Chief Executive's strategic review

A record year and continued strategic progress

Mitie's performance in FY23 has surpassed the Board's expectations. The business has been transformed over the last six years, and we have made further significant progress this year against each of our strategic pillars. We are now the largest facilities management business in the UK, and our unrelenting ambition is to drive the business to reach its full potential, not just financially but also through its positive contribution to the environment and society.

Phil Bentley
Chief Executive Officer

Overview

Mitie's journey over the past six years has been transformative. The first few years focused on improving customer service, increasing employee engagement, divesting non-core assets and strengthening the balance sheet. Once achieved, these were the foundations for the second phase of our strategy to build scale and drive operational leverage from the Interserve acquisition in 2020. Our strategic focus since then has been on delivering returns.

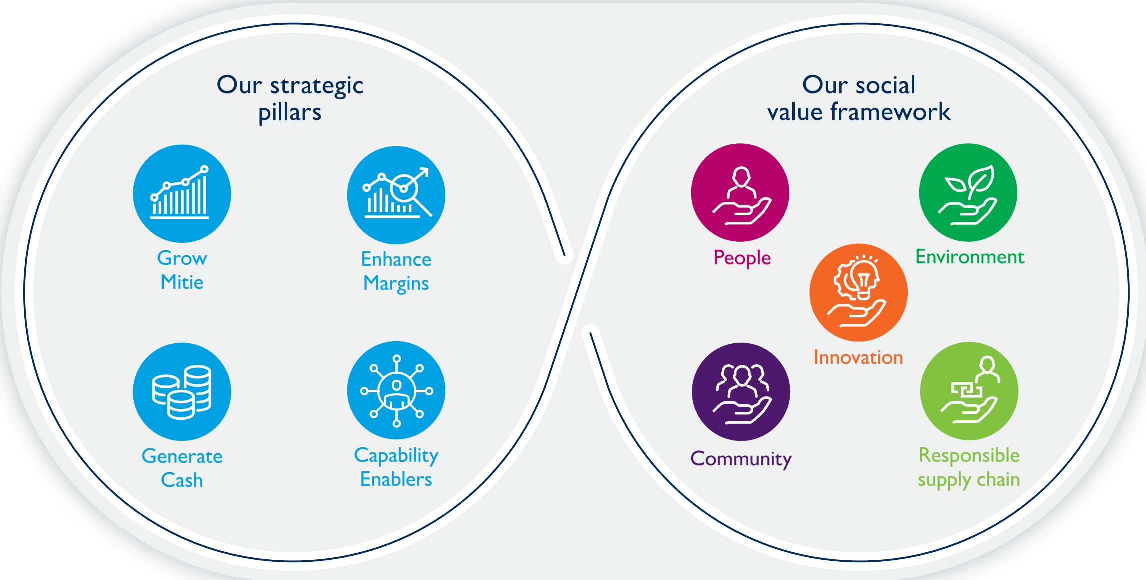
We are now the largest facilities management business in the UK, and our unrelenting ambition is to drive the business to reach its full potential, not just financially but also through its positive contribution to the environment and society. Despite the challenging macroeconomic environment, we have made significant progress against our strategic priorities this year, delivering a record level of revenue and growth in earnings per share, and continuing to strengthen our ESG credentials. We have a strong platform for future growth, and we are well-positioned to benefit from the opportunities that lie ahead for the business.

Delivering on our strategic priorities

We have continued to make progress this year against each of the strategic pillars we set out in June 2021: Grow Mitie, Enhance Margins and Generate Cash, underpinned by our three Capability Enablers – 'Science of Service', 'Great Place to Work' and 'Decarbonisation Delivered'.

Our strategy targets mid-to-high single digit revenue growth, an operating margin before other items of 4.5%–5.5%, sustainable free cash flow and a return on invested capital (ROIC) in excess of 20% over the medium term. We will continue building our technology-led offering across our three core business areas of Cleaning & Hygiene, Security and Technical Services, where we already hold market-leading positions, alongside complementary services such as Landscapes, Waste and Care & Custody. We are also expanding our presence in the high-growth areas of decarbonisation, security technology and telecoms infrastructure, both through our in-house capabilities and our acquisitions strategy.

Mitie's three capability enablers are our differentiators, giving us a competitive edge to win new business, cross-sell our services and continue to build strong, long-term relationships with blue-chip customers across the public and private sectors. We aspire to be a trusted partner to every single one of our customers, and our talented colleagues are our ambassadors. That is why we strive to ensure our 64,000-strong team has the skills, expertise and resources to deliver The Exceptional, Every Day.



Find out more about our social value framework on pages 37 to 59

Grow Mitie

Our priority is to grow Mitie, both organically and through targeted 'bolt-on' acquisitions focused on the higher-growth, higher-margin sectors of decarbonisation, security technology and telecoms infrastructure.

During FY23, we were awarded new contract wins of £1.9bn TCV (FY22: £2.1bn). This included contracts with Dublin Airport, the Department for Work and Pensions (DWP), Hammerson, the Home Office, Lloyds Banking Group, National Air Traffic Services (NATS) and National Grid.

Following a full and extensive re-tender process, we were retained as the strategic partner to the Ministry of Defence (MOD) for its overseas military base in Cyprus and the Landmarc 'Training Estates' contract. In total, £2.4bn TCV of contracts were renewed or extended in FY23 (FY22: £1.7bn), including with Deloitte, the DWP, the MOD, Sainsbury's, Manchester Airport Group and Vodafone. Our renewal rate was again over 90%, which is testament to the strength of our customer relationships, quality of service and competitiveness on pricing.

For any new or re-tendered contract, we have robust internal bidding processes in place, including the review of all contracts valued at more than £3m by our Bid Committee, comprising members of the executive leadership team. We are continually improving our approach to ensure our capabilities and the competitive cost-to-serve afforded by our scale are reflected in our bids.

We also continue to leverage our expertise by cross-selling services and insourcing work formerly contracted out to third parties, wherever opportunities are identified. In FY23, £43.5m of cross-selling revenue from projects was delivered by Technical Services (including a number of decarbonisation projects), and by Waste, Landscapes and Security.

Mitie's projects business brings together around 2,300 colleagues in our project delivery teams, predominantly across Technical Services and Central Government & Defence, and contributed £0.8bn to FY23 Group revenue, an 18% increase compared with the prior year. Our projects capabilities extend across all aspects of workplace effectiveness, including mechanical and electrical packages, fire and security hardware, and energy decarbonisation. There are significant growth opportunities in this area, given the wider trend towards employers wanting to create inspirational workplaces post Covid, and the regulatory requirements for buildings to meet energy efficiency standards. The projects business includes Mitie Telecoms and our decarbonisation offering, as described below.

During FY22 and FY23, we completed seven strategic bolt-on acquisitions, including three businesses at a total cost of £20m (P2ML, 8point8 and Custom Solar) in FY23. We have completed two further acquisitions since the year end, Linx International Group and R H Irving Industrials, for a total consideration of £21m, both of which strengthen our capabilities in the intelligence and technology-led security market.

The acquisitions of P2ML and 8point8 in H1 FY23 were combined with DAEL Telecoms (acquired in FY22) to create Mitie Telecoms, one of the UK's largest telecoms infrastructure businesses, which is benefiting from the roll-out of 5G and the decommissioning of Huawei assets. Our services include both infrastructure projects and network coverage for special events, such as music festivals. During the year, we partnered with Cellnex, Digital Mobile Spectrum Limited (DMSL) and H3G, and extended relationships with BT, Vodafone and VMO2, such that we are now working with all of the mobile network operators.

We are also focused on building on our Plan Zero offering (Mitie's own Net Zero commitment) to deliver decarbonisation for our customers. The acquisitions of Custom Solar in H1 FY23 and Rock Power Connections (acquired in FY22) have facilitated the rapid expansion of our capabilities in this area. We have been awarded contracts from existing Mitie customers, including ABP, the DWP and Amazon, for electric vehicle (EV) charging infrastructure and solar panels.

The FY22 and FY23 acquisitions contributed £98m to Group revenue in FY23 and approximately 2ppt of our underlying growth (excluding Covid work). While these bolt-on acquisitions will deliver future growth for the Group, they have required investment during the year to win new contracts and are therefore only expected to contribute to Group profitability from FY24.

Enhance Margins

We are targeting an operating profit margin, before other items, of 4.5%–5.5% in the medium term. This will be achieved through growth in the higher margin projects business, as well as our ongoing package of savings and efficiencies, from delivering the Interserve synergies, driving operational excellence, rolling out Coupa (our digital supplier platform), implementing Forté (the digital platform to automate scheduling in Technical Services) and undertaking overhead cost savings.

Notwithstanding inflationary headwinds, we achieved an operating margin of 4.0% in FY23 (3.8%, excluding Covid work), reflecting an increase of 1.7ppt over the two-year period since acquiring Interserve (which operated on a margin around 1.0ppt below that of Mitie).

In FY23, we have delivered an incremental £41m of savings through our margin enhancement initiatives. These cost-saving initiatives materially exceeded the cost of the Winter Support package (£8m), the relatively limited inflationary increases that we were unable to pass on to customers (£7m), and the delay in achieving the full benefits from Forté (£4m).

A significant proportion of these savings has come from Interserve cost synergies. In FY23, we delivered an incremental £21m of synergies, driven by further reductions in headcount and procurement savings. In aggregate, since December 2020, we now expect to deliver total synergies of £55m (previous guidance £50m), significantly ahead of our initial expectation of £30m at the time of acquisition.

Our operational excellence initiatives delivered an incremental £7m of savings in FY23, largely from the portfolio of former Interserve contracts where efficiencies are being delivered from the roll-out of our workforce management system (Workplace+), reduced agency cleaning hours and harmonising processes for mobile technicians.

We have continued to digitalise, rationalise and simplify our third-party supplier base. In FY23, we saved an incremental £7m from the roll-out of Coupa to Business Services, Communities, Landscapes, Care & Custody and the Corporate Centre, which together account for 60% of our total third-party spend. We have also reduced our supplier base, from 12,000 to 8,300 suppliers, and we remain on track to meet our target of 6,000 suppliers in FY24.

Forté went live in the first half of the year. After an initial period of stabilisation, which resulted in some short-term operational challenges, service level performance has returned to 'pre-Forté' levels, and is improving daily. The delay in getting the system to full capacity held back the cumulative benefit from Forté savings to £9m in FY23, although we expect to meet our full planned savings run rate of £15m in FY24, as previously communicated.

We are also continuing to make progress with the handful of under-performing contracts in Communities which we acquired with Interserve. Six of the contracts showed improved performance during the year, with two contracts now contributing to Group profitability. One contract remains particularly challenging and only showed a marginal improvement in performance (£8.4m loss in FY23 compared to £8.7m in the prior year). The majority of the remaining under-performing contracts will be at, or close to, break even by the end of FY24, with the final contract expected to achieve profitability in FY26, after productivity improvements and re-sets to pricing.

During the second half of the year, we expanded our suite of margin enhancement initiatives. This phase of the programme addresses our Target Operating Model and includes the outsourcing of further HR and Payroll, Finance and IT functions, consolidation of systems and processes, and optimisation of our organisational structure. The Target Operating Model initiatives delivered £6m of savings in FY23 and are expected to deliver a further £20m of savings in FY24.

The costs to deliver the margin enhancement initiatives outlined above are reflected in 'cash other items' of £24m in FY23 (FY22: £27m), which include £8m of costs associated with the Target Operating Model (for redundancies, systems testing, project resources, and dual running).

Expanding our presence in high-growth markets through in-house expertise and strategic acquisitions

Decarbonisation

- Growth driven by sustainability strategies, including demand for renewable energy and EV charging infrastructure
- Custom Solar acquired in FY23
- 12,000 kW of EV charging installed
- 140,000 m² of solar panels delivered

Security technology

- Growth driven by demand for data-driven insights and risk-based security solutions
- R H Irving Industrials and Linx International acquired post year end
- Well placed to support customers preparing to meet the requirements of Martyn's Law

Telecoms infrastructure

- Growth driven by the decommissioning of Huawei assets and roll out of 5G
- P2ML and 8point8 acquired in FY23
- Awarded significant portion of Government's Shared Rural Network programme
- Working with all major network providers

Labour and third-party cost inflation totalled £170m. Approximately £163m of these rising costs were recovered from our customer base via contract re-pricing.

Generate Cash

Our ability to translate revenue into earnings growth and free cash flow is integral to the success of our strategy, including our ability to reinvest for future growth and increase shareholder returns while maintaining a robust balance sheet position.

During FY23, we generated a free cash inflow of £66m, compared with £147m in the prior year. This reduction reflects the £45m impact from the decision to terminate the invoice discounting facility and a higher working capital outflow arising from replacing Covid-related contracts on 30-day payment terms with revenue on longer payment terms.

Our performance during the year, combined with our forecast future cash flows, provides confidence in the delivery of our capital allocation policy. This sets out a proactive but disciplined use of resources to pursue bolt-on acquisition opportunities, return cash to shareholders via share buybacks and dividends, and purchase shares for our employee incentive schemes to eliminate the otherwise dilutive effect of issuing new shares to fulfil vesting awards.

In FY23, we invested £20m in acquisitions in the telecoms and decarbonisation sectors and returned £117m to shareholders via dividends paid (FY22 final and FY23 interim dividends), share buybacks and the purchase of 50m shares at a total cost of £38m for employee incentive schemes. Our leverage of 0.4x average net debt/EBITDA gives us significant headroom within which to maintain our capital allocation activities.

Capability Enablers

Our strategic pillars of growth, margin enhancement and cash generation are underpinned by three capability enablers: the Science of Service; creating a 'Great Place to Work'; and Decarbonisation Delivered.

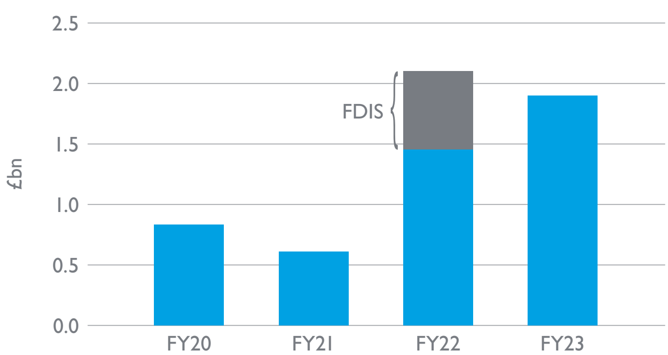
The Science of Service

Over the past five years, we have made substantial investments to develop leading cloud-based platforms for facilities management. Our 'Science of Service' approach allows us to put cutting-edge technology at the forefront of all our services, providing customers with innovative solutions to create safe, clean, sustainable and energy efficient spaces. This technology sets Mitie apart from its competitors and creates a strong platform from which to win and retain customers, and to be recognised as a trusted partner for their businesses.

Forté is our industry-leading digital platform to automate workflow in Technical Services. Forté incorporates a suite of Connected Workspace products, including ESME (our AI-driven chatbot), Aria (our workplace app) and MOZAIC (our AI/Machine Learning analytics suite), which are revolutionising the way our people work by enabling our customers and their employees to seamlessly connect to workplace services. They have been adopted by 40 customers to date, with over 14,000 registered users reporting and tracking workflow across their estates.

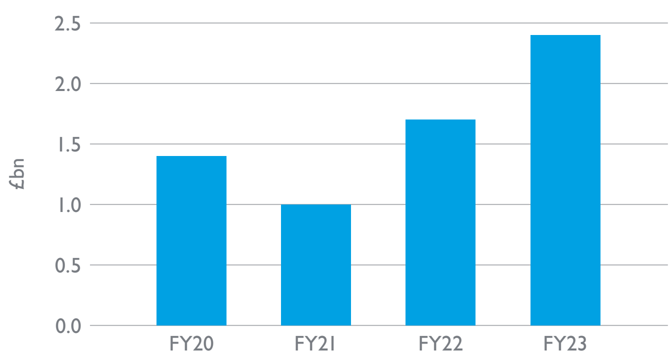
We have developed an application, combining virtual reality and the Internet of Things, which enables our remote and on-site engineers to collaborate through our Connected Engineer headset. This aims to improve fault detection and diagnosis, deliver cost savings on planned maintenance activities and improve the overall customer experience. We have also been expanding our use of Machine Learning models to provide holistic digital solutions to support our customers with their workplace and decarbonisation strategies, using software such as Building Management Systems (BMS) and Building Information Modelling (BIM).

£1.9bn TCV new contract wins[1]



1. Includes secured variable and project work

£2.4bn TCV new contract renewals and extensions[1]



We have introduced some of these technologies to customers such as the BBC and Deloitte, where a 'partnership technology roadmap' has been integral both to securing recent contract extensions and to deploying our workplace consultancy services. We have also grown our Connected Branches service for Lloyds Banking Group, with 460 branches having been fitted with our remote connectivity products to reduce energy consumption, and a further 100 in progress. In the public sector, customers such as Sellafield, the Department for Transport (DfT), the DWP and Ofcom are implementing our technology to improve the workplace experience for their employees and increase productivity.

Mitie operates the UK's leading intelligence and technology-led security business, identifying and assessing threats through its intelligence network and dedicated Intelligence Hub in Northampton. This technology provides significant advantages in winning, transforming and retaining contracts across multiple sectors, including the retail, financial services, and transport and aviation sectors.

Furthermore, Mitie is at the forefront of the acceleration of technology within the cleaning and hygiene sector. In early 2022, we opened the Cleaning and Hygiene Centre of Excellence (CHCoE) in Birmingham to showcase our tech-enabled solutions to existing and potential customers. Our robotic cleaners deliver a consistent level of cleaning, day and night, while reducing the use of water and electricity by identifying the most efficient route around a building. They are commonplace in high-traffic environments such as railway stations, and in NHS settings, and can be combined with footfall monitors to create a 'demand-led' pattern of cleaning activity. We have also developed leading technology to improve the air quality in a range of settings, including offices and transport hubs, using UVC air disinfection systems.

Creating a 'Great Place to Work'

Our ambition is to be the destination 'employer of choice' in the facilities management industry. We will achieve this by creating a 'Great Place to Work', empowering our 64,000 colleagues by developing their skills, providing meaningful career opportunities and ensuring that they are suitably recognised and rewarded for their contribution. This, in turn, enables us to continue delivering outstanding customer service.

We are an industry leader in the provision of benefits to our frontline colleagues. During the year we launched a £10m Winter Support package of new benefits to help our colleagues through the cost-of-living crisis, including one-off bonuses, the removal of fees for using salary finance, retail discounts and additional free shares. We have also expanded our 'Choices' platform to our hourly-paid colleagues, so that they can take advantage of discounts on everyday products and services.

The positive steps that we have taken to create a 'Great Place to Work' have been reflected in the results of our latest annual employee engagement survey. Some 84% of our full-time employees participated (54% of all colleagues), our highest participation rate to date. Our overall Mitie engagement score rose to a record level of 57% of colleagues 'fully engaged', a 7ppt increase on last year's score, and a 24ppt increase since we introduced an annual survey in 2018.

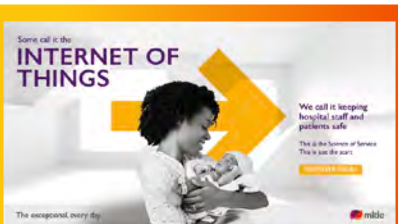
Decarbonisation Delivered

The third enabler to our strategy is to support an increasing number of public and private sector clients to define and deliver their own Net Zero strategies through our growing decarbonisation capabilities.

During H1 FY23, we completed the acquisition of Custom Solar, which specialises in solar photovoltaic panel installation, further strengthening our suite of decarbonisation services. This complements our FY22 acquisitions of Rock Power Connections, which delivers high-voltage power connections (including for electric vehicles), and Biotecture, which installs living walls for interior and exterior urban spaces.

Our decarbonisation business revenue increased by 65% to £145m (FY22: £88m), through cross-selling these capabilities to existing customers. Rock is now working with five of the UK's leading sustainable energy providers, including Gridserve and Roadchef, to install fast EV charging points in a variety of settings,

Capability Enablers: Business momentum underpinned by our technology, our focus on sustainability and our colleagues

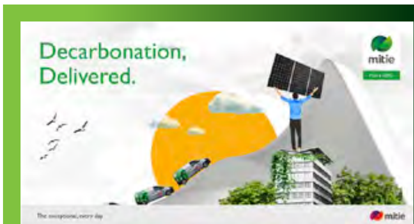


Science of Service®

- CHCoE and Merlin for Cleaning launched
- Forté launched
- 18,000 sensors remotely monitoring customer sites
- 'Partnership technology roadmaps' introduced for customers

14k
Connected Workplace users across 40 customers

Find out more on page 18

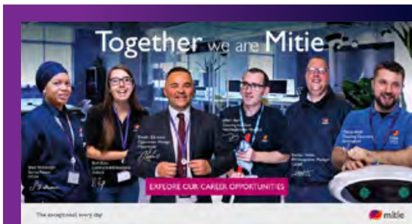


Decarbonisation Delivered™

- Energy optimisation programme implemented across Mitie's estate
- 2,800 EV charge points installed
- Net Zero targets validated by SBTi
- 2023 'Net Zero Carbon Strategy' (edie)
- 2023 'Solar Project of Year' (GivEnergy)

3,200
EVs in operation
(one of the largest UK fleets)

Find out more on page 24



Great Place to Work

- New Employee Value Proposition (EVP)
- Industry leading benefits package
- £10m Winter Support package

MyVoice MySlice MyStory
MyCareer MyAchievement
MyWellbeing MyCommunity

57%
employee engagement
(+7ppt YoY)

Find out more on page 8

including motorway service stations, petrol stations and destination hubs such as garden and shopping centres. In addition, we continue to develop heat decarbonisation plans for five central government bodies across over 100 buildings, and to provide other services, such as LED lighting installation and energy consumption management, for our customers.

Financial highlights

Our financial results for the year ended 31 March 2023 are encouraging and we have made further progress against each of our strategic priorities. We entered the year with the challenge of replacing almost £450m of short-term and higher-margin Covid-related contract revenue. Thanks to the hard work of our 64,000 colleagues and our technology-led approach, we have achieved this, and more.

Group revenue

Group revenue, including share of joint ventures and associates, from continuing operations of £4,055m was 1.5% better than the prior year (FY22: £3,997m), even after the completion of short-term Covid work (FY22: £448m), representing our highest ever revenue. Excluding the Covid-related contracts, underlying revenue growth was 14%. This increase is broadly attributable to organic growth of 7% (including net contract wins and losses, contract growth and projects), contract re-pricing of 5% and acquisitions of 2%.

Profitability

Basic earnings per share before other items grew by 3.3% to 9.5p (FY22: 9.2p). EPS benefited from the refinancing of debt instruments and share buybacks, which more than offset the small reduction in operating profit before other items to £162m compared with the prior year (FY22: £167m) due to the completion of the higher margin Covid work. Basic earnings per share after other items more than tripled to 6.8p (FY22: 2.2p), reflecting a £60m reduction in Other items after tax to £37m (FY22: £97m).

Financial position

We generated £117m of cash from operations (FY22: £264m), leading to £66m of free cash flow (FY22: £147m) in FY23, which helped us to maintain a strong balance sheet with leverage (average net debt/EBITDA) of only 0.4x.

Our average net debt was £84m (FY22: £25m), reflecting the implementation of the capital allocation policy announced last year and our decision to terminate the customer invoice discounting facility. Closing net debt at 31 March 2023 increased to £44m (FY22: £27m net cash).

> FY24 has started positively. Since the start of the year, we have won and extended a number of significant new contracts and we have a healthy pipeline of new opportunities, combined with the full year benefit from major contracts won and extended in the final months of FY23.

Phil Bentley
Chief Executive Officer

Capital allocation

Mitie is cash generative and has a strong, stable and flexible balance sheet to support future growth and increased returns to shareholders.

The Group has made a number of targeted bolt-on acquisitions over the last two years, focused on the higher-growth, higher-margin sectors of decarbonisation, security technology and telecoms infrastructure. The Board believes that value-accretive acquisitions represent an increasingly important route through which Mitie can accelerate growth and build on its earnings and cash generation platform for the future.

Having reinstated the dividend last year, post Covid, the Board's intention has been to increase the dividend payout ratio to 30%–40%, and thereafter deliver dividend growth in line with earnings growth. In light of the Group's robust financial position and continued progress against its strategy, the Board is therefore recommending a final dividend of 2.2p per share which, when added to the dividend paid in respect of the first six months of the year, takes the total dividend for FY23 to 2.9p per share (FY22: 1.8p). This represents a payout ratio of 30% (FY22: 20% payout). The final dividend will be paid on 4 August 2023.

In April 2023, the Board announced its decision to purchase shares to satisfy all employee incentive schemes, eliminating the otherwise dilutive effect of issuing new shares to fulfil vesting awards. The majority of our share schemes are satisfied through the Company's Employee Benefit Trust (EBT), while Save As You Earn (SAYE) schemes are satisfied through treasury shares, in order to mitigate unnecessary stamp duty costs for the employee.

Consistent with this approach, 50m shares were purchased through the EBT, including 4m shares for our employee Winter Support package, at a total cost of £38m in FY23. We expect share purchases through the EBT to reduce significantly to c.15m shares in FY24 and FY25, as specific incentives put in place in respect of the Interserve acquisition mature.

The Board also announced in April 2023 a new £50m share buyback programme for FY24, following on from the initial £50m programme executed in the first half of FY23. The first £25m tranche of the new programme is underway and includes the purchase of 15m shares to be held in treasury for our 2020 SAYE scheme, which vests in December 2023. The remaining shares purchased from the first tranche will be cancelled. The timing of the second tranche of the new programme will be dependent on M&A opportunities and will include the additional 15m shares required for the vesting of the 2020 SAYE scheme (30m shares in total), with all remaining shares being cancelled.

Outlook

FY24 has started positively. Since the start of the year, we have won and extended a number of significant new contracts and we have a healthy pipeline of new opportunities, combined with the full year benefit from major contracts won and extended in the final months of FY23.

We will continue our disciplined approach to bidding for contracts, even if it is challenging to maintain renewal rates at the current level, and we will continue to seek growth opportunities, both organically and through strategic bolt-on acquisitions in the decarbonisation, security technology and telecoms infrastructure sectors. We have already completed two acquisitions in FY24, both of which strengthen our capabilities as the UK's leading intelligence and technology-led security provider.

We also expect to deliver further progress in FY24 on our ongoing programme of margin enhancement initiatives, including increased synergies from the Interserve acquisition, and efficiencies across our labour, third-party and overhead cost base, which will more than offset inflationary headwinds.

This positive momentum carried forward into the new financial year gives the Board confidence in meeting its growth expectations for FY24. Mitie is cash generative and has a strong, stable and flexible balance sheet to support future growth opportunities and increased returns to shareholders.