expected that the recent increases in the minimum wage would help improve recruitment rates for new care workers. We have seen the labour market remain tight and we continue to face challenges in recruiting sufficient numbers of highly qualified care workers. This is constraining our ability to expand the business and restricting our ability to limit the use of relatively more expensive agency staff.
- We were expecting to bid for a series of new domiciliary care contracts specifically identified by our business development team. However, over the last six months, we have decided not to bid for certain new work as our minimum service standards were unaffordable. Additionally, proposed contract terms were onerous for the group, such as the requirement to accept funding risk on defined benefit pension obligations. This has constrained our opportunity for growth in the healthcare market.
- Our commitment to high quality, well-managed services requires a high level of investment in our people, technology and controls to manage operational risks. The cost of this investment has proved to be unsustainable in the current market and the group's domiciliary healthcare business has reported increased financial losses in the first half of the year.

We have therefore concluded that a sustainable long term plan for the group's domiciliary healthcare business cannot be delivered under Mitie's operating model. As a result, the Directors have decided to withdraw from the domiciliary healthcare market and have placed the group's domiciliary healthcare business under strategic review. We are now assessing the future options for this business, which will include, but not be limited to, its potential disposal by the group.

In light of the decision to withdraw from the domiciliary healthcare market and the healthcare loss recorded in the first half of the year, the group has reconsidered the long term plan for the healthcare business and has undertaken an impairment review of the goodwill and intangible assets. We have updated our estimate of the recoverable amount of the healthcare CGU at 30 September 2016 based on the revised plan and have fully impaired the carrying value of goodwill and acquisition related intangible asset for the healthcare CGU.

The trading results of the healthcare business have been reported within the group's results before other items and have not been classified as discontinued operations as defined by IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' as a clear route to the group's withdrawal from the domiciliary healthcare market was not in place on 30 September 2016.

To aid understanding of the group's underlying results a breakdown of the healthcare segment showing the results of the business subject to review is set out below:

	Six months to 30 September 2016 (unaudited)			
	Healthcare business under review £m	**Underlying Healthcare (not under review) £m**	**Total Healthcare Segment £m**	Six months to 30 September 2015 (unaudited) £m
Revenue	**34.7**	**6.0**	**40.7**	39.0
Cost of sales	**(27.8)**	**(5.1)**	**(32.9)**	(30.2)
Gross Profit	**6.9**	**0.9**	**7.8**	8.8
Administrative expenses	**(11.3)**	**(0.6)**	**(11.9)**	(10.9)
Operating (loss)/profit before other items	**(4.4)**	**0.3**	**(4.1)**	(2.1)
Other items	**(119.0)**	**–**	**(119.0)**	(1.9)
Operating (loss)/profit after other items	**(123.4)**	**0.3**	**(123.1)**	(4.0)

A pro-forma income statement showing the results of the group excluding businesses subject to strategic review is included below:

Income Statement	**Underlying (unaudited) £m**	**Healthcare business under review (unaudited) £m**	**Six months to 30 September 2016 (unaudited) £m**	Underlying (unaudited) £m	Healthcare business under review (unaudited) £m	Six months to 30 September 2015 (unaudited) £m
Revenue	**1,058.9**	**34.7**	**1,093.6**	1,084.1	39.0	1,123.1
Cost of sales	**(923.5)**	**(27.8)**	**(951.3)**	(933.5)	(30.2)	(963.7)
Gross profit	**135.4**	**6.9**	**142.3**	150.6	8.8	159.4
Administrative expenses	**(95.9)**	**(11.3)**	**(107.2)**	(90.8)	(10.9)	(101.7)
Share of profit of joint ventures and associates	**0.3**	**–**	**0.3**	0.4	–	0.4
Operating profit before other items	**39.8**	**(4.4)**	**35.4**	60.2	(2.1)	58.1
Other items	**(9.1)**	**(119.0)**	**(128.1)**	(3.1)	(1.9)	(5.0)
Operating profit after other items	**30.7**	**(123.4)**	**(92.7)**	57.1	(4.0)	53.1
Net finance costs	**(7.7)**	**–**	**(7.7)**	(8.0)	–	(8.0)
Profit/(loss) before tax	**23.0**	**(123.4)**	**(100.4)**	49.1	(4.0)	45.1
Tax	**(5.0)**	**3.1**	**(1.9)**	(9.6)	0.4	(9.2)
Profit/(loss) for the period	**18.0**	**(120.3)**	**(102.3)**	39.5	(3.6)	35.9
Attributable to:						
Equity holders of the parent	**17.5**	**(120.3)**	**(102.8)**	38.8	(3.6)	35.2
Non-controlling interests	**0.5**	**–**	**0.5**	0.7		0.7
	18.0	**(120.3)**	**(102.3)**	39.5	(3.6)	35.9
Earnings per share						
Basic earnings per share before other items	**7.2p**		**6.2p**	11.5p		11.1p
Basic earnings per share	**5.0p**		**(29.5)p**	10.9p		9.9p
Diluted earnings per share before other items	**7.1p**		**6.1p**	11.2p		10.7p
Diluted earnings per share	**5.0p**		**(29.2)p**	10.6p		9.6p

5. Tax

The income tax charge for the six months ended 30 September 2016 is calculated based upon the effective tax rates expected to apply to the group for the full year. The rate of tax on profits before other items is 20.7% (2015: 20.3%). The effective rate of tax on earnings before other items is principally influenced by tax relief for share incentive plans that may fluctuate with share price movements, overseas tax rates and recurring non-tax deductible expenses. The group expects its sustainable effective tax rate to be slightly above the UK statutory rate.

Tax relief is recognised on other items to the extent that it is considered probable that tax relief will be obtained or losses will be utilised by the group. The effective rate of tax on other items is 3.0% (2015: 20.0%) which is reflective of a significantly lower rate of tax relief on other items arising in the period, principally the impairment of goodwill and write off of acquisition related intangibles. The effective rate of tax on statutory profits is (1.9)% (2015: 20.3%) which again reflects the lower rate of tax relief on other items relative to statutory profits for the period.

6. Dividends

The proposed interim dividend of 4.0p (2015: 5.4p) per share (not recognised as a liability at 30 September 2016) will be paid on 1 February 2017 to shareholders on the register on 16 December 2016.

The dividend disclosed in the statement of cash flows represents the final ordinary dividend of 6.7p (2015: 6.5p) per share as proposed in the 31 March 2016 financial statements and approved at the group's AGM (not recognised as a liability at 31 March 2016).

7. 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:

	Six months to 30 September 2016 £m	Six months to 30 September 2015 £m
Net profit before other items attributable to equity holders of the parent	**21.5**	39.3
Other items net of tax	**(124.3)**	(4.1)
Net profit/(loss) attributable to equity holders of the parent	**(102.8)**	35.2

Number of shares	**Six months to 30 September 2016 million**	Six months to 30 September 2015 million
Weighted average number of Ordinary shares for the purpose of basic EPS	**348.7**	355.4
Effect of dilutive potential Ordinary shares: share options	**3.6**	10.5
Weighted average number of Ordinary shares for the purpose of diluted EPS	**352.3**	365.9

	Six months to 30 September 2016 p	Six months to 30 September 2015 p
Basic earnings per share before other items	**6.2**	11.1
Basic earnings per share	**(29.5)**	9.9
Diluted earnings per share before other items	**6.1**	10.7
Diluted earnings per share	**(29.2)**	9.6

Note:

Other items are analysed in Note 3.

The weighted average number of Ordinary shares in issue during the period excludes those accounted for in the Own shares reserve which were purchased in the market and are held in Treasury or by the Employee Benefit Trust to satisfy options under the group's LTIP and SIP share option schemes. The Own shares reserve represents the cost of 16.6m (2015: 19.2m) shares in Mitie Group plc, with a weighted average of 17.2m shares during the period (2015: 19.3m).

8. Goodwill

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

Goodwill has been allocated to CGUs which reflect how goodwill is monitored by the group internally.

Cost	**£m**
At 1 October 2015	464.4
Impact of foreign exchange	0.5
Acquisition of subsidiary	0.6
At 31 March 2016	465.5
Impact of foreign exchange	0.7
Change in consideration C&C Health	(0.1)
At 30 September 2016	**466.1**

Accumulated impairment losses	
At 1 October 2015	–
At 31 March 2016	–
Impairment of Healthcare goodwill	(107.1)
At 30 September 2016	**(107.1)**

Net Carrying Value	
At 30 September 2016	**359.0**
At 31 March 2016	465.5
At 30 September 2015	464.4

Review of the carrying value of goodwill in the Healthcare CGU

As explained in note 4 to these Interim Financial Statements, the Directors have decided to withdraw from the domiciliary healthcare market and have placed the group's domiciliary healthcare business under strategic review.

In light of the decision to withdraw from the domiciliary healthcare market and the healthcare loss recorded in the first half of the year, the group has reconsidered the long term plan for the healthcare business and has undertaken an impairment review of the goodwill and intangible assets. The group has updated its estimate of the recoverable amount of the healthcare CGU at 30 September 2016 based on the revised plan and has fully impaired the carrying value of goodwill and acquisition related intangible asset for the healthcare CGU.

Impairment review

The group policy is to test goodwill at least annually for impairment or more frequently if there are indicators that goodwill may be impaired. Following the trading update on 19th September 2016 and the impairment of goodwill related to the Healthcare CGU, the group has undertaken an impairment review of the remaining goodwill balances in the business. The group is satisfied that the performance of the remaining CGUs can comfortably support the carrying value of the associated goodwill. An overview of the impairment review is set out below.

	Discount rate 30 September 2016 %	Discount rate 31 March 2016 %	**Goodwill 30 September 2016 (unaudited) £m**	Goodwill 30 September 2015 (unaudited) £m	Goodwill 31 March 2016 (audited) £m
Soft FM	**8.1**	7.9	**172.5**	171.3	171.8
Hard FM	**8.1**	8.0	**101.3**	101.3	101.3
Property Management	**9.3**	9.2	**85.2**	85.2	85.2
Healthcare	**12.5**	9.1	**-**	106.6	107.2
			359.0	464.4	465.5

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 0% - 2.0% 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 30 September 2016 (31 March 2016: 7.0%), 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.

9. Trade and other receivables

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m	31March 2016 (audited) £m
Amounts receivable for the sale of services	**195.3**	179.7	213.5
Allowance for doubtful debt	**(4.9)**	(3.7)	(3.8)
Trade receivables	**190.4**	176.0	209.7
Amounts recoverable on construction contracts	**0.3**	5.1	2.6
Mobilisation costs (Note 9b)	**30.1**	29.9	28.6
Accrued income	**282.4**	254.6	236.2
Prepayments	**38.4**	41.8	36.4
Other debtors	**15.9**	21.0	19.2
Closing balance	**557.5**	528.4	532.7
Included in current assets	**473.6**	460.1	446.7
Included in non-current assets *	**83.9**	68.3	86.0
	557.5	528.4	532.7

* Non-current trade and other receivables comprise Accrued Income on long-term complex contracts of £66.0m and Mobilisation costs of £17.9m which are further analysed in notes 9a and 9b respectively.

9a. Accrued Income on long-term complex contracts

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m	31March 2016 (audited) £m
Opening balance	**77.1**	48.4	48.4
Amounts recognised in the income statement	**2.1**	9.2	28.7
Closing balance	**79.2**	57.6	77.1
Included in current assets	**13.2**	6.8	8.4
Included in non-current assets	**66.0**	50.8	68.7
	79.2	57.6	77.1

9b. Mobilisation costs

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m	31March 2016 (audited) £m
Opening balance	**28.6**	30.6	30.6
Additions	**7.3**	6.9	12.0
Amounts recognised in the income statement	**(5.8)**	(7.6)	(14.0)
Closing balance	**30.1**	29.9	28.6
Included in current assets	**12.2**	12.4	11.3
Included in non-current assets	**17.9**	17.5	17.3
	30.1	29.9	28.6

10. Acquisitions

Current period acquisitions - purchase of non-controlling interests
On 24 August 2016, the group purchased employee minority shareholdings of three of its successful 'Mitie Model' businesses: Mitie Business Services UK Limited ("MBSUKL"), Mitie Technical Facilities Management Limited ("MTFML"), and Mitie Care and Custody Limited ("MCCL") in accordance with the respective articles of association and shareholders' agreements of those companies.

The total maximum consideration for all three purchases amounts to £16.1m. This will be satisfied with £1.4m in cash and as to the remaining £14.7m by the issue of 6,015,255 new ordinary shares of 2.5p each in Mitie (the 'New Mitie Shares'), valued at 244.38 pence per share. This is the average of the closing middle market price for the five banking days immediately preceding 26 July 2016. Earlier in this financial year, Mitie purchased its own shares in the market to offset this share issue. The purchased shares were cancelled following their acquisition.

As a result of these acquisitions Mitie owns 100% of the issued share capital of MBSUKL and MTFML, and 93.14% of the issued share capital of MCCL. The shareholdings purchased, primarily held by certain of the employees and senior management of the relevant subsidiary companies, are detailed below:

- **MBSUKL** – 27.29% of the issued share capital, comprising 116,000 B ordinary shares of £0.01 each, for a consideration of £0.8m. The consideration will be satisfied by £0.1m in cash and £0.7m by the issue of 275,428 new Mitie Shares;
- **MTFML** – 8.93% of the issued share capital, comprising 952,000 B ordinary shares of £0.01 each, for a consideration of £12.1m. The consideration will be satisfied by £1.0m in cash and £11.1m by the issue of 4,563,029 new Mitie Shares; and
- **MCCL** – 27.42% of the issued share capital, comprising 170,022 B ordinary shares of £0.01 each, for a consideration of £3.2m. The consideration will be satisfied by £0.3m in cash and £2.9m by the issue of 1,176,798 new Mitie Shares.

Prior year acquisitions - purchase of Tascor Medical Services Limited
On 29 January 2016, Mitie acquired the leading UK custodial medical services provider for a total consideration of £0.6m, the business has been renamed Care and Custody (Health) Limited. The transaction has been accounted for by the acquisition method of accounting in accordance with IFRS 3 (2008). The provisional accounting in the 2016 Annual Report and Accounts was reviewed during the period resulting in a £0.1m reduction to the consideration paid and the value of goodwill.

11. Notes to the condensed consolidated statement of cash flows

	12 months to 30 September 2016 (unaudited)			12 months to 30 September 2015 (unaudited)		
	Before other items £m	Other items £m	Total £m	Before other items £m	Other items £m	Total £m
Rolling 12 month cash conversion						
Operating profit	**106.2**	**(139.5)**	**(33.3)**	122.5	(19.3)	103.2
Depreciation	**14.1**	**–**	**14.1**	19.0	–	19.0
Amortisation	**8.9**	**9.2**	**18.1**	5.0	10.0	15.0
Impairment of goodwill & write down of intangible	**–**	**123.4**	**123.4**	–	–	–
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**129.2**	**(6.9)**	**122.3**	146.5	(9.3)	137.2
Cash conversion[1]	**106.5%**		**107.9%**	101.2%		91.4%
Rolling 12 month free cash flow						
Cash generated by operations			**132.0**			125.4
Purchase of property, plant and equipment			**(11.4)**			(24.8)
Purchase of other intangible assets			**(16.5)**			(3.6)
Disposals of property, plant and equipment			**0.3**			3.1
Income taxes paid			**(23.4)**			(16.0)
Interest paid (including facility extension fees)			**(12.6)**			(9.6)
Free cash flow			**68.4**			74.5

1 Cash conversion is calculated as cash generated by operations as a percentage of EBITDA, on a rolling 12 month basis.

12. Analysis of net debt

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m	31March 2016 (audited) £m
Cash and cash equivalents	**62.5**	53.0	93.1
Bank loans	**(35.4)**	(14.5)	(13.6)
Private placement notes	**(286.6)**	(259.9)	(268.2)
Derivative financial instruments hedging private placement notes	**30.9**	2.9	14.4
Net debt before obligations under finance leases	**(228.6)**	(218.5)	(174.3)
Obligations under finance leases – due less than 12 months	**(1.6)**	(1.5)	(1.9)
Obligations under finance leases – due after 12 months	**(1.5)**	(1.8)	(2.1)
Net debt	**(231.7)**	(221.8)	(178.3)
Included in Long term financing liabilities			
Bank loans	**(35.4)**	(14.5)	(13.6)
Private placement notes	**(286.6)**	(259.9)	(268.2)
Obligations under finance leases – due after 12 months	**(1.5)**	(1.8)	(2.1)
Long term financing liabilities	**(323.5)**	(276.2)	(283.9)

13. Financial instruments

With the exception of derivative financial instruments, private placement notes and deferred contingent consideration, all financial assets and liabilities are held at amortised cost. The Directors estimate that their carrying value approximates their fair value.

Derivative financial instruments and private placement notes are measured initially at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through profit or loss unless they are designated as hedges for which hedge accounting can be applied. The carrying value of the private placement notes at 30 September 2016 includes a fair value adjustment for interest rate and currency risk of £0.9m (2015: £0.4m). The fair value of the private placement notes is not significantly different from their carrying value.

Deferred contingent consideration is measured at the Directors' best estimate of the likely future obligation based on the attainment of certain profit targets. In assessing the likely future obligation, the Directors have used their experience and knowledge of market conditions, alongside internal business plans and growth forecasts. Actual amounts payable may vary up to a maximum of £0.4m (2015: £6.8m) dependent upon the results of the acquired businesses.

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

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

We consider that the derivative financial instruments fall into Level 2 and that deferred contingent consideration fall into Level 3.

The following table shows the reconciliation from the opening to closing balances for Level 3 fair values:

	Put options of non-controlling interests £m	**Deferred contingent consideration £m**
At 1 October 2015	8.4	6.8
Movement	(8.4)	(6.4)
At 31 March 2016	–	0.4
Movement	–	–
At 30 September 2016	**–**	**0.4**

There were no transfers between levels during the period. All contracts are gross settled.

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

Assets	**30 September 2016 (unaudited) £m**	30 September 2015 (unaudited) £m	31 March 2016 (audited) £m
Cross currency interest rate swaps designated as cash flow hedges	**23.5**	0.9	10.3
Cross currency interest rate swaps designated as fair value hedges	**7.4**	2.0	4.1
Derivative financial instruments hedging private placement notes	**30.9**	2.9	14.4

Derivative financial instruments are measured at fair value. Fair values of derivative financial instruments are calculated based on a discounted cash flow analysis using appropriate market information for the duration of the instruments.

14. Provisions

	Onerous lease obligation £m	Deferred contingent consideration £m	Insurance reserve £m	**Total £m**
At 1 October 2015	–	6.8	0.7	**7.5**
Amounts recognised through goodwill	–	0.1	–	**0.1**
Utilised within the Captive Insurance subsidiary	–	–	(0.2)	**(0.2)**
Deferred contingent consideration settled in cash during the period	–	(4.7)	–	**(4.7)**
Amounts recognised through equity	–	(1.8)	–	**(1.8)**
At 1 April 2016	–	0.4	0.5	**0.9**
Amounts recognised in income statement	0.5	–	–	**0.5**
Utilised within the Captive Insurance subsidiary	–	–	(0.1)	**(0.1)**
At 30 September 2016	0.5	0.4	0.4	**1.3**
Included in current liabilities	0.5	0.4	–	**0.9**
Included in non-current liabilities	–	–	0.4	**0.4**
At 30 September 2016	**0.5**	**0.4**	**0.4**	**1.3**

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.

15. Retirement Benefit Obligations

The group has a number of pension arrangements for employees:

a) Defined contribution schemes for the majority of our employees; and

b) Defined benefit schemes which include:

- A group scheme (closed to new members in 2006), and
- Other, smaller schemes (in respect of certain employees who joined the group under the Transfer of Undertakings (Protection of Employment) Regulations 2006).

The following tables relate to the defined benefit schemes.

Amounts recognised in financial statements

The amounts included in the balance sheet arising from the group's obligations in respect of its defined benefit retirement benefit schemes are as follows:

	30 September 2016			30 September 2015			30 March 2016		
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	**172.3**	**10.8**	**183.1**	151.7	9.1	160.8	156.9	9.5	166.4
Present value of defined benefit obligations	**(253.5)**	**(14.6)**	**(268.1)**	(183.8)	(9.8)	(193.6)	(191.3)	(10.6)	(201.9)
Net pension liability	**(81.2)**	**(3.8)**	**(85.0)**	(32.1)	(0.7)	(32.8)	(34.4)	(1.1)	(35.5)

All figures above are shown before deferred tax.

Reconciliation of group balance sheet

The movement in the present value of defined benefit obligations in the period in respect of both the group and Other schemes is as follows:

			2016
	Group scheme £m	**Other schemes £m**	**Total £m**
At 1 April	191.3	10.6	201.9
Current service cost	1.8	0.2	2.0
Interest cost	3.4	0.2	3.6
Actuarial losses on liabilities arising from changes in financial assumptions	59.5	3.7	63.2
Benefits paid	(2.5)	(0.1)	(2.6)
At 30 September	**253.5**	**14.6**	**268.1**

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

			2016
	Group scheme £m	**Other schemes £m**	**Total £m**
At 1 April	156.9	9.5	166.4
Interest income	2.8	0.2	3.0
Actuarial gains and losses	14.2	1.0	15.2
Contributions from the sponsoring companies	1.2	0.2	1.4
Expenses paid	(0.3)	–	(0.3)
Benefits paid	(2.5)	(0.1)	(2.6)
At 30 September	**172.3**	**10.8**	**183.1**

Principal accounting assumptions at balance sheet dates

	Group scheme		Other schemes	
	30 September 2016 %	31 March 2016 %	**30 September 2016 %**	31 March 2016 %
Key assumptions used for IAS 19 valuation:				
Discount rate	**2.40**	3.60	**2.40**	3.60
Expected rate of pensionable pay increases	**1.80**	1.70	**3.20**	3.10
Retail price inflation	**3.20**	3.10	**3.20**	3.10
Consumer price inflation	**2.20**	2.10	**2.20**	2.10
Future pension increases	**3.20**	3.10	**3.20**	3.10

The sensitivity of the defined benefit obligation for the group scheme to changes in the principal assumptions is shown in the table below:

Sensitivity of defined benefit obligation to key assumptions

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.1%	Decrease by 2.2%	Increase by 2.3%
RPI inflation*	0.1%	Increase by 1.7%	Decrease by 1.7%
CPI inflation (excluding pay)	0.1%	Increase by 0.5%	Decrease by 0.5%
Pay increases	0.1%	Increase by 0.4%	Decrease by 0.4%
Life expectancy	1 year	Increase by 3.4%	Decrease by 3.4%

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

The duration, or average term to payment for the benefits due, weighted by liability, is around 23 years (20 years at 31 Mar 2016) for the group scheme.

The group participates in several industry multi-employer defined benefit schemes. These multi-employer schemes have historically not been able to calculate the group's share of net liabilities and the group funds the schemes through paying employer pension contributions. In the event that a multiemployer scheme is able to identify the group's share of net pension liability, then this liability would then be recognised in the group's financial statements. Where the group (or subsidiary of the group) exits such schemes, pension legislation may require the group to fund a share of the total amount of net liabilities under the terms and conditions of the multi-employer plan with a one-off cash payment (a section 75 debt).

16. Share capital

Ordinary shares of 2.5p	Number million	£m
Allotted and fully paid		
At 1 October 2015	375.1	9.4
Share buybacks	(3.7)	(0.1)
Issued under share option schemes	0.7	–
At 1 April 2016	372.1	9.3
Share buybacks	(9.0)	(0.2)
Issued for acquisitions	6.0	0.1
At 30 September 2016	**369.1**	**9.2**

During the period nil (2015: 1.4m at a cost of between 162p and 319p) Ordinary shares of 2.5p were allotted in respect of share option schemes giving rise to share premium of £nil (2015: £3.4m). During the period 9.0m (2015: 1.5m) Ordinary shares of 2.5p were bought by Mitie Group plc at a cost of £24.3m (2015: £4.4m) and subsequently cancelled. During the period, 6.0m (2015: nil) Ordinary shares of 2.5p were allotted in respect of the acquisition of non-controlling interests at a mid-market price of 244.4p giving rise to a £2.9m (2015: nil) movement in the share premium account and a £11.7m (2015: nil) movement in the merger reserve. No Treasury shares were purchased during the period (2015: 2.3m purchased, at a cost of £6.6m). During the period, 0.4m (2015: nil) shares were utilised out of Treasury shares in respect of share option schemes at a cost of £1.2m (2015: nil).

17. Contingent liabilities

The Company and various of its subsidiaries are, from time to time, party to legal proceedings and claims that are in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect on the group's financial position, other than as provided for in the accounts.

Deferred contingent consideration relating to acquisitions has been accrued at the Directors' best estimate of the likely future obligation of £0.4m (2015: £6.8m). This is the maximum amount payable subject to certain targets being attained.

In addition, the group and its subsidiaries have provided guarantees and indemnities in respect of performance, issued by financial institutions on its behalf, amounting to £22.5m (2015: £24.3m) in the ordinary course of business. These are not expected to result in any material financial loss.

18. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period, the group derived £0.1m (2015: £0.2m) of revenue from contracts with joint ventures and associated undertakings. At 30 September 2016 trade and other receivables of £nil (2015: £nil) were outstanding and loans to joint ventures and associates of £nil (2015: £nil) were included in Financing assets.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company, as R McGregor-Smith and S C Baxter are two of the trustees of the Foundation. During the period, the group made donations of £9,000 (2015: £40,000) and gifts in kind of £135,000 (2015: £130,700) to the Foundation. At the end of the period £nil (2015: £nil) was due to the Foundation.

No other material contract or arrangement has been entered into during the period, nor existed at the end of the period, in which a Director had a material interest. Amounts paid to key management personnel are disclosed in the Directors' remuneration report of our Annual Report and Accounts.