8 June 2023
Mitie Group plc

Full year results for the twelve months to 31 March 2023 "A record year and continued strategic progress; entering FY24 with confidence"

Highlights

- Record revenue[1] of £4,055m (FY22: £3,997m), as wins, renewals, acquisitions and inflationary contract re-pricing more than offset contracts that were not renewed and the prior year benefit from short term Covid work
- Total contract value (TCV) of £4.3bn awarded in FY23; renewal rates remain over 90%; book to bill ratio of 105%[4]
- Operating profit before other items[1,2,3] of £162m (FY22: £167m), versus previous guidance for 'at least £155m', and operating profit margin[3] of 4.0% (FY22: 4.2%), with the prior year being boosted by higher margin Covid work
- Excluding Covid work, revenue and operating profit before other items increased by 14% and 44% respectively
- Basic EPS before other items increased by 3.3% to 9.5p (FY22: 9.2p), benefiting from the refinancing of debt instruments and share buybacks
- Operating profit of £117m (FY22: £72m) and basic EPS of 6.8p (FY22: 2.2p), reflecting lower other items
- Free cash flow of £66m (FY22: £147m), after closing the customer invoice discounting facility (£45m impact)
- Average daily net debt of £84m (FY22: £25m), reflecting the capital allocation policy announced last year. Closing net debt of £44m (FY22: £27m net cash)
- Strong balance sheet with leverage of 0.4x (average net debt/EBITDA[5])
- Recommended final dividend of 2.2p per share versus 1.4p last year; total dividend up 61% to 2.9p (FY22: 1.8p), as payout ratio rises to 30% (FY22: 20%)
- Shares for all employee incentive schemes to be purchased (FY23: £38m spent), eliminating the otherwise dilutive effect of issuing new shares to fulfil vesting awards
- New £50m share buyback programme announced in April 2023, with the first £25m tranche underway
- FY24 has started positively, and the Board is therefore confident in meeting its growth expectations for the year

Results for the twelve months ended 31 March 2023

	Twelve months to 31 March 2023			Twelve months to 31 March 2022		
£m unless otherwise specified	Before other items[2,5]	Other items[2]	Total	Before other items[2,5]	Other items[2]	Total
Continuing operations						
Revenue including share of JVs & associates	**4,055**	**–**	**4,055**	3,997	-	3,997
Group revenue	**3,945**	**–**	**3,945**	3,903	-	3,903
Operating profit/(loss)[3]	**162**	**(45)**	**117**	167	(95)	72
Operating profit margin[3]	**4.0%**		2.9%	4.2%		*1.8%*
Profit/(loss) before tax	**151**	**(45)**	**106**	147	(95)	52
Profit/(loss) for the year	**128**	(37)	91	128	(97)	31
Basic earnings per share	**9.5p**		6.8p	9.2p		2.2p
Dividend per share			2.9p			1.8p
Cash generated from operations			117			264
Free cash inflow[5]			66			147
Average daily net (debt)[5]			(84)			(25)
Closing net (debt)/cash[5]			(44)			27
Total order book[4]			£9.7bn			£9.5bn
Return on invested capital[5]			25.4%			29.9%

1. *From continuing operations and including share of joint ventures and associates.*
2. *Other items are as described in Note 4 to the condensed financial statements. In FY23 £21.4m relates to non-cash amortisation of acquired intangible assets (FY22: £21.9m).*
3. *Operating profit includes share of profit after tax from joint ventures and associates. Operating profit margin is operating profit as a percentage of revenue including share of joint ventures and associates.*
4. *Total order book includes secured fixed term contract work, variable (including estimated variable work) and project work. Book to bill ratio is the relationship between orders received and revenue recognised for the year.*
5. *Performance before other items, performance excluding Covid-related contracts, net debt, free cash flow, EBITDA and return on invested capital are presented as Alternative Performance Measures. Explanations as to why these measures are presented, and reconciliations to the equivalent statutory measures, are set out in the Appendix to the condensed consolidated financial statements.*

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

"Mitie's performance in FY23 has surpassed the Board's expectations. 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 in FY23 exceeded £4bn for the first time, reflecting good momentum from our new contract wins, renewals and extensions, alongside contributions from contract re-pricing and acquisitions. Basic earnings per share grew by 3.3% to 9.5p, benefiting from the refinancing of debt instruments and share buybacks, despite operating profit being slightly lower than last year due to the completion of the higher margin Covid work.

"When we exclude short-term Covid work, revenue and operating profit before other items increased by 14% and 44% respectively. Our operating margin excluding Covid work of 3.8% (FY22: 3.0%) reflects growth in projects work and the focus on margin enhancement initiatives. We expect to deliver an additional £5m of Interserve synergies, and therefore increase our guidance for total synergies to £55m by the end of FY24, significantly ahead of our initial expectation of £30m at the time of acquisition.

"Mitie 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.

"Thanks go to all of our colleagues for their hard work in providing an exceptional service to our customers throughout the year. Our Net Promoter Score (NPS) rose a further 3pt to +42 in our survey conducted at the year end. Investing in our people and ensuring that Mitie is an 'employer of choice' remain top priorities. Our encouraging business performance during the year enabled us to offer a £10m Winter Support package to help our colleagues through the cost-of-living crisis. Our employee engagement score rose by 7ppt to a record 57% of colleagues 'fully engaged'.

"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 increased returns to shareholders and future growth opportunities."

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Analyst Presentation and Q&A

Phil Bentley (CEO) and Simon Kirkpatrick (CFO) will host a presentation and Q&A session today (8 June 2023) at 9.30am at The Shard and via a webcast. For dial in details please contact kate.heseltine@mitie.com. A copy of the presentation will be available on the company website in advance of the live presentation, www.mitie.com/investors.

Capital Markets Event

Mitie will host a Capital Markets Event on Thursday 12 October 2023. Further details will be provided in due course.

For further information

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About Mitie

Founded in 1987, Mitie's job is to look after places where Britain works and it is the leading facilities management company in the UK. We offer a range of services to the public sector through our Central Government & Defence and Communities (Healthcare, Education and Campus & Critical) divisions. Our Technical Services (Engineering Services, Energy, Water and Real Estate Services) and Business Services (Security, Cleaning and Office Services) divisions serve private sector customers in Telecoms, Financial & Professional Services, Transport and Industrials and increasingly the public sector. Finally, our Specialist Services (Care & Custody, Landscapes, Waste Management and Spain) division serves both the public and private sectors.

Mitie employs 64,000 people. We are the champion of the 'Frontline Heroes' who kept Britain working during the pandemic. We take care of our customers' people and buildings, through the 'Science of Service', and we are transforming facilities to be more flexible, safe, sustainable, and attractive to all. Mitie continues to execute its technology-led strategy and in the past twelve months has received multiple awards and validation for its ambitious near and long-term science-based emissions reduction targets from the Science Based Targets initiative (SBTi). Find out more at www.mitie.com.

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Chief Executive's strategic review

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.

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

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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.

Margin Enhancement

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).

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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).

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).

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, 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%.

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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).

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.

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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 increased returns to shareholders and future growth opportunities.

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Operating review

Business Services

Business Services delivers Intelligent Security, Cleaning and Hygiene Services, and Office Services. During the pandemic, Business Services was also primarily responsible for the delivery of Mitie's short-term Covid-related contracts. These contracts completed early in FY23.

Business Services, £m	FY23	FY22	*Change*
Revenue	**1,172**	**1,522**	*(23)%*
Security	***782***	*1,127*	*(31)%*
Cleaning	***390***	*395*	*(1)%*
Operating profit before other items	**68**	**108**	*(37)%*
Operating profit margin before other items	***5.8%***	*7.1%*	*(1.3)ppt*
Total order book	**£1.5bn**	£1.7bn	*(12)%*
Number of employees	**31,148**	38,092	*(18)%*

Performance highlights

- Revenue reduced by 23% to £1,172m (FY22: £1,522m), largely due to the completion of Covid work.
- Excluding £15m of revenue from Covid work in FY23 (FY22: £429m), revenue increased by 6% largely driven by contract re-pricing plus contributions from variable and project works.
- Operating profit before other items reduced by 37% to £68m (FY22: £108m). Excluding the £7m contribution from Covid work in FY23 (FY22: £60m), operating profit increased by 26%, and the operating margin increased by 0.8ppt to 5.2%, driven by margin enhancement initiatives
- £1.0bn TCV of new, renewed or extended contracts, including for Eurostar, Hammerson, Home Office, National Grid, NATS and Sainsbury's
- Four significant contracts mobilised in early FY23 for BAE Systems, Hammerson, John Lewis & Partners, and Poundland, worth £33m of annualised revenue and TCV of up to £120m
- Awards include: British Security Awards 2023 - Service to the Customer and Best Team; Metsä Sustainability Awards 2023 - Team Sustainability Excellence and Social Value Impact; Cleaning Excellence Awards 2022 - Cleaning & Hygiene Team of the Year; Fire and Security Matters Awards 2022 - Security Guarding Company of the Year and Security Team of the Year

Operational performance

Business Services delivered an encouraging performance, with the continuation of the Afghan Relocations and Assistance contract, increased variable and project work, and contract re-pricing, alongside the delivery of margin enhancement initiatives, partially offsetting the completion of higher margin short-term Covid work that had benefited the prior year and a reduction in scope of the Brexit security contract at UK ports. Excluding Covid work, revenue, operating profit before other items and the operating margin were all better than last year.

The division secured £1.0bn TCV of new contract wins, renewals and extensions, including wins for Hammerson, the Home Office, John Lewis & Partners, National Grid, NATS and Poundland. The largest extension was for three years with Sainsbury's, while other renewals and extensions included Eurostar, Hammerson and Manchester Airport Group.

Margin enhancement initiatives implemented during the year were a key driver of growth in underlying operating profit and the operating margin. The initiatives primarily focused on operational excellence, the roll-out of the Coupa digital supplier platform and leveraging the Workplace+ workforce management app to optimise workforce productivity and workflows across the division's core services.

Technology continues to drive change across the industry and Mitie is a leader in this area. In Business Services, the 'Merlin Protect 24/7' platform (business intelligence software for security incident management) is being developed into a leading 'Merlin for Cleaning' version to monitor and track responses to reactive tasks such as spillages. Trials were

carried out across several clients, including Amazon, Co-op, Deloitte and Standard Life, with results showing notable productivity improvements in frontline cleaning operations.

The division also operates the UK's leading intelligence and technology-led security business, including Mitie Intelligence Services (MIS). MIS identifies and assesses threats through its intelligence network and dedicated Intelligence Hub, and provides significant advantages in winning, transforming and retaining contracts across multiple sectors, including the retail, financial services, and transport and aviation sectors. MIS is well-positioned to work with customers when 'Martyn's Law' (formerly the Protect Duty) comes into effect, setting out requirements for venues and other organisations to ensure public safety.

Since the year end, we have continued to build the division's capabilities in intelligence and technology-led security through the acquisitions of Linx International Group and R H Irving Industrials, for a total consideration of £21m. These businesses bring a range of complementary services and security infrastructure technology to Mitie and will enhance the division's ability to provide comprehensive support, including training, to our customers as they prepare to meet the requirements of Martyn's Law.

Technical Services

Technical Services is a leading supplier of technical engineering services and delivers projects to a range of predominantly private sector customers. Through a series of strategic acquisitions, the division is also focusing on the high growth areas of telecoms infrastructure and innovative decarbonisation solutions.

Technical Services, £m	**FY23**	**FY22**	***Change***
Revenue	**1,154**	**973**	*19%*
Maintenance	***1,000***	*849*	*18%*
Projects	***154***	*124*	*24%*
Operating profit before other items	**34**	**30**	*14%*
Operating profit margin before other items	***3.0%***	*3.1%*	*(0.1)ppt*
Total order book	**£1.6bn**	£1.7bn	(6)%
Number of employees	**9,841**	9,029	9%

Performance highlights

- Revenue increased by 19% to £1,154m (FY22: £973m), benefiting from acquisitions, contract wins, renewals and extensions, contract re-pricing and a full year of revenue from significant wins in the prior year, in addition to the steady recovery of the projects business post Covid
- Operating profit before other items increased to £34m (FY22: £30m), primarily driven by the uplift in revenue and margin enhancement initiatives more than offsetting inflationary cost increases and the impact of short-term operational inefficiencies from Forté
- The creation of one of the UK's largest telecoms support services companies, following the acquisitions of P2ML and 8point8 in FY23, combined with DAEL Telecoms (acquired in FY22)
- Decarbonisation offering strengthened in FY23 through the acquisition of Custom Solar, a specialist in the design and installation of solar photovoltaic (PV) panels
- Awards include: Commercial Solar Project of the Year (Custom Solar); Computing News Digital Technology Leaders Awards 2022 – Best Large Enterprise Digital Project (Aria); Edie Awards – Net-Zero Carbon Strategy of the Year Award (Mitie Plan Zero); RoSPA Gold Award for health and safety performance (Magnox contract); Facilities Management Awards 2023 - Total FM Provider of the Year (Mitie Ireland)

Operational performance

Technical Services continued to benefit from a steady recovery in projects and variable works, increased demand from customers for its technology-led solutions and growth in the telecoms infrastructure and decarbonisation businesses.

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This, combined with contract wins (which more than offset two notable losses), renewals and extensions, contract re-pricing and a full year of revenue from significant prior year wins (including BAE Systems and Legal & General), contributed to a 19% increase in revenue to £1,154m.

The operating margin remained broadly flat at 3.0%, due to the benefits of the good underlying performance and margin enhancement initiatives being offset by the impact of inflation, short-term operational challenges following the going live in H1 of Forté (the digital platform to automate scheduling in Technical Services) and the initial investment in recently acquired businesses.

During the year, the division won, renewed or extended £1.0bn TCV of contracts, including wins with GSK, NATS, National Grid and Sky, and renewals or extensions with Deloitte, E.ON and Vodafone.

Technical Services is at the forefront of Mitie's 'Science of Service' ambitions, using its leading-edge technology platforms to optimise employee wellbeing, enhance estate intelligence and provide smart decarbonisation and green energy solutions. Mitie's Connected Workspace suite of products has been pivotal to the division's new wins and scope expansions with existing customers, as they adapt to new, hybrid ways of working. There are more than 18,000 sensors remotely monitoring occupancy and utilisation across several new accounts, including the BBC. The Aria workplace app has been adopted by 40 customers to date, with over 14,000 registered users reporting and tracking workflow across their estates.

Reactive tasks are increasingly being logged in Chatbot ESME. In addition, assets such as heating, ventilation and cooling systems are managed remotely through Mitie's Technical Services Operations Centre (TSOC) in Manchester, delivering both operational efficiencies as well as energy savings for customers (16% energy reduction, on average, through digital maintenance).

After an initial period of stabilisation for Forté, service level performance is now at '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. The full planned savings run rate of £15m is expected to be achieved in FY24, as previously communicated. The division also implemented a number of overhead cost savings and operational excellence margin enhancement initiatives during the year, as part of the wider Group programme.

The acquisitions of P2ML (April 2022) and 8point8 (May 2022) were combined with DAEL Telecoms (acquired in August 2021) to create Mitie Telecoms, one of the UK's largest telecoms infrastructure businesses. Mitie Telecoms' services include both infrastructure projects and network coverage for special events, such as music festivals and the funeral of HM Queen Elizabeth II in September 2022. During the year, Mitie Telecoms partnered with Cellnex, Digital Mobile Spectrum Limited and H3G, and extended its relationships with Vodafone and VMO2, so is now working with all the mobile network operators. The business contributed £76m of revenue in FY23 (FY22: £31m) and is well-positioned to benefit from the ongoing roll-out of 5G across the UK and the decommissioning of Huawei assets.

Technical Services is also capitalising on increased demand for decarbonisation services, including solar power, LED roll-outs, air source heat pump installation and electric vehicle charging projects. The decarbonisation business has grown from £88m of revenue in FY22 to £145m in FY23, driven by the acquisitions of Custom Solar (June 2022) and Rock Power Connections (November 2021).

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Central Government & Defence (CG&D)

The CG&D division provides facilities management services across central government and defence contracts. CG&D operates across 21 contracts and 28 government departments and agencies, at over 3,000 locations across the UK and overseas.

CG&D, £m	FY23	FY22	Change
Revenue including share of joint ventures and associates	**828**	**669**	24%
Central Government	***439***	*379*	*16%*
Defence	***389***	*290*	*34%*
Operating profit before other items	**60**	**38**	56%
Operating profit margin before other items	***7.2%***	*5.7%*	*1.5ppt*
Total order book	**£2.4bn**	£1.6bn	50%
Number of employees	**5,576**	5,578	-

Performance highlights

- Revenue increased by 24% to £828m (FY22: £669m), benefiting from strong growth in projects and variable work, contract re-pricing, scope increases and a full year of the Future Defence Infrastructure Services (FDIS) contract
- Operating profit before other items increased by 56% to £60m (FY22: £38m), and the operating margin increased by 1.5ppt to 7.2%
- New wins of £0.3bn TCV, including for the Ministry of Defence (MOD) overseas military base in Gibraltar and United States Visiting Forces
- Significant renewals or extensions of £1.4bn TCV (100% retention rate), including for the MOD's overseas military bases in Cyprus and the South Atlantic Islands and the Landmarc 'Training Estate', the Department for Transport (DfT) and the Department for Work and Pensions (DWP)
- Projects included decarbonisation work across MOD/FDIS sites and 'back to work' initiatives for the DWP
- Awards include: MOD Heritage Award for refurbishment of Gibraltar Tower, recognising the work of Mitie and the Defence Infrastructure Organisation (DIO); Gold recognition by the RoSPA for the Ascension Island team

Operational performance

CG&D had a strong year, driven by growth in higher-margin projects work across the division (including for the MOD, FDIS, DIO and through Landmarc for the UK Defence Training Estate), contract re-pricing, scope increases and a full year of the FDIS contract, which started to mobilise in December 2021. As a result, divisional revenue increased by 24% to £828m.

Operating profit before other items increased by 56% to £60m and the operating margin improved by 1.5ppt to 7.2%, reflecting margin enhancement initiatives and revenue related to services disrupted by the pandemic.

In total, CG&D secured £1.7bn of new contract wins, renewals and extensions in FY23. The division was awarded and mobilised new contracts for the MOD's overseas military base in Gibraltar, and to support United States Visiting Forces. CG&D has also been retained as strategic partner to the MOD for its overseas military bases in Cyprus and the South Atlantic Islands, and through Landmarc for the UK Defence Training Estate contract. Other significant contract extensions included those for the DfT and DWP.

Projects and scope increases included work for the DWP where CG&D has continued to implement 'back to work' wellbeing initiatives, and decarbonisation work to assist the UK Government to achieve its 2050 Net Zero target. The latter includes the refurbishment of the accommodation blocks across the MOD and FDIS estates to incorporate low-carbon features, such as building energy monitoring systems, heat pumps, solar power, thermal insulation and other smart features to reduce energy consumption and automate processes.

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CG&D played an important role in the delivery of support for the funeral of HM Queen Elizabeth II in September 2022 across Whitehall and Westminster, including the provision of extensive extra security and providing the facilities management for rehearsals (across several defence training sites) and for the ceremony.

Mitie's technology is a key differentiator, and the division has continued to focus on the deployment of the secure asset management system across the defence contracts with benefits such as MyJobs, the fully mobile workflow application, 3D building scanning capability and construction management software, Asite, which has Building Information Modelling (BIM) capability.

The 'Mitie First' strategy, which is focused on insourcing services formerly provided by third parties, resulted in an additional £20m of cross-selling revenue synergies in FY23.

CG&D implemented operational excellence initiatives during the year across eight of its largest contracts. These initiatives are focused on improving the work order scheduling process, which has led to improved utilisation of mobile engineers and an increase in the proportion of work being self-delivered. In addition, the implementation of the Workplace+ workforce management app has enabled more effective scheduling of shift work.

Communities

The Communities division delivers sustainable outcomes as a trusted partner to the public sector, across Healthcare, Education and Campus & Critical Services. The division operates over 100 PFI and traditional commercial contracts.

Communities, £m	**FY23**	**FY22**	***Change***
Revenue including share of joint ventures and associates	**490**	**460**	7%
Healthcare	***250***	*225*	*11%*
Education	***145***	*129*	*12%*
Campus & Critical	***95***	*106*	*(10)%*
Operating profit before other items	**21**	**20**	7%
Operating profit margin before other items	***4.3%***	*4.3%*	-
Total order book	**£3.4bn**	£3.7bn	(8)%
Number of employees	**7,802**	8,513	(8)%

Performance highlights

- Revenue increased by 7% to £490m (FY22: £460m), benefiting from contract re-pricing and increased lifecycle and projects work across Healthcare and Education
- Operating profit before other items increased by 7% to £21m (FY22: £20m)
- Communities secured a place on two significant procurement frameworks: London Procurement Partnership (a four-year NHS framework) and Everything FM (an education framework), which are valued at up to £5.8bn and £300m respectively
- Good pipeline progression in the Local Government and Healthcare markets and successful mobilisation of the contract with Kingston Council

Operational performance

The Communities division delivered an encouraging performance during the year, with revenue and operating profit both 7% ahead of the prior year and the operating margin maintained at 4.3%. The division secured £0.2bn TCV of contract wins and extensions including a new contract with Kingston Council and contract extensions with Poole Hospital and West Herts Hospital.

Projects work included the installation of LED lighting in one of the major London hospitals, and the delivery of improvement programmes over the summer holiday period across six large schools. The 10% reduction in Campus & Critical revenue reflected two contract losses, of which one was insourced, and the other Mitie declined to re-bid.

The Computer Aided Facility Management (CAFM) upgrade programme across Healthcare was successfully completed by the year end, having been rolled out across 24 sites. This included the introduction of a new payment mechanism model at one hospital trust. Technical operational performance has strengthened materially as a result, with maintenance completion above 96%. In healthcare environments, Mitie's Merlin for Cleaning application has been piloted to improve soft services productivity and innovation. Several other operational excellence margin enhancement initiatives were implemented during FY23, including helpdesk upgrades in Education, and the roll-out of the Coupa digital supplier platform.

The division is also continuing to make progress in turning around the handful of under-performing contracts which were 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 with £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.

Specialist Services

The Specialist Services division encompasses Care & Custody, Landscapes, Spain and Waste. From FY24, Landscapes, Spain and Waste will be moved into the Business Services division and Care & Custody will be moved into the Communities division.

Specialist Services, £m	FY23	FY22	*Change*
Revenue	**411**	**373**	*10%*
Care & Custody	***169***	*136*	*24%*
Landscapes	***66***	*55*	*20%*
Spain	***102***	*105*	*(3)%*
Waste	***74***	*77*	*(4)%*
Operating profit before other items	**35**	**33**	*7%*
Operating profit margin before other items	***8.5%***	*8.7%*	*(0.2)ppt*
Total order book	***£0.8bn***	£0.8bn	–
Number of employees	**9,808**	10,118	*(3)%*

Performance highlights

- Revenue increased by 10% to £411m (FY22: £373m) and operating profit before other items increased by 7% to £35m (FY22: £33m)
- Care & Custody revenue increased by 24% to £169m, driven by contract wins, extensions and renewals, alongside additional project work in escorting services
- Landscapes revenue increased by 20% to £66m, largely reflecting a full year of revenue from the FDIS contract and the acquisition of Biotecture, the living walls specialist (acquired in January 2022)
- Spain revenue reduced by 3% to £102m, mainly as a result of the significant reduction in Covid work at airports
- Waste revenue reduced by 4% to £74m due largely to the closure of NHS Covid Test & Trace sites
- Awards include: Seven Green Apple awards (Waste), Three Green Apple awards (Landscapes), BALI National Landscape Award 2022 (Landscapes)

Operational performance

Care & Custody revenue was 24% ahead of the prior year, mainly due to a full year of revenue from the Dungavel and Derwentside Immigration Removal Centre contracts, alongside additional escorting services project work,

primarily at Manston. Within Police Services, contracts with Cleveland, Greater Manchester and Nottinghamshire Police were renewed during the year, while extensions were secured for Cheshire, Northumbria, South Wales and West Mercia Police. New contracts were awarded for Lincolnshire, Derbyshire and South West Police consortium. Mitie is a leading provider of forensic health and custodial support services for the UK's police forces.

Landscapes revenue was 20% ahead of the prior year, primarily driven by a full year of revenue from FDIS and Biotecture. In FY23, Landscapes won £35m TCV of new and additional work, including contracts with Busy Bee, Kew Green Hotels, Lidl, NATS and Savills. Renewals and scope changes in the year totalled £6m TCV and included BNP Paribas, Deloitte, E.ON, The Church of Jesus Christ of Latter-day Saints, NHS Property Services, Vodafone and Morrisons.

Biotecture performed well during the year and won the BALI National Landscape Award 2022 for the exterior living wall installation at Canary Wharf, which includes over 25,000 plants in 750m^2 of walls around the site, as well as three Green Apple awards, including one for its sustainability credentials for work on the Landscapes office in Hampshire.

Spain revenue reduced by 3%, due to new contract wins being offset by a reduction in short-term Covid work at numerous airports. New contract wins included those with EMT Madrid (public bus transport), Ajuntament de Cornellà de Llobregat (municipal governing body) and EYSA (mobility services).

Waste revenue reduced by 4% largely due to the closure of NHS Covid Test & Trace sites. This reduction in revenue was partially offset by the recovery of contracts impacted by previous lockdowns, and new contract wins, including with Hammerson and Covent Garden Market Authority. Waste has also been successful in extending its contract with a major global FMCG manufacturer for a further two years, and securing retenders with Hull and East Yorks Hospitals, JLL and Manchester Airport Group.

Corporate overheads

Corporate overheads represent the costs of running the Group, and include costs for central functions such as commercial and business development, finance, marketing, legal and HR. Corporate overhead costs have reduced significantly, by 10% to £55.5m in FY23 (FY22: £61.4m), mainly as a result of cost-efficiencies delivered from the margin enhancement initiatives.

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Finance review

Alternative Performance Measures

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

Financial performance

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

Continuing operations, £m unless otherwise specified	**FY23**	**FY22**
Revenue including share of joint ventures and associates	**4,055.1**	**3,996.8**
Group revenue	**3,945.0**	**3,903.3**
Operating profit before other items	**162.1**	**166.9**
Other items	**(45.1)**	**(94.8)**
Operating profit	**117.0**	**72.1**
Net finance costs	**(11.5)**	**(19.8)**
Profit before tax	**105.5**	**52.3**
Tax	**(14.4)**	**(21.0)**
Profit after tax	**91.1**	**31.3**
Basic earnings per share before other items	**9.5p**	**9.2p**
Basic earnings per share	**6.8p**	**2.2p**

Revenue

Revenue from continuing operations for FY23 of £4,055.1m, including share of revenue from joint ventures and associates, has increased by £58m compared with the prior year.

Excluding revenue from short term, Covid-related contracts of £15m (FY22: £448m), revenue from continuing operations has grown by £491m (+14%) in FY23. This growth has been driven by new contract wins (including the large FDIS contract in CG&D, and the BAE Systems contract in Technical Services and Business Services), growth in projects work (in particular in CG&D), revenue from recent acquisitions (DAEL, P2ML, 8point8, Rock, Custom Solar, Biotecture and Esoteric), and the impact of inflationary price increases. The impact of inflation on revenue was approximately £163m in FY23.

Operating profit

Operating profit from continuing operations before other items was £162.1m (FY22: £166.9m), a reduction of £4.8m, which arose primarily as a result of the reduction in contribution from the short term, Covid-related contracts.

Excluding the contribution from Covid work of £7m (FY22: £60m), operating profit before other items increased by £48m (+44%) in FY23, largely driven by margin enhancement initiative savings of £41m, projects work and contract wins and extensions.

All divisions contributed positively to this 44% profit improvement. CG&D made the greatest contribution (£21.4m) as a result of new wins, pricing and increased projects work, with other notable increases in: Business

Services (£12.6m) from wins, projects work and margin enhancement initiatives; Technical Services (£4.6m) from the post-Covid recovery in variable works; and Corporate Centre (£4.1m) as a result of the ongoing delivery of margin enhancement initiatives.

Inflation had a negative impact on operating profit of approximately £7m in FY23, representing a 96% recovery of the £170m of cost inflation experienced in the year. This recovery is better than expected due to the strong contractual protections in place, and good customer relationships. There were also net reductions in operating profit in the year from Project Forté (£1.9m), which is now complete, and from the Winter Support package (£7.9m).

After accounting for £45.1m of net charges in other items (FY22: £94.8m), operating profit from continuing operations was £117.0m (FY22: £72.1m), a year on year improvement of 62%.

Other items

£m	FY23	FY22
Workflow optimisation (Project Forté)	**(8.7)**	(10.2)
Target Operating Model	**(7.9)**	(0.3)
Property transformation	**-**	(0.4)
Restructuring	**(16.6)**	**(10.9)**
Interserve acquisition related income/(costs)	**3.7**	(2.4)
Interserve integration costs	**(5.5)**	(16.2)
Interserve settlement of contractual disputes	**-**	9.8
Interserve completion accounts adjustment to consideration	**-**	(45.6)
Interserve amortisation of acquisition related intangible assets	**(16.7)**	(19.1)
Interserve related other items	**(18.5)**	**(73.5)**
Amortisation of non-Interserve acquisition related intangible assets	**(4.7)**	(2.8)
Digital supplier platform	**(3.4)**	(4.4)
Other acquisition related costs	**(1.9)**	(3.2)
Other exceptional items	**(10.0)**	**(10.4)**
Total other items from continuing operations before tax	**(45.1)**	**(94.8)**
Gain on disposal of Document Management business	**-**	16.0
Other items related to discontinued operations	**-**	1.0
Total other items before tax	**(45.1)**	**(77.8)**
Tax	**8.2**	(2.0)
Total other items after tax	**(36.9)**	**(79.8)**

Other items have reduced significantly in FY23, largely due to the conclusion of the Interserve integration and completion accounts process. This reduction has been partially offset by costs associated with the Group's margin enhancement initiatives.

Project Forté was completed in FY23, and therefore no further other items costs will be incurred. The Target Operating Model programme is the next phase of the Group's transformation, and includes the further outsourcing of back office functions, consolidating systems and processes, and optimising the organisation structure. This programme has contributed £6m to cost savings in FY23 and, combined with further investment, is expected to drive £20m of additional savings in FY24.

The £3.7m Interserve acquisition related income for FY23 relates to the release of provisions established on the opening balance sheet for contract specific matters, which are no longer required because the matters have since been resolved.

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Net finance costs

Net finance costs from continuing operations improved (decreased) by 42% to £11.5m (FY22: £19.8m). The decrease was driven by the benefit of the improved terms negotiated as part of the refinancing of the Revolving Credit Facility (RCF) (signed in October 2021), and US Private Placement (USPP) notes (from December 2022 onwards), together with amendment fees from the June 2020 refinancing (during Covid) becoming fully amortised and the termination of the Group's customer invoice discounting facility. Finance income also improved due to increased interest rates on deposited funds.

Tax

The tax charge for the year for continuing operations was £14.4m (FY22: £21.0m), comprising a tax charge on operating profit before other items of £22.6m (FY22: £19.0m) and a tax credit for other items of £8.2m (FY22: tax charge of £2.0m). The tax charge on continuing operations represents an effective tax rate of 13.6% (FY22: 40.2%), which includes an effective tax rate before other items of 15.0% (FY22: 12.9%).

The effective tax rate before other items for FY23 includes the benefit of a tax credit of £5.3m which primarily results from the recognition, in accordance with the Group's accounting policy, of deferred tax assets related to losses acquired with the Interserve business. Excluding the impact of this tax credit, the effective tax rate before other items would be 18.5%.

The lower effective tax rate before other items for FY22 reflected the increase in the rate of UK corporation tax from 19% to 25%, with effect from 1 April 2023, which was substantively enacted during FY22. This resulted in a £9.0m tax credit for FY22 related to the revaluation of deferred tax assets, which reduced the effective tax rate before other items by c.6ppt.

The tax credit for other items for FY23 of £8.2m represents an effective tax rate of 18.2%, which is slightly lower than the standard tax rate due to the non-tax deductible nature of certain other items charges. The equivalent charge for FY22 of £2.0m comprised a tax credit of £6.1m related to other items before tax, and a tax charge of £8.1m in respect of the revaluation of deferred tax liabilities related to acquired intangible assets, resulting from the UK corporation tax rate change enacted in FY22.

Mitie is a significant contributor of revenues to the UK Exchequer, paying £850.1m of taxes in the year (FY22: £864.3m). Of this total, £158.5m (FY22: £148.0m) relates to taxes borne by Mitie (principally UK corporation tax and employer's National Insurance contributions) and £691.6m (FY22: £716.3m) relates to taxes collected by Mitie on behalf of the UK Exchequer (principally VAT, income tax under PAYE and employees' National Insurance contributions).

The Group paid corporation tax of £19.8m in the year (FY22: £16.2m), of which £14.0m (FY22: £14.1m) was paid in the UK and £5.8m (FY22: £2.1m) overseas.

Joint ventures and associates

Operating profit for FY23 includes Mitie's share of the results of joint ventures and associates that were acquired as part of the Interserve transaction, net of tax, of £8.3m (FY22: £4.2m).

Earnings per share

Basic earnings per share before other items from continuing operations increased to 9.5p (FY22: 9.2p). This is as a result of the lower net finance costs and reduced number of shares in issue following the share buyback programme, partially offset by the higher effective tax rate.

Basic earnings per share from continuing operations was 6.8p (FY22: 2.2p), with the significant improvement in FY23 reflecting the factors outlined above, and the lower level of other items in FY23.

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Return on invested capital (ROIC)

Continuing operations, £m unless otherwise specified	FY23	FY22
Operating profit before other items	162.1	166.9
Tax[1]	(24.3)	(21.5)
Operating profit before other items after tax	137.8	145.4
Invested capital	543.1	486.6
ROIC %	**25.4%**	**29.9%**

[1] Tax charge has been calculated at the effective tax rate for the year on pre-tax profits before other items for continuing operations of 15.0% (FY22: 12.9%)

ROIC (before other items, on continuing operations) has decreased to 25.4% in FY23 (FY22: 29.9%), due to a combination of the completion of the short term, higher margin Covid work, the higher effective tax rate and increased invested capital. The higher invested capital relates to the investment in businesses acquired in FY23, and the closure of the invoice discounting facility.

Balance sheet

£m	FY23	FY22
Goodwill and intangible assets	564.9	560.2
Property, plant and equipment	156.9	143.9
Interests in joint ventures and associates	8.8	11.9
Working capital balances	(179.2)	(239.2)
Provisions	(111.4)	(117.0)
Net (debt)/cash	(44.1)	26.7
Net retirement benefit liabilities	(0.2)	(12.2)
Deferred tax	20.4	11.1
Other net assets	5.6	40.4
Total net assets	**421.7**	**425.8**

The Group's reported net assets of £421.7m at 31 March 2023 were broadly unchanged compared with 31 March 2022.

Net debt increased to £44.1m (FY22: £26.7m of net cash), as a result of the planned capital allocation actions and working capital movements, including the impact of the decision to terminate the invoice discounting facility which increased receivables by £45m, both of which are discussed further below (under Cash flow and net debt).

Goodwill and intangible assets increased by £4.7m as a result of acquisitions during the year and investments in software, with the increase partially offset by the amortisation of intangible assets. Property, plant and equipment increased by £13.0m due to the continued expansion of the fleet of leased electric vehicles, as part of the programme to achieve the Group's decarbonisation goals. Net retirement benefit liabilities benefited from the increase in discount rates related to movements in corporate bond yields, which is explained further below.

The net deferred tax asset balance has increased, primarily due to the recognition of deferred tax assets related to losses acquired with the Interserve business. Other net assets have reduced as a result of the receipt of £6.0m in May 2022 in respect of the expert's determination on the Interserve acquisition completion accounts, and by £31.1m as a result of movements of restricted cash, and the remittance of cash held on trust for the invoice discounting facility provider.

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Change in accounting policy

During FY23, Mitie has adopted the amendment to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract on 1 April 2022. The amendment clarifies that for the purposes of an onerous contract assessment, costs to fulfil a contract comprise both direct costs that are specific to the contract but also an allocation of shared direct costs that relate to fulfilling the contract. This has resulted in a change in accounting policy for onerous contract assessments in FY23, as the Group had previously (in common with many other companies) included only direct costs that were specific to the contract when determining whether a contract was onerous. The change in accounting policy brings the Group policy in line with the amendment to IAS 37.

As a result of the revised accounting policy, certain direct supervision and management costs have been included in determining the costs of fulfilling a contract, which has resulted in the recognition of additional provisions of £1.1m for onerous costs that existed at the start of the reporting period (see Note 13 to the condensed consolidated financial statements). Under the amendment to IAS 37, the changes apply prospectively and therefore the Group has not restated comparative information.

Provisions

Provisions at 31 March 2023 of £111.4m (FY22: £117.0m) largely comprise contract specific costs of £49.3m (FY22: £56.3m), the insurance reserve of £26.2m (FY22: £26.0m), and pension provisions of £21.7m (FY22: £23.7m), which mainly relate to Section 75 pension liabilities. See Note 13 to the condensed consolidated financial statements for further details on provisions.

Provisions have reduced by £5.6m in the year, largely reflecting the utilisation of contract specific provisions.

Retirement benefit schemes

Net retirement benefit liabilities have reduced to £0.2m at 31 March 2023 (FY22: £12.2m), principally due to an increase in discount rates related to movements in corporate bond yields, combined with Mitie's contributions. This is partially offset by an adverse performance of plan assets, driven by the downturn in financial markets.

The net liabilities at 31 March 2023 include a net accounting surplus of £2.4m (FY22: £1.6m) for the main Group scheme, which now includes a separate section for the main scheme acquired with the Interserve business. There is also an accounting surplus related to a joint venture acquired with Interserve, Mitie's £1.5m (FY22: £3.8m) share of which is reported within interest in joint ventures and associates on the balance sheet.

The latest funding valuation of the Mitie Group defined benefit scheme, as at 31 March 2020, indicated an actuarial deficit of £92.1m. The Group has agreed a deficit recovery plan with the trustees totalling £93m over seven years, of which £35m had been paid to 31 March 2023, including £14m paid during FY23. An initial funding valuation as at 31 December 2020 for the main scheme acquired with Interserve indicated an actuarial deficit of £1.6m.

The next triennial valuation for the main Mitie scheme will take place during FY24.

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Cash flow and net debt

£m	FY23	FY22
Operating profit before other items (continuing operations)	**162.1**	**166.9**
Add back: depreciation, amortisation and impairment	52.4	51.6
EBITDA before other items (continuing operations)	**214.5**	**218.5**
Other movements (including other items)	(27.7)	(14.6)
Operating cash flows before movements in working capital	**186.8**	**203.9**
Working capital movements[1]	(38.8)	41.2
Capex and capital element of lease payments	(59.6)	(69.1)
Interest payments	(11.9)	(17.2)
Tax payments	(19.8)	(16.2)
Dividends from joint ventures	9.0	4.0
Free cash inflow	**65.7**	**146.6**
Share buybacks	(50.7)	-
Market purchase of own shares for the EBT	(37.7)	(13.8)
Acquisitions and disposals[2]	(20.2)	5.0
Dividends paid	(28.9)	(5.7)
Lease liabilities and other	1.0	(18.7)
(Increase)/decrease in net debt during the year	**(70.8)**	**113.4**
Closing net (debt)/cash	**(44.1)**	**26.7**
Average daily net (debt)	**(84.3)**	**(24.7)**
Leverage[3] (average daily net debt/EBITDA before other items)	**0.4x**	**0.1x**

[1] Adjusted to exclude movements in restricted cash and other adjustments which do not form part of net debt (as explained in the Alternative Performance Measures Appendix to the condensed consolidated financial statements)
[2] Includes £3.6m of debt acquired with acquisitions (FY22: £nil)
[3] Leverage is calculated on a 12-month rolling basis, and uses post-IFRS 16 net debt

The Group generated a free cash inflow of £65.7m for FY23, which was a decrease of £80.9m compared with FY22. Within this cash inflow there was a cash outflow from working capital of £38.8m, which was largely a result of the decision to terminate the invoice discounting facility, investments required to support the growth of the projects businesses, and the completion of the Covid contracts, which were on more favourable payment terms than the contracts that have replaced them.

Other movements of £27.7m included a cash outflow from other items of £23.7m, which is predominantly made up of the costs of completing Project Forté, and the costs to achieve our margin enhancement initiatives. Capex and the capital element of lease payments of £59.6m were £9.5m lower than FY22, driven by capex which reduced following the completion of the Interserve integration and Forté projects in FY23. Net interest payments reduced by £5.3m as a result of the refinancing actions implemented in FY22 and FY23, whereas tax payments increased by £3.6m largely due to overseas tax payments related to the Interserve pre-acquisition period.

The planned £50m share buyback programme was successfully completed in FY23, resulting in the purchase and cancellation of 69m shares during the year. A new £50m share buyback programme was announced on 18 April 2023, and an initial £25m tranche has already been launched, from which 15m of the shares purchased will be held in treasury and used towards the vesting of the 2020 SAYE share options. The remainder will be cancelled.

In addition, £38m has been invested in the acquisition of 50m of Mitie's own shares for the Employee Benefit Trust (EBT), to fulfil future vesting of all employee share incentives schemes, including 4m shares for the Winter Support package. The decision to purchase shares for all employee incentive schemes was made by the Board in order to eliminate the otherwise dilutive effect to shareholders of issuing new shares to fulfil the schemes.

The 50m shares purchased included a 'catch up' for schemes that have already been running for two or three years. 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 acquisitions of P2ML, 8point8 and Custom Solar in FY23 resulted in an increase in net debt of £20.2m, comprising the proceeds paid (of £18.6m) adjusted for the cash and debt acquired with these businesses (of £1.6m net debt).

The final FY22 dividend of £19.5m and interim FY23 dividend of £9.4m resulted in a cash outflow of £28.9m in FY23. The £5.7m of dividends paid in FY22 is much lower than in FY23, as it included only the FY22 interim dividend, and no final dividend payment from FY21, because dividend payments were only resumed in FY22 following the Covid pandemic.

Lease liabilities and other cash flows reduced by £19.7m during the year, with the key drivers being the receipt of £6.0m in May 2022 in respect of the expert's determination on the Interserve acquisition completion accounts, and an £8.2m reduction in the value of new leases entered into during the year, compared with FY22 which included a number of significant new and renewed property leases.

Net debt

Average daily net debt of £84.3m for FY23 was £60m higher than in FY22, due mainly to the planned capital allocation activities, including the share buyback programme (£50m), the termination of the Group's invoice discounting facility (£45m), share purchases for the EBT (£38m), dividends paid (£29m) and in-year acquisitions (£20m). This resulted in a leverage ratio (average daily net debt post IFRS 16 / EBITDA before other items on continuing operations) of 0.4x for FY23 (FY22: 0.1x).

The Group reported closing net debt of £44.1m as at 31 March 2023 (FY22: net cash of £26.7m), again reflecting the planned capital allocation activities outlined above.

Total Financial Obligations (TFO)

£m	FY23	FY22
Net (cash)/debt	44.1	(26.7)
Customer invoice discounting	-	44.5
Net retirement benefit liabilities	0.2	12.2
Total Financial Obligations (TFO)	**44.3**	**30.0**

TFO at 31 March 2023 increased due to the net debt movements outlined above (other than the termination of the invoice discounting facility, which has a nil net effect on TFO), partially offset by a reduction in net retirement benefit liabilities.

Liquidity and covenants

As at 31 March 2023, the Group had £300.0m of committed funding arrangements. These comprised a £150.0m RCF, for which a one year extension was signed in September 2022, extending the maturity date to October 2026, and £150.0m of USPP notes. In December 2022, £121.5m of USPP notes matured and were replaced by £120.0m of new notes, issued on more favourable terms, with 8-12 year maturities. The remaining £30.0m of USPP notes are due to mature in December 2024.

On 29 July 2022, DBRS Morningstar confirmed Mitie's credit rating of BBB with a 'stable' outlook.

Mitie's two key covenant ratios are leverage (ratio of consolidated total net borrowings to adjusted consolidated EBITDA) and interest cover (ratio of consolidated EBITDA to consolidated net finance costs), with a maximum of

3.0x and minimum of 4.0x respectively. Covenant ratios are measured on a post-IFRS 16 basis with appropriate adjustments for leases, being primarily the exclusion of lease liabilities.

As at 31 March 2023, the Group was operating well within these ratios at <0x covenant leverage and 28.1x interest cover. A reconciliation of the calculations is set out in the table below:

£m		**FY23**	**FY22**
Operating profit before other items[1]		**162.1**	**169.8**
Add: depreciation, amortisation and impairment[1]		52.4	51.8
Headline EBITDA[1]		**214.5**	**221.6**
Add: covenant adjustments[2]		18.2	19.9
Leases adjustment[3]		(38.6)	(36.3)
Consolidated EBITDA	**(a)**	**194.1**	**205.2**
Full-year effect of acquisitions and disposals		0.5	(2.0)
Adjusted consolidated EBITDA	**(b)**	**194.6**	**203.2**
Net finance costs[1]		**11.5**	**19.7**
Less: covenant adjustments		(0.4)	(3.0)
Leases adjustment[4]		(4.2)	(4.0)
Consolidated net finance costs	**(c)**	**6.9**	**12.7**
Interest cover (ratio of (a) to (c))		**28.1x**	**16.2x**
Net debt/(cash)		**44.1**	**(26.7)**
Impact of hedge accounting and upfront fees		1.8	1.5
Leases adjustment[5]		(129.4)	(122.5)
Consolidated total net (cash)	**(d)**	**(83.5)**	**(147.7)**
Covenant leverage (ratio of (d) to (b))		**<0x**	**< 0x**

[1] Continuing and discontinued operations
[2] Covenant adjustments to EBITDA relate to share-based payments charges, and pension administration expenses and past service costs
[3] Leases adjustment for EBITDA relates to depreciation charge for leased assets and interest charge for lease liabilities
[4] Leases adjustment for net finance costs relates to interest charge for lease liabilities
[5] Leases adjustment for net cash relates to lease liabilities

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Condensed consolidated income statement

For the year ended 31 March 2023

	Notes	2023 Before Other items £m	2023 Other items[1] £m	2023 Total £m	2022 Before Other items £m	2022 Other items[1] £m	2022 Total £m
Continuing operations							
Revenue including share of joint ventures and associates		**4,055.1**	**–**	**4,055.1**	3,996.8	–	3,996.8
Less: share of revenue of joint ventures and associates	10	**(110.1)**	**–**	**(110.1)**	(93.5)	–	(93.5)
Group revenue	3	**3,945.0**	**–**	**3,945.0**	3,903.3	–	3,903.3
Cost of sales		**(3,508.5)**	**–**	**(3,508.5)**	(3,451.5)	–	(3,451.5)
Gross profit		**436.5**	**–**	**436.5**	451.8	–	451.8
Administrative expenses		**(282.7)**	**(48.8)**	**(331.5)**	(291.5)	(102.2)	(393.7)
Other income		**–**	**3.7**	**3.7**	–	9.8	9.8
Share of profit/(loss) of joint ventures and associates	10	**8.3**	**–**	**8.3**	6.6	(2.4)	4.2
Operating profit/(loss)[2]	3	**162.1**	**(45.1)**	**117.0**	166.9	(94.8)	72.1
Finance income		**2.2**	**–**	**2.2**	0.2	–	0.2
Finance costs		**(13.7)**	**–**	**(13.7)**	(20.0)	–	(20.0)
Net finance costs		**(11.5)**	**–**	**(11.5)**	(19.8)	–	(19.8)
Profit/(loss) before tax		**150.6**	**(45.1)**	**105.5**	147.1	(94.8)	52.3
Tax	5	**(22.6)**	**8.2**	**(14.4)**	(19.0)	(2.0)	(21.0)
Profit/(loss) from continuing operations after tax		**128.0**	**(36.9)**	**91.1**	**128.1**	**(96.8)**	**31.3**
Discontinued operations							
Profit from discontinued operations before tax		**–**	**–**	**–**	3.0	17.0	20.0
Tax	5	**–**	**–**	**–**	(0.6)	–	(0.6)
Profit from discontinued operations after tax		**–**	**–**	**–**	2.4	17.0	19.4
Profit/(loss) for the year attributable to owners of the parent		**128.0**	**(36.9)**	**91.1**	130.5	(79.8)	50.7
Earnings per share (EPS) attributable to owners of the parent							
From continuing operations:							
Basic	7	**9.5p**		**6.8p**	9.2p		2.2p
Diluted	7	**8.6p**		**6.2p**	8.3p		2.0p
Total Group:							
Basic	7	**9.5p**		**6.8p**	9.4p		3.6p
Diluted	7	**8.6p**		**6.2p**	8.5p		3.3p

Notes:

1. *Other items are as described in Note 4.*
2. *Including net impairment losses on trade receivables and accrued income of £2.8m (2022: £0.8m).*

Condensed consolidated statement of comprehensive income

For the year ended 31 March 2023

	Notes	**2023 £m**	2022 £m
Profit for the year		**91.1**	50.7
Items that will not be reclassified to profit or loss in subsequent years			
Remeasurement of net defined benefit pension liabilities	19	**(0.9)**	22.1
Share of other comprehensive (expense)/income of joint ventures	10	**(2.4)**	0.7
Tax credit/(charge) relating to items that will not be reclassified to profit or loss in subsequent years	5	**2.6**	(3.8)
		(0.7)	19.0
Items that may be reclassified to profit or loss in subsequent years			
Exchange differences on translation of foreign operations		**1.5**	0.1
Net losses on cash flow hedges taken to equity[1]		**(0.3)**	(0.5)
Tax credit relating to items that may be reclassified to profit or loss in subsequent years	5	**–**	0.1
		1.2	(0.3)
Other comprehensive income for the year		**0.5**	18.7
Total comprehensive income for the year attributable to owners of the parent		**91.6**	69.4

Note:

1. *Net losses on cash flow hedges taken to equity include fair value gains of £9.6m (2022: £5.1m) on derivative financial instruments used for hedging private placement notes. These gains are reclassified to profit or loss and netted against foreign exchange losses on private placement notes of £9.9m (2022: £5.6m).*

Condensed consolidated balance sheet

As at 31 March 2023

	Notes	**2023 £m**	2022[1] £m
Non-current assets			
Goodwill	8	**312.3**	301.3
Other intangible assets	9	**252.6**	258.9
Property, plant and equipment		**156.9**	143.9
Interests in joint ventures and associates	10	**8.8**	11.9
Trade and other receivables	11	**23.5**	25.1
Contract assets		**0.8**	1.6
Retirement benefit assets	19	**2.4**	1.6
Deferred tax assets	14	**20.4**	11.1
Total non-current assets		**777.7**	755.4
Current assets			
Inventories		**13.5**	11.9
Trade and other receivables	11	**786.8**	686.7
Contract assets		**1.1**	1.6
Derivative financial instruments		**–**	19.6
Current tax receivable		**–**	1.0
Cash and cash equivalents	15	**248.3**	345.2
Total current assets		**1,049.7**	1,066.0
Total assets		**1,827.4**	1,821.4
Current liabilities			
Trade and other payables	12	**(899.5)**	(841.2)
Deferred income		**(83.3)**	(83.5)
Current tax payable		**(0.8)**	(4.1)
Financing liabilities	16	**(32.0)**	(171.1)
Provisions	13	**(54.2)**	(54.7)
Total current liabilities		**(1,069.8)**	(1,154.6)
Net current liabilities		**(20.1)**	(88.6)
Non-current liabilities			
Trade and other payables	12	**(2.3)**	(2.8)
Deferred income		**(19.8)**	(32.6)
Financing liabilities	16	**(254.0)**	(129.5)
Provisions	13	**(57.2)**	(62.3)
Retirement benefit liabilities	19	**(2.6)**	(13.8)
Total non-current liabilities		**(335.9)**	(241.0)
Total liabilities		**(1,405.7)**	(1,395.6)
Net assets		**421.7**	425.8

Note:

1. *Trade and other receivables of £17.3m have been reclassified from current assets to non-current assets as at 31 March 2022. See Note 1.*

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Condensed consolidated balance sheet continued

As at 31 March 2023

	Notes	**2023 £m**	2022 £m
Equity			
Share capital		**34.0**	35.7
Share premium		**131.5**	130.6
Merger reserve		**157.0**	358.6
Own shares reserve		**(59.0)**	(36.9)
Other reserves[1]		**36.3**	28.4
Hedging and translation reserve		**(1.4)**	(2.6)
Retained profits/(losses)		**123.3**	(88.0)
Equity attributable to owners of the parent		**421.7**	425.8

Note:

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

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Condensed consolidated statement of changes in equity

For the year ended 31 March 2023

	Share capital £m	Share premium £m	Merger reserve £m	Own shares reserve £m	Other reserves[1] £m	Hedging and translation reserve £m	Retained profits/ (losses) £m	**Total equity £m**
At 1 April 2021	35.6	130.6	358.6	(28.8)	14.5	(2.3)	(150.7)	**357.5**
Profit for the year	–	–	–	–	–	–	50.7	**50.7**
Other comprehensive income/(expense)	–	–	–	–	–	(0.3)	19.0	**18.7**
Total comprehensive income/(expense)	–	–	–	–	–	(0.3)	69.7	**69.4**
Transactions with owners								
Dividends paid	–	–	–	–	–	–	(5.7)	**(5.7)**
Issue of shares	0.1	–	–	(0.1)	–	–	–	**–**
Purchase of own shares	–	–	–	(13.8)	–	–	–	**(13.8)**
Share-based payments	–	–	–	5.8	13.9	–	(1.1)	**18.6**
Tax on share-based payments	–	–	–	–	–	–	(0.2)	**(0.2)**
Total transactions with owners	0.1	–	–	(8.1)	13.9	–	(7.0)	**(1.1)**
At 31 March 2022	35.7	130.6	358.6	(36.9)	28.4	(2.6)	(88.0)	**425.8**
At 31 March 2022 (as reported)	35.7	130.6	358.6	(36.9)	28.4	(2.6)	(88.0)	**425.8**
Impact of change in accounting policy in the year[2]	–	–	–	–	–	–	(1.1)	**(1.1)**
At 1 April 2022	35.7	130.6	358.6	(36.9)	28.4	(2.6)	(89.1)	**424.7**
Profit for the year	–	–	–	–	–	–	91.1	**91.1**
Other comprehensive income	–	–	–	–	–	1.2	(0.7)	**0.5**
Total comprehensive income	–	–	–	–	–	1.2	90.4	**91.6**
Transactions with owners								
Dividends paid	–	–	–	–	–	–	(28.9)	**(28.9)**
Purchase of own shares	–	–	–	(37.7)	–	–	–	**(37.7)**
Realisation of merger reserve[3]	–	–	(201.6)	–	–	–	201.6	–
Share buybacks[4]	(1.7)	–	–	–	1.7	–	(50.7)	**(50.7)**
Share-based payments[5]	–	0.9	–	15.6	6.2	–	(6.0)	**16.7**
Tax on share-based payments	–	–	–	–	–	–	6.0	**6.0**
Total transactions with owners	(1.7)	0.9	(201.6)	(22.1)	7.9	–	122.0	**(94.6)**
At 31 March 2023	34.0	131.5	157.0	(59.0)	36.3	(1.4)	123.3	**421.7**

Notes:

1. *Other reserves include the share-based payments reserve and the capital redemption reserve.*
2. *Retained losses as at 1 April 2022 have been adjusted for the change in accounting policy for onerous contract assessments as a result of the amendment to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract. Refer to Note 1.*
3. *The merger reserve represents amounts relating to premiums arising on shares issued subject to the provisions of Section 612 of the Companies Act 2006. During the year ended 31 March 2023, the realisation of the merger reserve included £170.3m related to intercompany loans that have been settled as qualifying consideration in connection with the rights issue during the year ended 31 March 2021, which utilised a cashbox structure.*
4. *The share buyback resulted in the purchase of 68.8m ordinary shares which have subsequently been cancelled during the year ended 31 March 2023.*
5. *Includes £0.9m and £0.7m in respect of new shares and treasury shares respectively, which were issued on exercise of Save As You Earn share options.*

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Condensed consolidated statement of cash flows

For the year ended 31 March 2023

	Notes	**2023 £m**	2022 £m
Continuing operations – operating profit before Other items	3	**162.1**	166.9
Continuing operations – Other items	4	**(45.1)**	(94.8)
Discontinued operations – operating profit after Other items		**–**	19.9
Adjustments for:			
Share-based payments expense		**17.3**	18.6
Defined benefit pension costs	19	**3.4**	4.4
Defined benefit pension contributions	19	**(16.5)**	(14.2)
Depreciation of property, plant and equipment		**43.1**	41.6
Amortisation of intangible assets	9	**29.2**	27.2
Amortisation of customer contracts and relationships for joint ventures arising on business combinations	10	**–**	2.4
Share of profit of joint ventures and associates	10	**(8.3)**	(6.6)
Amortisation of contract assets		**1.3**	1.7
Impairment of non-current assets		**0.2**	3.7
Loss on disposal of property, plant and equipment		**0.1**	0.5
Gain on disposal of businesses		**–**	(13.0)
Interserve completion accounts adjustment		**–**	45.6
Operating cash flows before movements in working capital		**186.8**	203.9
(Increase)/decrease in inventories		**(0.9)**	0.9
Increase in receivables		**(89.8)**	(66.0)
Increase in contract assets		**–**	(1.0)
Decrease in deferred income		**(15.5)**	(2.6)
Increase in payables		**44.9**	135.9
Decrease in provisions		**(8.6)**	(7.2)
Cash generated from operations		**116.9**	263.9
Income taxes paid		**(19.8)**	(16.2)
Interest paid		**(14.1)**	(17.5)
Net cash generated from operating activities		**83.0**	230.2
Investing activities			
Acquisition of businesses, net of cash acquired[1]	18	**(16.6)**	(24.9)
Interserve completion accounts settlement		**6.0**	–
Disposal of businesses, net of cash disposed		**–**	29.9
Interest received		**2.2**	0.3
Purchase of property, plant and equipment		**(10.9)**	(15.4)
Dividends received from joint ventures and associates	10	**9.0**	4.0
Purchase of other intangible assets	9	**(14.3)**	(20.2)
Disposal of property, plant and equipment		**0.1**	0.4
Net cash used in investing activities		**(24.5)**	(25.9)

Note:

1. *Acquisition of businesses is net of cash acquired of £2.0m (2022: £4.8m). Refer to Note 18.*

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Condensed consolidated statement of cash flows continued

For the year ended 31 March 2023

	Notes	2023 £m	2022 £m
Financing activities			
Purchase of own shares		**(37.7)**	(13.8)
Shares bought back and cancelled		**(50.7)**	–
Capital element of lease rentals		**(34.5)**	(33.9)
Proceeds from new private placement notes	16	**120.0**	–
Repayment of private placement notes		**(150.8)**	–
Settlement of derivative financial instruments		**29.2**	–
Repayment of bank loans		**(4.1)**	–
Payment of arrangement fees		**(0.5)**	(1.7)
Proceeds received on settlement of share-based payment transactions		**1.6**	–
Equity dividends paid	6	**(28.9)**	(5.7)
Net cash used in financing activities		**(156.4)**	(55.1)
Net (decrease)/increase in cash and cash equivalents		**(97.9)**	149.2
Net cash and cash equivalents at beginning of the year		**345.2**	196.2
Effect of foreign exchange rate changes		**1.0**	(0.2)
Net cash and cash equivalents at end of the year	15	**248.3**	345.2

The above statement of condensed consolidated cash flows includes cash flows from both continuing and discontinued operations.

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Notes to the condensed consolidated financial statements

For the year ended 31 March 2023

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

The financial information in this announcement has been extracted from the Group's Annual Report and Accounts for the year ended 31 March 2023 and is prepared in accordance with UK-adopted International Accounting Standards.

Whilst the financial information included in this preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS and the financial information set out does not constitute Mitie Group plc's (the Company) statutory accounts for the current or prior years.

Statutory accounts for the years ended 31 March 2023 and 31 March 2022 have been reported on by the independent auditor.

The independent auditor's reports for the years ended 31 March 2023 and 31 March 2022 were unqualified and did not draw attention to any matters by way of emphasis. The independent auditor's reports for the years ended 31 March 2023 and 31 March 2022 did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006. Statutory accounts for the year ended 31 March 2022 have been filed with the Registrar and the statutory accounts for the year ended 31 March 2023 will be delivered following the Company's annual general meeting.

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

Going concern

The condensed consolidated financial statements for the year ended 31 March 2023 have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the Group's business activities and the principal risks and uncertainties.

The Directors have carried out an assessment of the Group's and the Company's ability to continue as a going concern for the period of at least 12 months from the date of approval of the condensed consolidated financial statements (the Going Concern Assessment Period). This assessment was based on the latest medium-term cash forecasts from the Group's cash flow model (the Base Case Forecasts), which is based on the Board approved budget. These Base Case Forecasts indicate that the debt facilities currently in place are adequate to support the Group and the Company over the Going Concern Assessment Period.

The Group's principal debt financing arrangements as at 31 March 2023 were a £150.0m revolving credit facility maturing in October 2026, of which £8.4m was drawn as at 31 March 2023, and £150.0m of US private placement (USPP) notes. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis.

Of the USPP notes, £120.0m were issued in December 2022 under a delayed funding agreement to avoid any overlap with the £121.5m (being the repayment amount after taking account of the cross-currency interest rate swaps) of notes that matured in the same month. The new notes are split equally between 8, 10 and 12 year maturities, and were issued

with an average coupon of 2.94% that is significantly below the coupon of the maturing notes. The Base Case Forecasts assume that the remaining £30.0m of USPP notes, which are due to mature in December 2024, will not be replaced.

Mitie currently operates within the terms of the agreements with its lenders, with consolidated net cash (i.e. net cash adjusted for covenant purposes, primarily by the exclusion of lease liabilities) of £83.5m at 31 March 2023. The Base Case Forecasts indicate that the Group will continue to operate within these terms and that the headroom provided by the Group's debt facilities currently in place is adequate to support the Group over the Going Concern Assessment Period.

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

The primary financial risks related to adverse changes in the economic environment and/or a deterioration in commercial or operational conditions are listed below. These risks have been considered in the context of any further UK budgetary changes, political uncertainty and the continued impact of the Russian invasion of Ukraine, as well as an inflationary and potentially recessionary economic environment:

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

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

- All stress test scenarios would require a very severe deterioration compared to the Base Case Forecasts. Revenue is considered to be the key risk, as this is less within the control of management. Revenue would need to decline by approximately 38% in the year ending 31 March 2024, compared to the Base Case Forecasts, which is considered to be very severe given the high proportion of Mitie's revenue that is fixed in nature and the fact that even in the Covid-hit year ended 31 March 2021, Mitie's revenue excluding Interserve declined by only 1.6%.
- In the event that results started to trend significantly below those included in the Base Case Forecasts, additional mitigation actions have been identified that would be implemented, which are not factored into the stress test scenarios. These include the short-term scaling down of capital expenditure, overhead efficiency/reduction measures including cancellation of discretionary bonuses and reduced discretionary spend, asset disposals and reductions in cash distributions and share buybacks.

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

Accounting standards that are newly effective in the current year

The following amendments became effective during the year ended 31 March 2023:

Amendment to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract

The Group adopted the amendment to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract on 1 April 2022. The amendment clarifies that costs to fulfil a contract comprise both incremental costs of fulfilling a contract and an allocation of other direct costs that relate to fulfilling contracts. This resulted in a change in accounting policy when performing onerous contract assessments. Previously, the Group included only incremental costs to fulfil a contract when determining whether a contract was onerous. The revised policy is to include both incremental costs and an allocation of other direct costs.

As a result of the revised accounting policy, certain other direct supervision and management costs have been included by the Group in determining the costs of fulfilling a contract. The Group, therefore, recognised additional provisions of £1.1m for costs that existed at 1 April 2022 on onerous contracts (see Note 13).

The amendments apply prospectively to contracts at the date when the amendments are first applied, and therefore the Group has not restated comparative information.

Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use

In May 2020, the International Accounting Standards Board (IASB) published amendments to IAS 16 Property, Plant and Equipment, which require amounts received from selling items produced while the Company is preparing the asset for its intended use to be recognised in profit or loss, and not as an adjustment to the cost of the asset as was previously the case. The Group has not recognised any such amounts within property, plant and equipment and thus the amendment has not had an impact on the condensed financial statements.

Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e. to business combinations occurring after 1 April 2022; that being the financial year in which the Group has first applied the amendments (the date of initial application). These amendments had no impact on the condensed consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the year.

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

At the date of authorisation of these condensed financial statements, the Group has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements - Disclosure of Accounting Policies
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates
- Amendments to IAS 12 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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The Group is assessing the impact of these new standards, and the Group's financial reporting will be presented in accordance with these standards from the effective date.

(b) Classification of surplus on PFI lifecycle contracts

The Group has a number of long-term PFI lifecycle contracts to maintain properties over periods of up to 30 years. A fund is established at the start of the contract and amounts are drawn down by the Group as maintenance work is performed. For certain contracts, the Group is also entitled to share in any surplus left in the fund. Revenue is recognised over time to reflect the rendering of the service, including an assessment of the appropriate proportion of the likely surplus in the fund, subject to being highly probable not to reverse.

Historically the Group has classified receivables in respect of the surplus on PFI lifecycle funds within current assets on the balance sheet. During the year, following a review of these contracts, management concluded that these assets should be reclassified as non-current assets on the balance sheet, in order to reflect the timing of cash realisation of receivables across the Group's portfolio of contracts.

This change has been accounted for retrospectively and, accordingly, the comparative information for 31 March 2022 has been restated, which has resulted in a reclassification between current and non-current 'trade and other receivables'. There has been no impact on the income statement, earnings per share or net assets.

31 March 2022	**As reported £m**	**Reclassification £m**	**As restated £m**
Trade and other receivables	**7.8**	**17.3**	**25.1**
Total non-current assets	**738.1**	**17.3**	**755.4**
Trade and other receivables	**704.0**	**(17.3)**	**686.7**
Total current assets	**1,083.3**	**(17.3)**	**1,066.0**
Total assets	**1,821.4**	**–**	**1,821.4**
Net current liabilities	**(71.3)**	**(17.3)**	**(88.6)**
Net assets	**425.8**	**–**	**425.8**

31 March 2021	As reported £m	Reclassification £m	As restated £m
Trade and other receivables	8.3	17.3	25.6
Total non-current assets	735.3	17.3	752.6
Trade and other receivables	678.8	(17.3)	661.5
Total current assets	893.6	(17.3)	876.3
Total assets	1,628.9	–	1,628.9
Net current assets	19.0	(17.3)	1.7
Net assets	357.5	–	357.5

The impact as at 1 April 2020 would have been a reclassification between current and non-current 'trade and other receivables' of £14.0m.

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2. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Group's accounting policies

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

Revenue recognition

The Group's revenue recognition policies are central to how the Group measures the work it has performed in each financial year.

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

Some of the Group's contracts, including PFI contracts, contain variable consideration where management assesses the extent to which revenue is recognised. For certain contracts, key judgements were made on whether it is considered highly probable that a significant reversal of revenue will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Profit before Other items

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

Other items after tax of £36.9m were charged (2022: £79.8m) to the consolidated income statement for the year ended 31 March 2023. Included within the net charge were charges in respect of the implementation of the digital supplier platform of £2.8m which, in management's judgement, is a material programme delivering a step change in the Group's supplier chain management capabilities and therefore meets the Group's definition to be categorised as Other items. A complete analysis of the amounts included in Other items is detailed in Note 4.

Recoverability of trade receivables and accrued income

The Group has material amounts of billed and unbilled work outstanding at 31 March 2023. Receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Group recognises a loss allowance for

expected credit losses (ECLs) on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Group will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date, which includes information about past events, current conditions and forecasts of the future economic condition of customers.

IFRS 16 – Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any period covered by an option to terminate the lease if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. Management applies judgement in evaluating whether it is reasonably certain the option to renew or terminate the lease will be exercised or not. That is, it considers all relevant factors that create an economic incentive for the Group to exercise either the renewal or termination option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease.

Landmarc joint venture

The Group holds 51% of the equity shares in Landmarc Support Services Limited (Landmarc), a jointly controlled entity. The remaining 49% of the equity shares in Landmarc are held by a single third party. Management considers Landmarc to be a joint venture despite the Group having majority voting rights. This is because, under the terms of the shareholder agreement, joint agreement is required with the other party to pass resolutions for all significant activities. Accordingly, the Group does not control Landmarc and does not recognise it as a subsidiary.

The Group accounts for its investment in Landmarc using the equity method. See Note 10.

Key sources of estimation uncertainty

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

Provisions and contingent liabilities

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

Provisions are liabilities of uncertain timing or amount and, therefore, in making a reliable estimate of the quantum and timing of liabilities, judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 March 2023 of £111.4m (2022: £117.0m). Further details are included in Note 13.

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Onerous contract provisions

Onerous contract provisions totalling £10.5m have been recognised at 31 March 2023 (2022: £13.2m). These primarily arose on the acquisition of Interserve.

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

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

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

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

The Directors have assessed the range of possible outcomes on contracts requiring an onerous contract provision, based on facts and circumstances that were present and known at the balance sheet date. Sensitivities around the major sources of estimation uncertainty, as identified above, indicate a possible range of future outcomes on these contracts in the next financial year, ranging from a reduction in the provision of up to £5m to a further increase of up to £10m being recognised.

An onerous contract provision has not been recognised on a certain contract which made a loss of £8.4m in the year ended 31 March 2023 (2022: £8.7m) and has 18 years remaining on the contract. This contract was acquired as part of the acquisition of Interserve, and a detailed turnaround plan is in the process of being implemented. Based on the plan, including applying downside scenarios, management expects that the contract will return to profitability in the year ending 31 March 2026 and will record a cumulative profit for the remaining term of the contract.

Other contract specific provisions

In addition to the onerous contract provisions, the Group has recognised £38.8m of contract specific provisions at 31 March 2023 (2022: £43.1m). These have been recognised primarily to cover costs required to meet specific contractual obligations.

Within this total, £14.7m relates to a certain contract where a significant liability has been estimated in relation to a commercial dispute. Management sought external assistance at the time of Interserve's acquisition to value the potential risk exposure to the Group and has periodically updated this assessment. The actual exposure to the Group may differ from the amount provided at 31 March 2023 due to the compounding effect of multiple variables associated with the particular issues involved in the dispute. The value of the provision represents management's best estimate. Management

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considers that to the extent that it is agreed or determined that the Group has a liability, the assessed range of possible future outcomes could potentially lead to a reduction in the provision of up to £4m or a further increase of up to £9m being recognised, and other possible outcomes could increase the liability further. Management will continue to assess the value of the provision recorded in arriving at its best estimate of any potential resolution at each subsequent reporting date.

Provisions in relation to certain contracts are also subject to negotiation with the customers.

Measurement of defined benefit pension obligations

The net pension liability at 31 March 2023 was £0.2m (2022: £12.2m), which includes retirement benefit assets of £2.4m (2022: £1.6m).

The measurement of defined benefit obligations requires judgement. It is dependent on material key assumptions, including discount rates, life expectancy rates and future contribution rates. See Note 19 for further details and a sensitivity analysis for the key assumptions.

The Group also participates in four multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme). The Group has recognised provisions of £21.7m at 31 March 2023 (2022: £21.7m) for Section 75 employer debts in respect of the participation of Robert Prettie & Co Limited and Mitie FM Limited in the Plumbing Scheme.

Deferred tax assets

The Group has recognised deferred tax assets of £20.4m (2022: £11.1m), which include £39.6m (2022: £34.1m) in respect of unused tax losses. The deferred tax asset on losses has been recognised on the basis that the Group will continue to make profits in the future against which the losses can be used. In order to support the recognition of the £39.6m deferred tax asset on losses, management has assessed the recovery of this asset with reference to the Group's three-year forecasts which in management's judgement is the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Management considers that a three-year period is appropriate as it is supported by the Group's strategic, budgeting and business planning cycles and is relevant to the duration of the Group's existing contracts with customers, which is typically around three years. It therefore represents a timeframe over which management considers that it can reasonably forecast the Group's performance. As a result, tax losses of £63.9m have not been recognised as at 31 March 2023 (2022: £87.2m).

Sensitivity analysis has been undertaken which shows that a 10% increase or decrease in profits over the forecast period would result in a £3m increase or decrease to the deferred tax asset respectively. If the deferred tax asset was to be based on two year forecasts, the deferred tax asset would decrease by £10m, whereas if a four year forecast was to be used, the deferred tax asset would increase by £9m.

3. Business segment information

The Group manages its business on a service division basis. At 31 March 2023, the Group had eight reportable segments and the information, as reported, is consistent with information presented to the Board of Directors, which is the Group's Chief Operating Decision Maker. Revenue including share of joint ventures and associates, operating profit before Other items and operating profit margin before Other items are the primary measures of performance that are reported to and reviewed by the Board.

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

Consolidated income statement information

	2023			2022		
	Revenue[1] £m	**Operating profit/(loss) before Other items[2] £m**	**Operating margin before Other items[2] %**	Revenue[1] £m	Operating profit/(loss) before Other items[2] £m	Operating margin before Other items[2] %
Business Services	**1,171.6**	**67.5**	**5.8**	1,522.0	107.5	7.1
Technical Services	**1,154.1**	**34.1**	**3.0**	972.9	30.0	3.1
CG&D	**828.3**	**59.8**	**7.2**	669.4	38.4	5.7
Communities	**490.2**	**21.3**	**4.3**	460.0	19.9	4.3
Specialist Services	**410.9**	**34.9**	**8.5**	372.5	32.5	8.7
Care & Custody	**168.7**	**10.2**	**6.0**	135.7	9.9	7.3
Landscapes	**65.7**	**9.5**	**14.5**	55.0	9.2	16.7
Waste	**74.4**	**8.6**	**11.6**	76.7	8.3	10.8
Spain	**102.1**	**6.6**	**6.5**	105.1	5.1	4.9
Corporate centre	**–**	**(55.5)**	**–**	–	(61.4)	–
Total from continuing operations	**4,055.1**	**162.1**	**4.0**	3,996.8	166.9	4.2
Document Management	**–**	**–**	**–**	25.5	2.8	11.0
Nordics and Poland	**–**	**–**	**–**	1.9	0.1	5.3
Total from discontinued operations	**–**	**–**	**–**	27.4	2.9	10.6
Total Group	**4,055.1**	**162.1**	**4.0**	4,024.2	169.8	4.2

Notes:

1. *Revenue includes share of joint ventures and associates, of which £100.1m (2022: £85.1m) is included within CG&D and £10.0m (2022: £8.4m) within Communities.*
2. *Other items are as described in Note 4.*

No single customer accounted for more than 10% of external revenue in the year ended 31 March 2023 or in the comparative year. The UK Government is not considered a single customer.

A reconciliation of segment operating profit before Other items to total profit before tax is provided below:

	2023	2022		
	Continuing operations and total Group £m	From continuing operations £m	From discontinued operations £m	Total Group £m
Operating profit before Other items	**162.1**	166.9	2.9	169.8
Other items[1]	**(45.1)**	(94.8)	17.0	(77.8)
Net finance (costs)/income	**(11.5)**	(19.8)	0.1	(19.7)
Profit before tax	**105.5**	52.3	20.0	72.3

Note:
1. *Other items are as described in Note 4.*

Geographical segments

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

	2023			2022		
	Revenue[1] £m	**Operating profit before Other items[2] £m**	**Operating margin before Other items[2] %**	Revenue[1] £m	Operating profit before Other items[2] £m	Operating margin before Other items[2] %
United Kingdom	**3,895.2**	**153.9**	**4.0**	3,844.5	160.3	4.2
Other countries	**159.9**	**8.2**	**5.1**	152.3	6.6	4.3
Continuing operations	**4,055.1**	**162.1**	**4.0**	3,996.8	166.9	4.2
United Kingdom	**–**	**–**	**–**	25.5	2.8	11.0
Other countries	**–**	**–**	**–**	1.9	0.1	5.3
Discontinued operations	**–**	**–**	**–**	27.4	2.9	10.6
Total Group	**4,055.1**	**162.1**	**4.0**	4,024.2	169.8	4.2

Notes:

1. Revenue includes share of joint ventures and associates, of which £110.1m (2022: £93.5m) is included within the United Kingdom and £nil (2022: £nil) in other countries.

2. Other items are as described in Note 4.

The carrying amount of non-current assets, excluding interest in joint ventures and associates and deferred tax assets, by geographical segment is shown below:

	2023 £m	2022[1] £m
United Kingdom	**732.5**	717.6
Other countries	**16.0**	14.8
Total	**748.5**	732.4

Note:

1. Trade and other receivables of £17.3m have been reclassified from current assets to non-current assets. See Note 1.

Supplementary information

	2023				2022			
	Depreciation of property, plant and equipment £m	**Amortisation of intangible assets £m**	**Amortisation of contract assets £m**	**Other items[1] £m**	Depreciation of property, plant and equipment £m	Amortisation of intangible assets £m	Amortisation of contract assets £m	Other items[1] £m
Business Services	**1.6**	**–**	**–**	**0.9**	1.9	2.3	–	17.6
Technical Services	**1.3**	**0.6**	**0.3**	**10.8**	0.8	0.7	1.0	21.1
CG&D	**0.4**	**–**	**–**	**(0.8)**	0.3	0.2	–	(3.5)
Communities	**1.2**	**–**	**–**	**0.4**	0.9	–	–	10.9
Specialist Services	**2.4**	**–**	**1.0**	**0.6**	2.5	–	0.7	3.1
Care & Custody	**0.1**	**–**	**1.0**	**–**	0.3	–	0.7	1.2
Landscapes	**1.2**	**–**	**–**	**0.5**	0.9	–	–	0.6
Waste	**0.2**	**–**	**–**	**0.1**	0.3	–	–	0.9
Spain	**0.9**	**–**	**–**	**–**	1.0	–	–	0.4
Corporate centre	**36.2**	**28.6**	**–**	**33.2**	35.0	24.0	–	45.6
Continuing operations	**43.1**	**29.2**	**1.3**	**45.1**	41.4	27.2	1.7	94.8
Social Housing	**–**	**–**	**–**	**–**	–	–	–	(4.0)
Document Management	**–**	**–**	**–**	**–**	0.2	–	–	(16.0)
Nordics and Poland	**–**	**–**	**–**	**–**	–	–	–	3.0
Discontinued operations	**–**	**–**	**–**	**–**	0.2	–	–	(17.0)
Total Group	**43.1**	**29.2**	**1.3**	**45.1**	41.6	27.2	1.7	77.8

Note:

1. Other items are as described in Note 4.

Disaggregated revenue

The Group disaggregates revenue from contracts with customers by sector (government and non-government) and by contract duration (contracts with a duration from inception of less than two years, and contracts with a duration from inception of more than two years). Management believes this best depicts how the nature, timing and amount of revenue and cash flows are affected by economic factors. The following table includes a reconciliation of disaggregated revenue with the Group's reportable segments.

	2023					
	Sector[1]			Contract duration for timing of revenue recognition		
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Business Services	**347.4**	**824.2**	**1,171.6**	**177.9**	**993.7**	**1,171.6**
Technical Services	**262.4**	**891.7**	**1,154.1**	**205.7**	**948.4**	**1,154.1**
CG&D	**828.3**	**–**	**828.3**	**2.2**	**826.1**	**828.3**
Communities	**487.9**	**2.3**	**490.2**	**–**	**490.2**	**490.2**
Specialist Services	**278.4**	**132.5**	**410.9**	**63.2**	**347.7**	**410.9**
Care & Custody	**168.7**	**–**	**168.7**	**–**	**168.7**	**168.7**
Landscapes	**24.7**	**41.0**	**65.7**	**21.3**	**44.4**	**65.7**
Waste	**23.7**	**50.7**	**74.4**	**15.4**	**59.0**	**74.4**
Spain	**61.3**	**40.8**	**102.1**	**26.5**	**75.6**	**102.1**
Continuing operations and total Group including joint ventures and associates	**2,204.4**	**1,850.7**	**4,055.1**	**449.0**	**3,606.1**	**4,055.1**
Less: Joint ventures and associates[2]	**(110.1)**	**–**	**(110.1)**	**–**	**(110.1)**	**(110.1)**
Continuing operations and total Group excluding joint ventures and associates	**2,094.3**	**1,850.7**	**3,945.0**	**449.0**	**3,496.0**	**3,945.0**

Notes:

1. *Sector is defined by the end customer on any contract. For example, if the Group is a subcontractor to a company repairing a government building, then the contract would be classified as government.*
2. *Revenue from joint ventures and associates includes £100.1m and £10.0m within the CG&D and Communities segments respectively.*

	2022					
	Sector[1]			Contract duration for timing of revenue recognition		
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Business Services	686.6	835.4	1,522.0	682.0	840.0	1,522.0
Technical Services	258.9	714.0	972.9	79.2	893.7	972.9
CG&D	669.4	–	669.4	0.7	668.7	669.4
Communities	452.1	7.9	460.0	18.2	441.8	460.0
Specialist Services	259.5	113.0	372.5	59.9	312.6	372.5
Care & Custody	135.7	–	135.7	–	135.7	135.7
Landscapes	20.0	35.0	55.0	18.5	36.5	55.0
Waste	31.0	45.7	76.7	14.1	62.6	76.7
Spain	72.8	32.3	105.1	27.3	77.8	105.1
Continuing operations including joint ventures and associates	2,326.5	1,670.3	3,996.8	840.0	3,156.8	3,996.8
Less: Joint ventures and associates[2]	(93.5)	–	(93.5)	–	(93.5)	(93.5)
Continuing operations excluding joint ventures and associates	2,233.0	1,670.3	3,903.3	840.0	3,063.3	3,903.3
Document Management	1.7	23.8	25.5	0.1	25.4	25.5
Nordics and Poland	–	1.9	1.9	–	1.9	1.9
Discontinued operations	1.7	25.7	27.4	0.1	27.3	27.4
Total Group excluding joint ventures and associates	2,234.7	1,696.0	3,930.7	840.1	3,090.6	3,930.7

Notes:

1. *Sector is defined by the end customer on any contract. For example, if the Group is a subcontractor to a company repairing a government building, then the contract would be classified as government.*
2. *Revenue from joint ventures and associates includes £85.1m and £8.4m within the CG&D and Communities segments respectively.*

Transaction price allocated to the remaining performance obligations

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

	2023			2022		
	Less than 1 year £m	**More than 1 year £m**	**Total secured revenue £m**	Less than 1 year £m	More than 1 year £m	Total secured revenue £m
Business Services	**554.8**	**787.3**	**1,342.1**	638.8	805.5	1,444.3
Technical Services	**482.6**	**678.0**	**1,160.6**	443.9	779.9	1,223.8
CG&D[1]	**503.8**	**1,263.3**	**1,767.1**	346.3	502.8	849.1
Communities[1]	**272.4**	**2,356.6**	**2,629.0**	275.2	2,582.4	2,857.6
Specialist Services	**173.7**	**396.8**	**570.5**	194.7	484.4	679.1
Care & Custody	**105.1**	**330.9**	**436.0**	120.1	397.8	517.9
Landscapes	**28.2**	**52.5**	**80.7**	32.1	68.8	100.9
Waste	**8.2**	**6.0**	**14.2**	7.0	8.6	15.6
Spain	**32.2**	**7.4**	**39.6**	35.5	9.2	44.7
Continuing operations and total Group	**1,987.3**	**5,482.0**	**7,469.3**	1,898.9	5,155.0	7,053.9

Note:

1. *Forward order book includes share of joint ventures and associates.*

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4. Other items

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

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

	2023			
Continuing operations and total Group	**Restructure costs £m**	**Acquisition and disposal related costs £m**	**Other exceptional items £m**	**Total £m**
Other items before tax	**(16.6)**	**(25.1)**	**(3.4)**	**(45.1)**
Tax	**3.2**	**4.4**	**0.6**	**8.2**
Other items after tax	**(13.4)**	**(20.7)**	**(2.8)**	**(36.9)**

	2022				
Continuing operations	Restructure costs £m	Acquisition and disposal related costs £m	Other exceptional items £m	Gain on disposal £m	Total £m
Other items before tax	(10.9)	(89.3)	5.4	–	(94.8)
Tax[1]	2.1	(3.1)	(1.0)	–	(2.0)
Other items after tax	(8.8)	(92.4)	4.4	–	(96.8)
Discontinued operations					
Other items before tax	–	4.0	–	13.0	17.0
Tax	–	–	–	–	–
Other items after tax	–	4.0	–	13.0	17.0
Total Group					
Other items before tax	(10.9)	(85.3)	5.4	13.0	(77.8)
Tax[1]	2.1	(3.1)	(1.0)	–	(2.0)
Other items after tax	(8.8)	(88.4)	4.4	13.0	(79.8)

Note:

1. *Includes £8.1m charge as a result of the increase in the rate of UK corporation tax from 1 April 2023. This primarily relates to the remeasurement of the deferred tax liability on the customer contracts and relationships intangible arising on the acquisition of Interserve. See Note 5.*

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Restructure costs

The Group has been undertaking a major transformation programme involving the restructuring of operations to reposition the business for its next phase of growth. The costs are analysed below:

Continuing operations and total Group	**2023 £m**	2022 £m
Group transformation programme:		
Project Forté[1]	**(8.7)**	(10.2)
Target Operating Model[2]	**(7.9)**	(0.3)
Property	**–**	(0.4)
Restructure costs	**(16.6)**	(10.9)
Tax	**3.2**	2.1
Restructure costs net of taxation	**(13.4)**	(8.8)

Notes:

1. *Project Forté was launched in 2019, primarily focusing on re-engineering the Technical Services business to modernise and optimise workflow processes. The project has been completed in FY23, and therefore no further Other items costs will be incurred. The project has improved both the customer experience and efficiency of internal operations. Cumulative costs of £40.1m have been recognised within the consolidated income statement and classified as Other items on Project Forté since its launch in 2019, of which £6.5m were non-cash costs.*
2. *The Target Operating Model is the next phase of the Group's transformation, and includes the further outsourcing of back-office functions, consolidating systems and processes, and optimising the organisation structure. The programme is expected to complete by 31 March 2024.*

The costs associated with the Group transformation programme include £6.9m of external consultancy costs (2022: £4.1m), fixed-term staff costs of £6.9m (2022: £5.2m) to manage and implement changes, redundancy costs of £2.1m (2022: £nil) and dual-run licence costs in relation to decommissioned operating systems of £0.7m (2022: £nil). In the year ended 31 March 2022, the Group also recognised a right-of-use asset impairment of £0.1m, other onerous lease costs of £0.2m and intangible asset impairments of £1.3m.

Acquisition and disposal related costs

	2023	2022		
	Continuing operations and total Group £m	Continuing operations £m	Discontinued operations £m	Total £m
Interserve acquisition related income/(costs)[1]	**3.7**	(2.4)	–	(2.4)
Interserve integration costs[2]	**(5.5)**	(16.2)	–	(16.2)
Interserve completion accounts adjustment	**–**	(45.6)	–	(45.6)
Interserve amortisation of acquisition related assets[3]	**(16.7)**	(19.1)	–	(19.1)
Total Interserve acquisition costs	**(18.5)**	(83.3)	–	(83.3)
Other amortisation of acquisition related intangible assets	**(4.7)**	(2.8)	–	(2.8)
Other acquisition transaction costs[4]	**(1.9)**	(3.2)	–	(3.2)
Other disposal income[5]	**–**	–	4.0	4.0
Acquisition and disposal costs	**(25.1)**	(89.3)	4.0	(85.3)
Tax	**4.4**	(3.1)	–	(3.1)
Acquisition and disposal costs net of taxation	**(20.7)**	(92.4)	4.0	(88.4)

Notes:

1. *Comprises a provision release of £1.2m for a certain pension scheme where the Group recognised a provision on the acquisition of Interserve for the scheme's exit payment, which has been settled during the year ended 31 March 2023 (see Note 13). Also includes a £0.7m release of an employer liability insurance provision created on the acquisition of Interserve where the Group anticipates no further claims, £0.9m professional fee accruals release and derecognition of a £0.9m pre-acquisition contractual liability originally recognised against goodwill. The year ended 31 March 2022 costs comprised professional fees of £2.5m and an additional provision in respect of parent company guarantees of £0.6m, partially offset by the release of certain pre-acquisition net payable amounts in respect of Interserve of £0.7m.*
2. *Comprises £3.4m of redundancy costs (2022: £1.8m), staff related integration costs of £0.4m (2022: £3.1m) and professional fees of £1.7m (2022: £5.3m). In the year ended 31 March 2022, the Group also incurred dual running costs related to the transitional service arrangement of £1.9m, IT integration costs of £1.6m, software impairments of £1.4m, rebranding costs of £0.6m, other property related costs of £0.2m, right-of-use asset impairments of £0.1m and other integration costs of £0.2m.*
3. *Includes £16.7m amortisation of customer contracts and relationships acquired with Interserve (2022: £16.7m). In the year ended 31 March 2022, amortisation of £2.4m was also charged with respect to customer contracts and relationships arising on the acquisition of Landmarc Support Services Limited, which has been equity accounted. See Notes 9 and 10.*
4. *Comprises professional fees of £1.7m (2022: £1.7m) and £0.2m of performance-based employment-linked earnouts and adjustments to deferred consideration (2022: £1.0m). The year ended 31 March 2022 also included fixed-term staff costs of £0.3m, other acquisition costs of £0.1m and redundancy costs of £0.1m relating to acquisitions other than Interserve.*
5. *In the year ended 31 March 2022, the Group recognised other disposal income of £4.0m related to rectification works on property maintenance contracts associated with the disposal of the Social Housing business.*

Gain on disposal

In the year ended 31 March 2022, a net gain on disposal of businesses of £13.0m was recognised in Other items, comprising a net gain of £16.0m in relation to the disposal of the Document Management business and a net loss on disposal of £3.0m in relation to the disposal of the Nordics and Poland operations.

Other exceptional items

	2023	2022
	Continuing operations and total Group £m	Continuing operations and total Group £m
Settlement of contractual disputes	**–**	9.8
Digital supplier platform[1]	**(3.4)**	(4.4)
Other exceptional items	**(3.4)**	5.4
Tax	**0.6**	(1.0)
Other exceptional items net of taxation	**(2.8)**	4.4

Note:

1. *Costs of £3.4m (2022: £4.4m) incurred in the implementation of a new digital supplier platform, resulting in a step change in the Group's supply chain management capabilities. These comprise fixed-term staff costs of £2.4m (2022: £2.2m) and third-party implementation costs of £1.0m (2022: £2.2m). This implementation, which is transformational in nature, is expected to be completed during the year ending 31 March 2024. Cumulative cash costs of £7.8m have been recognised within the consolidated income statement and classified as Other items since its launch in 2022.*

5. Tax

Total Group	**2023 £m**	2022 £m
Current tax	**19.2**	19.4
Deferred tax (Note 14)	**(4.8)**	2.2
Tax charge for the year	**14.4**	21.6
Continuing operations	**14.4**	21.0
Discontinued operations	**–**	0.6
Tax charge for the year	**14.4**	21.6

Corporation tax is calculated at 19% (2022: 19%) of the estimated taxable profit for the year. A reconciliation of the tax charge to the elements of profit before tax per the consolidated income statement is as follows:

	2023			2022		
Total Group	**Before Other items £m**	**Other items[1] £m**	**Total £m**	Before Other items £m	Other items[1] £m	Total £m
Profit/(loss) before tax	**150.6**	**(45.1)**	**105.5**	150.1	(77.8)	72.3
Tax at UK rate of 19% (2022: 19%)	**28.6**	**(8.5)**	**20.1**	28.5	(14.8)	13.7
Reconciling tax charges for:						
Non-tax deductible charges	**(0.8)**	**0.3**	**(0.5)**	–	9.0	9.0
Share-based payments	**–**	**–**	**–**	(0.6)	–	(0.6)
Gain on disposal of businesses	**–**	**–**	**–**	–	(2.5)	(2.5)
Impact of equity accounted investments	**(1.6)**	**–**	**(1.6)**	(1.7)	0.5	(1.2)
(Credit)/charge for losses not previously recognised	**(5.3)**	**–**	**(5.3)**	2.2	–	2.2
Overseas tax rates	**(0.3)**	**–**	**(0.3)**	(0.5)	–	(0.5)
Impact of change in statutory tax rates	**–**	**–**	**–**	(9.0)	8.1	(0.9)
Prior year adjustments	**2.0**	**–**	**2.0**	0.7	1.7	2.4
Tax charge/(credit) for the year	**22.6**	**(8.2)**	**14.4**	19.6	2.0	21.6
Effective tax rate for the year	**15.0%**	**18.2%**	**13.6%**	13.1%	(2.6%)	29.9%

Note:

1. *Other items are as described in Note 4.*

In addition to the amounts charged to the consolidated income statement: (i) a £1.1m credit for current tax (2022: £nil) and a £1.5m credit for deferred tax (2022: £3.8m charge) relating to remeasurements of retirement benefit liabilities have been taken directly to the statement of comprehensive income; in the prior year a £0.1m credit for deferred tax relating to hedged items was also taken directly to the statement of comprehensive income; and (ii) a £1.1m credit for current tax (2022: £nil) and a £4.9m credit for deferred tax (2022: £0.2m charge) relating to share options have been taken directly to equity.

The UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This change has been substantively enacted at the balance sheet date and is therefore incorporated into the amounts contained in this report.

6. Dividends

	2023 Pence per share	2023 £m	2022 Pence per share	2022 £m
Amounts recognised as distributions in the year:				
Final dividend for the prior year	**1.4**	**19.5**	–	–
Interim dividend for the current year	**0.7**	**9.4**	0.4	5.7
	2.1	**28.9**	0.4	5.7
Proposed final dividend for the year ended 31 March	**2.2**	**28.7**	1.4	19.5

Dividends are recognised as distributions in the year in which they are paid. Subject to approval at the Annual General Meeting on 25 July 2023, the final dividend for the year ended 31 March 2023 will be paid on 4 August 2023 to holders on the register on 23 June 2023. The ordinary shares will be quoted ex-dividend on 22 June 2023.

7. Earnings per share

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

	2023	2022		
	Continuing operations and total Group £m	From continuing operations £m	From discontinued operations £m	Total Group £m
Net profit before Other items attributable to owners of the parent	**128.0**	128.1	2.4	130.5
Other items net of tax[1]	**(36.9)**	(96.8)	17.0	(79.8)
Net profit attributable to owners of the parent	**91.1**	31.3	19.4	50.7

Note:

1. *Other items are as described in Note 4.*

Number of shares	**2023 million**	2022 million
Weighted average number of ordinary shares for the purpose of basic EPS[1]	**1,348.4**	1,395.4
Effect of dilutive potential ordinary shares[2]	**132.9**	143.2
Weighted average number of ordinary shares for the purpose of diluted EPS[1,2]	**1,481.3**	1,538.6

Notes:

1. *The weighted average number of ordinary shares in issue during the year excludes those accounted for in the Own shares reserve.*
2. *The dilutive potential ordinary shares relate to instruments that could potentially dilute basic earnings per share in the future, such as share-based payments. The diluted earnings per share uses the weighted average number of shares adjusted for potentially dilutive ordinary shares, unless it has the effect of increasing the earnings per share.*

	2023	2022		
	Continuing operations and total Group pence per share	From continuing operations pence per share	From discontinued operations pence per share	Total Group pence per share
Basic earnings before Other items[1]	**9.5**	9.2	0.2	9.4
Basic earnings	**6.8**	2.2	1.4	3.6
Diluted earnings before Other items[1]	**8.6**	8.3	0.2	8.5
Diluted earnings	**6.2**	2.0	1.3	3.3

Note:

1. *Other items are as described in Note 4.*

8. Goodwill

	£m
Cost	
At 1 April 2021	327.3
Arising on business combinations	22.3
Disposal of businesses	(15.8)
At 31 March 2022	333.8
Arising on business combinations[1]	11.0
At 31 March 2023	**344.8**
Accumulated impairment losses	
At 1 April 2021	32.5
At 31 March 2022	32.5
At 31 March 2023	**32.5**
Net book value	
At 31 March 2023	**312.3**
At 31 March 2022	301.3

Note:

1. *The Group acquired P2ML, 8point8 and Custom Solar during the year ended 31 March 2023. Refer to Note 18. This balance also includes measurement period adjustments resulting in increases of £0.4m and £0.1m to the goodwill recognised in relation to the DAEL and Biotecture acquisitions respectively.*

Goodwill impairment testing

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

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

	Pre-tax discount rate %	**Goodwill 2023 £m**	Goodwill 2022 £m
Technical Services	**12.3%**	**116.8**	105.9
Business Services	**14.7%**	**105.1**	105.1
Communities	**13.8%**	**81.0**	81.0
Landscapes	**12.8%**	**6.7**	6.6
CG&D	**13.2%**	**2.7**	2.7
Total		**312.3**	301.3

Key assumptions

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

Forecast operating profits

For all CGUs, the Group prepared cash flow projections derived from the most recent forecasts for the year ending 31 March 2024 and the Group's strategic plan to 31 March 2028. Forecast revenue and direct costs are based on past

performance and expectations of future changes in the market, operating model and cost base including the impact of inflation.

Growth rates and terminal values

Medium-term revenue growth rates applied to the value-in-use calculations of each CGU reflect management's strategy for a period of five years. Terminal values were determined using a long-term growth assumption of 2.0% (2022: 2.0%).

Discount rates

The pre-tax discount rates used to assess the forecast cash flows from CGUs are derived from the Group's post-tax weighted average cost of capital, which was 9.8% as at the time of the Group's annual impairment review (2022: 7.8%). These rates are reviewed annually by external advisors and adjusted for the risks specific to the business being assessed and the market in which the CGU operates. All CGUs have the same access to the Group's treasury functions and borrowing lines to fund their operations.

Sensitivity analysis

A sensitivity analysis has been performed and management has concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of any of the Group's CGUs.

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9. Other intangible assets

	Acquisition related				
	Customer contracts and relationships £m	Other £m	**Total acquisition related £m**	Software and development expenditure £m	**Total £m**
Cost					
At 1 April 2021	321.1	14.3	**335.4**	61.9	**397.3**
Additions	–	–	**–**	20.2	**20.2**
Arising on business combinations	8.4	–	**8.4**	–	**8.4**
Disposals	–	–	**–**	(8.8)	**(8.8)**
Reclassifications	–	(3.4)	**(3.4)**	3.4	**–**
Effect of movements in exchange rates	–	–	**–**	0.1	**0.1**
At 31 March 2022	329.5	10.9	**340.4**	76.8	**417.2**
Additions	–	–	**–**	14.3	**14.3**
Arising on business combinations	8.7	–	**8.7**	–	**8.7**
Disposals	–	–	–	(0.3)	**(0.3)**
At 31 March 2023	338.2	10.9	**349.1**	90.8	**439.9**
Amortisation and impairment					
At 1 April 2021	94.5	10.6	**105.1**	31.2	**136.3**
Charge for the year	19.4	0.1	**19.5**	7.7	**27.2**
Impairments	–	–	**–**	3.5	**3.5**
Disposals	–	–	**–**	(8.8)	**(8.8)**
Effect of movements in exchange rates	–	–	**–**	0.1	**0.1**
At 31 March 2022	113.9	10.7	**124.6**	33.7	**158.3**
Charge for the year	21.3	0.1	**21.4**	7.8	**29.2**
Disposals	–	–	**–**	(0.3)	**(0.3)**
Effect of movements in exchange rates	–	–	**–**	0.1	**0.1**
At 31 March 2023	135.2	10.8	**146.0**	41.3	**187.3**
Net book value					
At 31 March 2023	203.0	0.1	**203.1**	49.5	**252.6**
At 31 March 2022	215.6	0.2	**215.8**	43.1	**258.9**

Customer contracts and relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. These currently range over an average of eight years. Other acquisition related intangibles include acquired software and technology which are amortised over their useful lives, which currently range from three to ten years.

Following a review of the carrying amount of intangible assets, no impairment indicators have been identified and no impairment has been recorded in the year ended 31 March 2023 (2022: £3.5m).

10. Interests in joint ventures and associates

The Group has interests in joint ventures and associates, which are all equity accounted entities. Landmarc Support Services Limited (Landmarc UK) and Sussex Estates and Facilities LLP (Sussex) are equity accounted entities that were material to the Group. All equity accounted entities provide facilities management services.

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Interests in joint ventures and associates

	Ownership %	Nature of relationship	**2023 £m**	2022 £m
Landmarc UK	51	Joint venture	**7.9**	10.5
Sussex	35	Associate	**0.6**	0.7
Other		Joint ventures	**0.3**	0.7
At 31 March			**8.8**	11.9

	2023				2022
	Landmarc UK[1] £m	**Sussex[1] £m**	**Other[1] £m**	**Group share of joint ventures and associates £m**	Group share of joint ventures and associates £m
At 1 April	**10.5**	**0.7**	**0.7**	**11.9**	11.0
Share of profit/(loss) before Other items	**7.9**	**0.8**	**(0.4)**	**8.3**	6.6
Share of profit – Other items[2]	**–**	**–**	**–**	**–**	(2.4)
Share of other comprehensive (expense)/income	**(2.4)**	**–**	**–**	**(2.4)**	0.7
Dividends	**(8.1)**	**(0.9)**	**–**	**(9.0)**	(4.0)
At 31 March	**7.9**	**0.6**	**0.3**	**8.8**	11.9

Notes:

1. *Net assets/results of the entity multiplied by the respective proportion of the Group's ownership.*
2. *The Group's share of amortisation of customer contracts arising on business combinations was £nil for the year ended 31 March 2023 (2022: £2.4m).*

Summarised statement of total comprehensive income (100%)

	2023				2022			
	Landmarc UK £m	**Sussex £m**	**Other £m**	**Total £m**	Landmarc UK £m	Sussex £m	Other £m	Total £m
Revenue	**196.5**	**28.4**	**–**	**224.9**	164.6	24.0	2.2	190.8
Group's share of revenue of joint ventures and associates	**100.2**	**9.9**	**–**	**110.1**	84.0	8.4	1.1	93.5
Depreciation and amortisation	**(1.4)**	**–**	**–**	**(1.4)**	(0.9)	–	–	(0.9)
Operating profit/(loss)	**18.8**	**3.0**	**(0.9)**	**20.9**	13.3	2.8	0.2	16.3
Finance income	**0.3**	**–**	**–**	**0.3**	0.1	–	–	0.1
Tax	**(3.6)**	**(0.6)**	**–**	**(4.2)**	(2.5)	–	–	(2.5)
Profit/(loss) for the year	**15.5**	**2.4**	**(0.9)**	**17.0**	10.9	2.8	0.2	13.9
Other comprehensive (expense)/income	**(4.7)**	**–**	**–**	**(4.7)**	1.3	–	–	1.3
Total comprehensive income/(expense) (100%)	**10.8**	**2.4**	**(0.9)**	**12.3**	12.2	2.8	0.2	15.2

Summarised balance sheet (100%)

	2023				2022			
	Landmarc UK £m	**Sussex £m**	**Other £m**	**Total £m**	Landmarc UK £m	Sussex £m	Other £m	Total £m
Non-current assets	**5.8**	**–**	**–**	**5.8**	10.7	–	–	10.7
Current assets	**52.6**	**9.9**	**1.3**	**63.8**	41.3	8.9	5.1	55.3
Current liabilities	**(43.0)**	**(8.3)**	**(0.8)**	**(52.1)**	(31.4)	(7.0)	(3.6)	(42.0)
Net assets (100%)	**15.4**	**1.6**	**0.5**	**17.5**	20.6	1.9	1.5	24.0
Group's share of net assets	**7.9**	**0.6**	**0.3**	**8.8**	10.5	0.7	0.7	11.9
The above includes the following:								
Cash and cash equivalents (100%)	**35.4**	**5.3**	**1.3**	**42.0**	28.7	7.4	0.4	36.5

The Group is not aware of any material commitments in respect of its interests in joint ventures and associates. There are no significant restrictions on the ability to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

11. Trade and other receivables

	2023 £m	2022[1] £m
Trade receivables	**450.8**	386.3
Accrued income	**278.9**	239.7
Prepayments	**40.2**	30.4
Other receivables	**40.4**	55.4
Total	**810.3**	711.8
Included in current assets	**786.8**	686.7
Included in non-current assets	**23.5**	25.1
Total	**810.3**	711.8

Note:

1. *Trade and other receivables of £17.3m have been reclassified from current assets to non-current assets. See Note 1.*

Trade receivables at 31 March 2023 represent 31 days credit on sales (2022: 28 days).

The Group has discontinued the use of a non-recourse customer invoice discounting facility (CID) under which certain trade receivable balances were sold to the Group's relationship banks. As these trade receivables were sold without recourse, the Group derecognised them, and so they were not included within trade receivables. The amount of invoice discounting at 31 March 2022 was £44.5m.

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

12. Trade and other payables

	2023 £m	2022 £m
Trade payables	**230.5**	134.8
Other taxes and social security	**123.0**	117.7
Other payables[1]	**22.7**	57.2
Accruals	**525.6**	534.3
Total	**901.8**	844.0
Included in current liabilities	**899.5**	841.2
Included in non-current liabilities[2]	**2.3**	2.8
Total	**901.8**	844.0

Notes:

1. *As at 31 March 2022, £20.0m cash was held across the Group's bank accounts in respect of the CID facility, where cash collected from the Group's customers was held on trust for the CID facility provider. This cash was subsequently remitted to the CID facility provider by 5 April 2022 and was included within current other payables at 31 March 2022.*
2. *Non-current other payables mainly comprise contingent consideration and performance-based employment-linked earnouts arising on the acquisitions of Rock and Custom Solar. Refer to Note 18.*

Trade creditors at 31 March 2023 represent 32 days credit on trade purchases (2022: 23 days).

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

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13. Provisions

	Contract specific costs £m	Insurance reserve £m	Pension £m	Dilapidations £m	Restructuring £m	Other £m	**Total £m**
At 31 March 2022 (as reported)	56.3	26.0	23.7	6.5	1.9	2.6	**117.0**
Adoption of amendments to IAS 37[1]	1.1	–	–	–	–	–	**1.1**
At 1 April 2022	57.4	26.0	23.7	6.5	1.9	2.6	**118.1**
Additional provisions in the year	6.1	9.5	–	1.3	2.2	1.4	**20.5**
Released to the income statement	(5.3)	–	(1.2)	–	–	–	**(6.5)**
Unwinding of discount and changes in the discount rate	–	–	–	0.2	–	–	**0.2**
Utilised in the year	(8.9)	(9.3)	(0.8)	–	(1.6)	(0.3)	**(20.9)**
At 31 March 2023	49.3	26.2	21.7	8.0	2.5	3.7	**111.4**
Included in current liabilities	17.5	8.8	21.7	0.4	2.4	3.4	**54.2**
Included in non-current liabilities	31.8	17.4	–	7.6	0.1	0.3	**57.2**
Total	49.3	26.2	21.7	8.0	2.5	3.7	**111.4**

Note:

1. *Contract specific provisions as at 1 April 2022 have been adjusted for the change in accounting policy for onerous contract assessments as a result of the amendment to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract. Refer to Note 1.*

Contract specific costs

Contract specific costs provision of £49.3m (2022: £56.3m) comprises onerous contract provisions of £10.5m (2022: £13.2m) and other contract specific provisions of £38.8m (2022: £43.1m).

Onerous contracts are mainly in respect of certain long-term PFI contracts. It is expected that the majority of these provisions will be utilised over a number of years. Given the long-term nature of these contracts, the calculation of onerous contract provisions is a key source of estimation uncertainty. Key judgements used in the calculation of the provision and sensitivity to change in assumptions are set out in Note 2. The Group recognised additional provisions of £1.4m, released £0.4m and utilised £4.8m in the year with respect to onerous contract provisions.

Contract specific provisions have been made primarily to cover remedial and rectification costs required to meet clients' contract terms, and include a £14.7m provision relating to a significant liability risk on a certain contract which is subject to dispute, a £6.2m provision relating to a commercial settlement dispute for a certain contract, and £1.7m relating to costs of rectification works associated with certain property maintenance contracts of the discontinued Social Housing business. The value of these provisions reflects the single most likely outcome and is expected to be utilised over a maximum period of eight years. The remaining provision relates to other potential commercial claims, legal claims and rectification work for other contracts. During the year the Group recognised additional provisions of £4.7m, released £4.9m and utilised £4.1m of the contract specific provisions.

Insurance reserve

The Group retains a portion of the exposure in relation to insurance policies for employer liabilities and motor and fleet liabilities. Judgement is involved in assessing outstanding liabilities, the ultimate cost and timing of which cannot be known with certainty at the balance sheet date. The provision includes claims incurred but not yet reported and is based on information available at the balance sheet date. The provision is expected to be utilised over five years.

The insurance reserve of £26.2m is presented gross of an insurer reimbursement asset of £4.0m (2022: £6.5m), which represents the amount the Group is virtually certain to recover for claims under its insurance policies. The asset is presented as other receivables.

Pension

The pension provision balance at 31 March 2023 comprises £21.7m for Section 75 employer debt liabilities of Robert Prettie & Co Limited and Mitie FM Limited as a result of their participation in the Plumbing Scheme. This amount has been recorded as a current provision, however timing of outflows is dependent on agreement with the trustee of the Plumbing Scheme and may occur over a longer period than one year. See Note 19.

During the year the Group utilised provisions of £0.8m and released £1.2m for a certain pension scheme where the Group recognised a provision on the acquisition of Interserve for the scheme's exit payment, which has been settled during the year ended 31 March 2023.

Dilapidations

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

Restructuring

The restructuring provision as at 31 March 2023 includes £2.1m of provision where a detailed formal plan is in place and a valid expectation in those affected has been raised. The amount is expected to be utilised within the next year.

14. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon:

	Losses £m	Accelerated capital allowances £m	Retirement benefit liabilities £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	**Total[1] £m**
At 1 April 2021	29.8	15.7	12.2	(42.9)	2.1	2.9	**19.8**
Arising on business combinations	–	(0.2)	–	(2.0)	–	–	**(2.2)**
Disposal of subsidiary undertakings	–	(0.4)	–	–	–	–	**(0.4)**
Credit/(charge) to income statement	4.3	(1.6)	(5.8)	(7.8)	4.6	4.1	**(2.2)**
(Charge)/credit to equity and other comprehensive income	–	–	(3.8)	–	(0.2)	0.1	**(3.9)**
At 31 March 2022	34.1	13.5	2.6	(52.7)	6.5	7.1	**11.1**
Arising on business combinations	–	(0.2)	–	(2.1)	–	0.4	**(1.9)**
Credit/(charge) to income statement	5.5	(3.7)	(3.6)	4.1	0.6	1.9	**4.8**
Credit to equity and other comprehensive income	–	–	1.5	–	4.9	–	**6.4**
At 31 March 2023	39.6	9.6	0.5	(50.7)	12.0	9.4	**20.4**

Note:

1. *Deferred tax liabilities of £50.7m (2022: £52.7m) are offset against deferred tax assets as they relate to income taxes levied by the same tax authority and the Group has the right to and intends to settle its current tax assets and liabilities on a net basis.*

The Group has unutilised income tax losses of £222.3m (2022: £223.5m) that are available for offset against future profits. A deferred tax asset has been recognised in respect of £158.4m (2022: £136.3m) of these losses to the extent that it is probable that taxable profits will be generated in the future and be available for utilisation. When considering

the recoverability of deferred tax assets, the taxable profit forecasts are based on the same information used to support the going concern and goodwill assessments.

No deferred tax asset has been recognised in respect of losses of £63.9m (2022: £87.2m) because recoverability is uncertain. All losses may be carried forward indefinitely. Deferred tax has been calculated using tax rates that were substantively enacted at the balance sheet date. Refer to Note 5

15. Cash and cash equivalents

	2023 £m	2022 £m
Cash and cash equivalents	**248.3**	345.2

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

As at 31 March 2023, included within cash and cash equivalents is £6.4m (2022: £17.5m) which is subject to various constraints on the Group's ability to utilise these balances. These constraints primarily relate to amounts held in project bank accounts and cash held through a joint operation, where cash is not available for use by the Group.

As at 31 March 2022, £20.0m was held across the Group's bank accounts in respect of the CID facility, where cash collected from the Group's customers was held on trust for the CID facility provider. This cash was subsequently remitted to the CID facility provider by 5 April 2022 and was not categorised as restricted cash. The carrying amount of the assets approximates their fair value.

16. Financing liabilities

	2023 £m	2022 £m
Bank loans – under committed facilities	**7.2**	7.1
Private placement notes	**149.4**	171.0
Lease liabilities	**129.4**	122.5
Total	**286.0**	300.6
Included in current liabilities	**32.0**	171.1
Included in non-current liabilities	**254.0**	129.5
Total	**286.0**	300.6

In October 2021, the Group signed a new £150m revolving credit facility and terminated the £250m facility which was set to mature in December 2022. The new facility expires in October 2026 following the exercise of an option to extend for a further year from October 2025 as approved by the lenders in September 2022.

In November 2021, the Group agreed, under a delayed funding arrangement, the issue of £120.0m of new US private placement notes in December 2022, avoiding any overlap with the £121.5m (comprising of US$153.0m and £25.0m, and net of the £29.2m settlement of the cross-currency interest rate swaps in the same period) of notes that matured

in the same month. The new notes are split equally between 8, 10 and 12 year maturities, and have an average coupon of 2.94%.

The revolving credit facility and the US private placement notes are unsecured but have financial and non-financial covenants and obligations commonly associated with these arrangements. The Group was in compliance with these covenants as at 31 March 2023 and hence all amounts are classified in line with repayment dates.

At 31 March 2023, the Group had available £141.6m (2022: £141.5m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

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

	2023 %	2022 %
Bank loans	**2.9**	2.4
Private placement notes	**3.9**	4.0

Private placement notes

The Group issued US$153.0m and £55.0m of private placement notes on 13 December 2012, of which US$153.0m and £25.0m matured in December 2022 and £30.0m is due to mature in December 2024. The Group has further issued £120.0m of new US private placement notes on 16 December 2022. The USPP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the Group. The amount, maturity and interest terms of these USPP notes as at 31 March 2023 are shown below.

Tranche	Maturity date	Amount	Interest terms
12 year	16 December 2024	£30.0m	£ fixed at 4.04%
8 year	16 December 2030	£40.0m	£ fixed at 2.84%
10 year	16 December 2032	£40.0m	£ fixed at 2.97%
12 year	16 December 2034	£40.0m	£ fixed at 3.00%

17. Analysis of net debt

	2023 £m	2022 £m
Cash and cash equivalents (Note 15)	**248.3**	345.2
Adjusted for: restricted cash and other adjustments[1]	**(6.4)**	(37.5)
Bank loans (Note 16)	**(7.2)**	(7.1)
Private placement notes (Note 16)	**(149.4)**	(171.0)
Derivative financial instruments hedging private placement notes	**–**	19.6
Net cash before lease obligations	**85.3**	149.2
Lease liabilities	**(129.4)**	(122.5)
Net (debt)/cash	**(44.1)**	26.7

Note:

1. *Included within these amounts is restricted cash of £6.4m (2022: £17.5m). At 31 March 2022, £20.0m cash which was held across the Group's bank accounts in respect of the CID facility was also included, where cash collected from the Group's customers was held on trust for the CID facility provider. This cash was subsequently remitted to the CID facility provider by 5 April 2022 and was not categorised as restricted cash.*

Reconciliation of net cash flow to movements in net debt	2023 £m	2022 £m
Net (decrease)/increase in cash and cash equivalents	**(97.9)**	149.2
Decrease/(increase) in restricted cash and cash held on trust[1]	**31.1**	(18.8)
Net (decrease)/increase in unrestricted cash and cash equivalents	**(66.8)**	130.4
Cash drivers		
Proceeds from new private placement notes	**(120.0)**	–
Private placement notes repaid	**150.8**	–
Settlement of derivative financial instruments	**(29.2)**	–
Repayment of bank loans	**4.1**	–
Payment of arrangement fees	**0.5**	1.7
Capital element of lease rentals	**34.5**	33.9
Non-cash drivers		
Non-cash movement in bank loans	**(0.4)**	(2.0)
Non-cash movement in private placement notes and associated hedges	**(0.3)**	(0.7)
Non-cash movement in lease liabilities	**(41.4)**	(49.6)
Effect of foreign exchange rate changes	**1.0**	(0.3)
(Increase)/decrease in net debt during the year	**(67.2)**	113.4
Opening net cash/(debt)	**26.7**	(86.7)
Debt acquired as part of business combinations	**(3.6)**	–
Closing net (debt)/cash	**(44.1)**	26.7

Note:

1. *Includes decrease in restricted cash of £11.1m (2022: £1.2m) and a decrease of £20.0m (2022: increase of £20.0m) in respect of the cash that was held across the Group's bank accounts at 31 March 2022 in respect of the customer invoice discounting (CID) facility where cash collected from the Group's customers was held on trust for the CID facility provider and was subsequently remitted to the CID facility provider by 5 April 2022.*

18. Acquisitions

Current year acquisitions

P2ML

On 1 April 2022, the Group completed the acquisition of the entire issued share capital of P2ML Ltd (P2ML), a specialist telecoms tower design house, for total cash consideration of £2.8m. P2ML has market leading expertise in providing design, construction, inspection and maintenance services for cellular telecoms infrastructure, enabling major network operators and tower owners to facilitate upgrades to their estates.

P2ML contributed £3.7m of revenue and £0.5m of operating profit before other items to the Group's results during the year ended 31 March 2023. Goodwill on the acquisition of P2ML represents the premium associated with acquiring the operations which are considered to expand Mitie's Telecoms acquisition, design and construction (ADC) capabilities.

The Group's final assessment of the fair values of the assets and liabilities recognised as a result of the acquisition has been based on the total fair value of the consideration. The purchase price allocation is as follows:

	Book value £m	Fair value adjustments £m	**Fair value £m**
Customer contracts and relationships	–	1.0	**1.0**
Property, plant and equipment	0.1	–	**0.1**
Right-of-use assets	–	0.1	**0.1**
Trade and other receivables	0.6	0.2	**0.8**
Cash and cash equivalents	0.8	–	**0.8**
Trade and other payables	(0.5)	–	**(0.5)**
Lease liabilities	–	(0.1)	**(0.1)**
Deferred tax liabilities	–	(0.2)	**(0.2)**
Net identifiable assets acquired	1.0	1.0	**2.0**
Goodwill			**0.8**
Total cash consideration			**2.8**

The estimated fair value of trade and other receivables was £0.8m, which approximated the gross contractual amount.

8point8

On 3 May 2022, the Group completed the acquisition of the entire issued share capital of 8point8 Support Limited, 8point8 Training Limited and Vantage Solutions Limited (collectively 8point8) for total cash consideration of £8.0m. 8point8 is a leading provider of design and construction services in the United Kingdom, predominantly for mobile telecoms tower infrastructure.

8point8 contributed £18.8m of revenue and £1.3m of operating loss before other items to the Group's results during the year ended 31 March 2023.

Based on estimates made of the full year impact if the acquisition had completed on 1 April 2022, Group revenue for the year would have increased by approximately £1.7m and operating profit before other items for the year would have decreased by approximately £0.1m, resulting in total Group revenue of £3,946.7m and total Group operating profit before other items of £162.0m.

Goodwill on the acquisition of 8point8 represents the premium associated with acquiring the operations which are considered to enhance Mitie's offering as a telecoms support services company.

The Group's final assessment of the fair values of the assets and liabilities recognised as a result of the acquisition has been based on the total fair value of the consideration. The purchase price allocation is as follows:

	Book value £m	Fair value adjustments £m	**Provisional fair value £m**
Customer contracts and relationships	–	1.9	**1.9**
Property, plant and equipment	0.9	–	**0.9**
Right-of-use assets	–	0.5	**0.5**
Current tax asset	0.1	–	**0.1**
Inventories	1.6	(0.9)	**0.7**
Trade and other receivables	4.5	1.3	**5.8**
Overdrafts	(0.1)	0.1	**–**
Trade and other payables	(5.8)	(0.6)	**(6.4)**
Lease liabilities	–	(0.3)	**(0.3)**
Deferred income	(0.1)	(2.3)	**(2.4)**
Deferred tax liabilities	(0.2)	–	**(0.2)**
Net identifiable assets acquired	0.9	(0.3)	**0.6**
Goodwill			**7.4**
Total cash consideration			**8.0**

The fair value of acquired trade and other receivables is £5.8m. The gross contractual amount for trade and other receivables due is £5.9m, with a loss allowance of £0.1m recognised on acquisition.

Custom Solar

On 30 June 2022, the Group completed the acquisition of the entire issued share capital of Custom Solar Ltd (Custom Solar). Custom Solar is a solar power solutions company specialising in the development, design, installation and maintenance of solar power systems for public and private sector clients. Custom Solar's design and installation expertise, combined with Mitie's industry leading project management and mobile engineering offering, will support Mitie's ambition to be a leading provider of end to end green energy solutions.

The transaction consideration comprises an initial cash consideration of £7.8m. Amounts totalling £2.6m payable to the former owners of the business have been treated as remuneration for post acquisition employment services because a condition of receiving the payment is the individual's continued employment within the Mitie Group. Consideration treated as remuneration for employment services has a maximum threshold of up to £4.4m (undiscounted) by the end of FY25, linked to performance targets. These payments are accrued over the period that the related employment services are received up until the point at which the consideration becomes payable. As at 31 March 2023, £0.8m was included in other payables relating to these transactions, the expense has been included in administrative expenses and classified as Other items within the consolidated income statement.

Custom Solar contributed £17.1m of revenue and £0.9m of operating profit before Other items to the Group's results during the year ended 31 March 2023.

Based on estimates made of the full year impact if the acquisition had completed on 1 April 2022, Group revenue and operating profit before other items for the year would have increased by approximately £5.7m and £0.3m respectively, resulting in total Group revenue of £3,950.7m and total Group operating profit before Other items of £162.4m.

Goodwill on the acquisition of Custom Solar represents the premium associated with taking over the operations, which are considered to enhance the Group's ability to better deliver across the energy sector.

The Group's provisional assessment of the fair values of the assets and liabilities recognised as a result of the acquisition has been based on the total fair value of the consideration. Management continues to seek further information to complete accounting on the business combination within the 12-month measurement period. The provisional purchase price allocation is as follows:

	Book value £m	Fair value adjustments £m	**Provisional fair value £m**
Customer contracts and relationships	–	5.8	**5.8**
Property, plant and equipment	0.2	–	**0.2**
Right-of-use assets	–	0.1	**0.1**
Trade and other receivables	7.1	–	**7.1**
Cash and cash equivalents	1.2	–	**1.2**
Trade and other payables	(3.4)	–	**(3.4)**
Lease liabilities	–	(0.1)	**(0.1)**
Bank loans	(3.6)	–	**(3.6)**
Current tax liability	(0.3)	–	**(0.3)**
Deferred tax liabilities	–	(1.5)	**(1.5)**
Net identifiable assets acquired	1.2	4.3	**5.5**
Goodwill			**2.3**
Total cash consideration			**7.8**

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The estimated fair value of trade and other receivables was £7.1m, which approximated the gross contractual amount.

Cash flows on acquisitions

	2023 £m	2022 £m
Cash consideration	**18.6**	29.7
Less: cash balance acquired	**(2.0)**	(4.8)
Net outflow of cash – investing activities	**16.6**	24.9

19. Retirement benefit schemes

The Group has a number of pension arrangements for employees:

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

The Group operates a number of defined contribution pension schemes for qualifying employees. The defined benefit schemes include the Mitie Group plc Pension Scheme (Group scheme) and three smaller schemes; MacLellan Group 2000 Retirement Benefit Scheme, THK Insulation Limited Retirement Benefits Scheme and Cyprus Provident Fund. Due to the size of the smaller schemes, the Directors present the results and position of these schemes within this Note within Other schemes with Admitted Body schemes, largely sections of Local Government pension schemes, in respect of certain employees who joined the Group under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) or through the acquisition of subsidiary companies. In addition, Interserve Scheme Part B (Landmarc) is held within interest in joint ventures and associates.

Defined contribution schemes

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

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

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

During the year, the Group made a total contribution to the defined contribution schemes of £15.3m (2022: £14.8m) and contributions to the auto-enrolment scheme of £20.4m (2022: £21.5m), which are included in the consolidated

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income statement charge. The Group expects to make contributions of a similar amount in the year ending 31 March 2024.

Defined benefit schemes

Mitie Group plc Pension Scheme

During the year, a scheme transfer took place whereby the assets and liabilities of the Interserve Scheme Part C (Interserve scheme) were transferred into a segregated section of the Group scheme. The Group scheme now comprises two segregated sections: Part A (the Group section) and Part B (the Interserve section). The assets and liabilities of the two sections are ring-fenced, as such there is no change in the accounting treatment compared with the position when they were separate schemes.

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

The Group section closed to new members in 2006, with new employees able to join one of the defined contribution schemes.

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

The nature of the relationship between the Group and the Trustee is also governed by regulations and practice. The Trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out, with the scheme's obligations measured using prudent assumptions (which are determined by the Trustee with advice from the scheme actuary). The most recent triennial valuation was carried out as at 31 March 2020.

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

The latest Group scheme funding valuation as at 31 March 2020 indicated an actuarial deficit of £92.1m. As a result, the Group has agreed a deficit recovery plan with the trustees totalling £92.8m over seven years, which should eliminate the deficit if the funding assumptions materialise in practice. In this regard, £35.4m has been paid to 31 March 2023, which includes £13.9m paid during the year ended 31 March 2023.

The Interserve scheme was formed to take Support Services members transferred out of the Interserve Group Pension Scheme as part of the acquisition arrangements. The transfer was completed on 28 February 2020 via a flexible apportionment arrangement, which was approved by The Pensions Regulator.

The Group has an unconditional right to refund of surplus assuming the gradual settlement over time until all members have left the section. Accordingly, there is no restriction on the surplus.

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Other defined benefit schemes

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

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

The Group made contributions to the Other schemes of £0.7m in the year (2022: £0.8m). The Group expects to make contributions of a similar amount in the year ending 31 March 2024.

Multi-employer schemes

As a result of acquisition activity and staff transfers following contract wins, the Group participates in four multi-employer pension schemes. The total contributions to these schemes for the financial year ending 31 March 2024 are anticipated to be £0.1m. For three of these schemes, the Group's share of the assets and liabilities is minimal.

The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme), a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers. The Group has received a Section 75 employer debt notice in respect of the participation of Robert Prettie & Co Limited in the Plumbing Scheme.

As a result of the Interserve acquisition, the Group increased its participation in the Plumbing Scheme and the Group has received a Section 75 employer debt notice in respect of the participation of Mitie FM Limited.

Provisions of £21.7m were held at 31 March 2023 for Section 75 employer debts in respect of the participation of Robert Prettie & Co Limited and Mitie FM Limited in the Plumbing Scheme. See Note 13.

One Group company, Mitie Property Services (UK) Limited, continues to participate in the Plumbing Scheme. The Trustee has provided an estimate of £2.4m for the potential Section 75 debt in respect of the participation of Mitie Property Services (UK) Limited in the Plumbing Scheme, however no event has occurred to trigger this debt. As set out in Note 20, this potential exposure has been disclosed as a contingent liability.

Accounting assumptions

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

The discount rate used to determine the present value of the obligations is set by reference to market yields on high-quality corporate bonds. The assumptions for price inflation are set by reference to the difference between yields on

longer-term conventional government bonds and index-linked bonds. The assumption for increases in pensionable pay takes into account expected salary inflation, the cap at CPI, and how often the cap is likely to be exceeded.

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations.

Principal accounting assumptions at balance sheet date

	Group section/scheme		Interserve section/scheme		Other schemes	
	2023 %	2022 %	**2023 %**	2022 %	**2023 %**	2022 %
Key assumptions used for IAS 19 valuation:						
Discount rate	**4.75**	2.75	**4.80**	2.80	**4.80**	2.80
Expected rate of pensionable pay increases	**3.25**	3.60	**3.40**	3.80	**3.40**	3.80
Retail price inflation	**3.25**	3.60	**3.40**	3.30	**3.40**	3.30
Consumer price inflation	**2.50**	2.85	**2.90**	2.85	**2.90**	2.85
Future pension increases	**3.25**	3.60	**3.40**	3.80	**3.40**	3.80

	Group section/scheme		Interserve section/scheme	
	2023 Years	2022 Years	**2023 Years**	2022 Years
Post retirement life expectancy:				
Current pensioners at 65 – male	**87.5**	87.6	**86.0**	86.2
Current pensioners at 65 – female	**88.9**	89.0	**88.6**	88.3
Future pensioners at 65 – male	**88.5**	88.7	**87.0**	87.3
Future pensioners at 65 – female	**90.1**	90.2	**89.7**	89.6

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

Sensitivity of defined benefit obligations to key assumptions

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

	Impact on defined benefit obligations		
	Change in assumption	Increase/ (decrease) in obligations %	Increase/ (decrease) in obligations £m
Increase in discount rate	0.1%	(1.4)	(3.8)
Increase in retail price inflation[1]	0.1%	0.9	2.5
Increase in consumer price inflation (excluding pay)	0.1%	0.7	1.9
Increase in life expectancy	1 year	2.4	6.4

Note:

1. *Including other inflation-linked assumptions (consumer price inflation, pension increases and salary growth).*

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the Group scheme holds a proportion of its assets in UK corporate bonds. A fall in the discount rate as a result of lower UK corporate bond yields would lead to an increase in the value of these assets, mitigating the increase in the defined benefit obligation to some extent. The duration, or average term to payment for the benefits due, weighted by liability, is around 20 years for the Group scheme and around 19 years for the Interserve scheme.

Amounts recognised in condensed financial statements

Amounts recognised in the consolidated income statement are as follows:

	2023				2022			
	Group section £m	**Interserve section £m**	**Other schemes £m**	**Total £m**	Group scheme £m	Interserve scheme £m	Other schemes £m	Total £m
Current service cost	**(0.2)**	**(0.8)**	**(1.5)**	**(2.5)**	(0.2)	(0.9)	(2.0)	(3.1)
Past service cost (including curtailments)	**–**	**–**	**–**	**–**	–	–	(0.5)	(0.5)
Total administration expense	**(0.9)**	**–**	**–**	**(0.9)**	(0.4)	(0.3)	(0.1)	(0.8)
Amounts recognised in operating profit	**(1.1)**	**(0.8)**	**(1.5)**	**(3.4)**	(0.6)	(1.2)	(2.6)	(4.4)
Net interest income/(cost)	**–**	**0.1**	**(0.2)**	**(0.1)**	(0.8)	0.1	(0.2)	(0.9)
Amounts recognised in profit/(loss) before tax	**(1.1)**	**(0.7)**	**(1.7)**	**(3.5)**	(1.4)	(1.1)	(2.8)	(5.3)

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

	2023				2022			
	Group section £m	**Interserve section £m**	**Other schemes £m**	**Total £m**	Group scheme £m	Interserve scheme £m	Other schemes £m	Total £m
Actuarial gains/(losses) arising due to changes in financial assumptions	**79.5**	**11.1**	**22.8**	**113.4**	20.1	0.3	(0.8)	19.6
Actuarial (losses)/gains arising from liability experience	**(12.4)**	**(1.6)**	**1.1**	**(12.9)**	(1.8)	(1.9)	–	(3.7)
Actuarial gains/(losses) due to changes in demographic assumptions	**1.2**	**0.2**	**0.7**	**2.1**	(1.3)	(0.8)	–	(2.1)
Movement in asset ceiling	**–**	**–**	**(8.7)**	**(8.7)**	–	–	(5.1)	(5.1)
Return on scheme assets, excluding interest income	**(74.1)**	**(9.8)**	**(11.1)**	**(95.0)**	6.5	0.7	5.5	12.7
Return on reimbursement asset[1]	**–**	**–**	**0.2**	**0.2**	–	–	0.7	0.7
Amounts recognised in consolidated statement of comprehensive income	**(5.8)**	**(0.1)**	**5.0**	**(0.9)**	23.5	(1.7)	0.3	22.1

Note:

1. *Included within the consolidated statement of comprehensive income is £0.2m gain related to a reimbursement asset. The reimbursement asset is recorded within other receivables.*

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

	2023				2022			
	Group section £m	**Interserve section £m**	**Other schemes £m**	**Total £m**	Group scheme £m	Interserve scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	**170.3**	**24.2**	**77.1**	**271.6**	231.0	32.6	87.0	350.6
Present value of defined benefit obligations	**(169.6)**	**(22.5)**	**(71.0)**	**(263.1)**	(238.3)	(31.0)	(88.4)	(357.7)
Surplus/(deficit) without restriction	**0.7**	**1.7**	**6.1**	**8.5**	(7.3)	1.6	(1.4)	(7.1)
Movement in asset ceiling	**–**	**–**	**(8.7)**	**(8.7)**	–	–	(5.1)	(5.1)
Net pension asset/(liability)	**0.7**	**1.7**	**(2.6)**	**(0.2)**	(7.3)	1.6	(6.5)	(12.2)

All figures above are shown before deferred tax.

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

	2023				2022			
	Group section £m	**Interserve section £m**	**Other schemes £m**	**Total £m**	Group scheme £m	Interserve scheme £m	Other schemes £m	Total £m
At 1 April	**238.3**	**31.0**	**93.5**	**362.8**	256.7	27.7	84.9	369.3
Current service cost	**0.2**	**0.8**	**1.5**	**2.5**	0.2	0.9	2.0	3.1
Interest cost	**6.4**	**0.9**	**2.2**	**9.5**	5.3	0.6	1.6	7.5
Contributions from scheme members	**–**	**0.1**	**0.2**	**0.3**	–	0.1	0.2	0.3
Actuarial (gains)/losses arising due to changes in financial assumptions	**(79.5)**	**(11.1)**	**(22.8)**	**(113.4)**	(20.1)	(0.3)	0.8	(19.6)
Actuarial losses/(gains) arising from experience	**12.4**	**1.6**	**(1.1)**	**12.9**	1.8	1.9	–	3.7
Actuarial (gains)/losses due to changes in demographic assumptions	**(1.2)**	**(0.2)**	**(0.7)**	**(2.1)**	1.3	0.8	–	2.1
Benefits paid	**(7.0)**	**(0.6)**	**(1.6)**	**(9.2)**	(6.9)	(0.7)	(1.0)	(8.6)
Settlement gain	**–**	**–**	**(0.2)**	**(0.2)**	–	–	(0.1)	(0.1)
At 31 March	**169.6**	**22.5**	**71.0**	**263.1**	238.3	31.0	88.4	357.7

The defined benefit obligations of the Group section/scheme are analysed by participant status as at the 31 March 2020 funding valuation date below:

	2023 £m	2022 £m
Active	**3.1**	2.2
Deferred	**86.8**	130.1
Pensioners	**79.7**	106.0
At 31 March	**169.6**	238.3

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

	2023				2022			
	Group section £m	**Interserve section £m**	**Other schemes £m**	**Total £m**	Group scheme £m	Interserve scheme £m	Other schemes £m	Total £m
At 1 April	**231.0**	**32.6**	**87.0**	**350.6**	215.3	30.7	80.8	326.8
Interest income	**6.4**	**1.0**	**2.0**	**9.4**	4.5	0.7	1.4	6.6
Actuarial (losses)/gains on assets	**(74.1)**	**(9.8)**	**(11.1)**	**(95.0)**	6.5	0.7	5.5	12.7
Contributions from the sponsoring companies	**14.9**	**0.9**	**0.7**	**16.5**	12.0	1.4	0.8	14.2
Contributions from scheme members	**–**	**–**	**0.1**	**0.1**	–	0.1	0.2	0.3
Expenses paid	**(0.9)**	**–**	**–**	**(0.9)**	(0.4)	(0.3)	(0.1)	(0.8)
Benefits paid	**(7.0)**	**(0.5)**	**(1.6)**	**(9.1)**	(6.9)	(0.7)	(1.0)	(8.6)
Past service cost (including curtailments)	**–**	**–**	**–**	**–**	–	–	(0.6)	(0.6)
At 31 March	**170.3**	**24.2**	**77.1**	**271.6**	231.0	32.6	87.0	350.6

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

	2023				2022			
	Group section £m	**Interserve section £m**	**Other schemes £m**	**Total £m**	Group scheme £m	Interserve scheme £m	Other schemes £m	Total £m
Equities	**28.3**	**3.6**	**48.1**	**80.0**	64.3	15.1	49.6	129.0
Government bonds	**67.9**	**10.5**	**1.7**	**80.1**	82.2	–	1.0	83.2
Corporate bonds	**50.5**	**2.6**	**9.8**	**62.9**	18.2	3.4	14.6	36.2
Property	**3.4**	**1.8**	**10.6**	**15.8**	9.4	2.5	13.9	25.8
Commodities	**–**	**–**	**–**	**–**	3.8	–	–	3.8
Diversified growth fund	**9.5**	**5.1**	**1.5**	**16.1**	23.0	11.1	3.4	37.5
Cash	**10.7**	**0.6**	**5.4**	**16.7**	30.1	0.5	4.5	35.1
Total fair value of assets	**170.3**	**24.2**	**77.1**	**271.6**	231.0	32.6	87.0	350.6

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

The property assets represent quoted property investments.

Risks and risk management

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

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

Risk	Description
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation for accounting is calculated using a discount rate set with reference to corporate bond yields. The Group scheme holds a large proportion of its assets (27%) in equities and other return-seeking assets (principally diversified growth funds (DGFs) and property). The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level has the potential to be volatile in the short term, potentially resulting in short-term cash requirements, or alternative security offers, which are acceptable to the Trustee, and an increase in the net defined benefit liability recorded on the Group's balance sheet. Equities and DGFs are considered to offer the best returns over the long term with an acceptable level of risk and hence the scheme holds a significant proportion of these types of asset. However, the scheme's assets are well-diversified by investing in a range of asset classes, including property, government bonds and corporate bonds. The Group scheme holds 8% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting obligations. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting obligations. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the Group scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the Group scheme's obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the obligations.

Areas of risk management

Although investment decisions in the Group scheme are the responsibility of the Trustee, the Group takes an active interest to ensure that pension plan risks are managed effectively. The Group and Trustee have agreed a long-term strategy for reducing investment risk where appropriate. Certain benefits payable on death before retirement are insured.

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20. Contingent liabilities

Contractual disputes, guarantees and indemnities

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

The Group is currently aware of a possible liability relating to a certain PFI contract. Management is in the process of investigating whether a liability to provide rectification works exists. At this stage of the investigation, no reliable estimate or likely timing of any possible liability, if it exists, can be determined at the reporting date.

The Company and its subsidiaries have provided performance and financial guarantees, issued by financial institutions on its behalf, amounting to £33.7m (2022: £29.2m) in the ordinary course of business. These are not expected to result in any material financial loss.

Multi-employer pension schemes

When the Group (or a subsidiary of the Group) exits multi-employer pension schemes, pension legislation may require the Group to fund the Group's share of the total amount of net liabilities with a one-off cash payment (a Section 75 debt under the Pensions Act 1995).

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

Employment claims

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

21. Related party transactions

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

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company. During the year, the Group made donations and gifts in kind of £0.2m (2022: £0.2m) to the Foundation.

During the year ended 31 March 2023, the Group recognised revenue from transactions with joint ventures or associates of £5.8m (2022: £1.6m). The amount due from joint ventures and associates at the year end is £0.4m (2022:

£0.4m) and £0.1m (2022: £0.2m) expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by joint ventures and associates.

The Group's key management personnel include the Executive Directors, Non-Executive Directors and members of the Mitie Group Executive (MGX). The remuneration for the other members of the MGX, including the share-based payments charge, is £9.4m (2022: £9.2m). No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest.

	2023 **£m**	2022 £m
Short-term employment benefits	**3.7**	4.0
Post-employment benefits	**1.1**	0.3
Share-based payments	**4.6**	4.9
At 31 March	**9.4**	9.2

All transactions with these related parties were made on terms equivalent to those that prevail in arm's length transactions. No other transactions during the year ended 31 March 2023 meet the definition of related party transactions.

22. Events after the reporting period

On 6 April 2023, the Group announced that it had acquired the entire issued share capital of Linx International Group Limited, Arc Training International Limited, Perpetuity Training Limited and Tavcom Limited (collectively Linx International Group), a highly respected risk management consulting business which also provides technical and management training to the security industry. Total transaction consideration is £1.8m and the acquisition was funded from the Group's existing facilities. The initial accounting for the business combination had not been completed at the time the condensed consolidated financial statements were authorised for issue**.** Measurement is underway of the fair value of the net assets acquired and any goodwill to be recognised as a result of the acquisition. Linx International Group will be integrated into the Business Services division.

On 18 April 2023, the Group announced its intention to undertake a £50m share buyback programme over the next 12 months.

On 2 May 2023, the Group announced that it had acquired the entire issued share capital of R H Irving Industrials Limited, a specialist in security services, building on the Group's position as the UK's leading intelligence and technology-led security provider. Total transaction consideration is £19.1m and the acquisition was funded from the Group's existing facilities. The initial accounting for the business combination had not been completed at the time the condensed consolidated financial statements were authorised for issue. Measurement is underway of the fair value of the net assets acquired and any goodwill to be recognised as a result of the acquisition. R H Irving Industrials Limited will be integrated into the Business Services division.

Appendix – Alternative Performance Measures

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

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

Performance before Other items

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

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

Operating profit		**2023 £m**	2022 £m
Operating profit from continuing operations	Statutory measures	**117.0**	72.1
Adjust for: restructure costs	Note 4	**16.6**	10.9
Adjust for: acquisition and disposal related costs	Note 4	**25.1**	89.3
Adjust for: other exceptional items	Note 4	**3.4**	(5.4)
Operating profit before Other items from continuing operations	Performance measures	**162.1**	166.9
Operating profit from discontinued operations	Statutory measures	**–**	19.9
Adjust for: acquisition and disposal related costs	Note 4	**–**	(4.0)
Adjust for: gain on disposal	Note 4	**–**	(13.0)
Operating profit before Other items from discontinued operations	Performance measures	**–**	2.9
Operating profit before Other items – Group	Performance measures	**162.1**	169.8

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

	2023 £m			2022 £m		
Operating profit/(loss)	**Reported results**	**Adjust for: Other items (Note 4)**	**Performance measures**	Reported results	Adjust for: Other items (Note 4)	Performance measures
Segment						
Business Services	**66.6**	**0.9**	**67.5**	89.9	17.6	107.5
Technical Services	**23.3**	**10.8**	**34.1**	8.9	21.1	30.0
CG&D	**60.6**	**(0.8)**	**59.8**	41.9	(3.5)	38.4
Communities	**20.9**	**0.4**	**21.3**	9.0	10.9	19.9
Specialist Services	**34.3**	**0.6**	**34.9**	29.4	3.1	32.5
Care & Custody	**10.2**	**–**	**10.2**	8.7	1.2	9.9
Landscapes	**9.0**	**0.5**	**9.5**	8.6	0.6	9.2
Waste	**8.5**	**0.1**	**8.6**	7.4	0.9	8.3
Spain	**6.6**	**–**	**6.6**	4.7	0.4	5.1
Corporate centre	**(88.7)**	**33.2**	**(55.5)**	(107.0)	45.6	(61.4)

Total from continuing operations	**117.0**	**45.1**	**162.1**	72.1	94.8	166.9
Social Housing	**–**	**–**	**–**	4.0	(4.0)	–
Document Management	**–**	**–**	**–**	18.8	(16.0)	2.8
Nordics and Poland	**–**	**–**	**–**	(2.9)	3.0	0.1
Total from discontinued operations[1]	**–**	**–**	**–**	19.9	(17.0)	2.9
Total Group	**117.0**	**45.1**	**162.1**	92.0	77.8	169.8

Note:

1. *The reported operating profit from discontinued operations comprises the profit before net finance income and tax of £nil (2022: £6.9m) and gain on disposal before tax of £nil (2022: £13.0m).*

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

Earnings per share		**2023 pence**	2022 pence
Statutory basic earnings per share	Statutory measures	**6.8**	3.6
Adjust for: earnings per share from discontinued operations		**–**	(1.4)
Statutory basic earnings per share from continuing operations		**6.8**	2.2
Adjust for: Other items per share from continuing operations		**2.7**	7.0
Basic earnings per share before Other items from continuing operations	Performance measures	**9.5**	9.2

Performance excluding Covid-related contracts

Reconciliations are provided below to show how the Group's reported results are adjusted to exclude non-recurring short-term Covid-related contracts.

Revenue from continuing operations		**2023 £m**	2022 £m
Group revenue	Statutory measures	**3,945.0**	3,903.3
Adjust for: share of revenue of joint ventures and associates		**110.1**	93.5
Revenue including share of joint ventures and associates	Performance measures	**4,055.1**	3,996.8
Adjust for: revenue from short-term Covid-related contracts[1]		**(15.3)**	(448.5)
Revenue excluding short-term Covid-related contracts	Performance measures	**4,039.8**	3,548.3

Note:

1. *Includes £14.5m (2022: £428.7m) attributable to the Business Services segment.*

Operating profit from continuing operations		**2023 £m**	2022 £m
Operating profit	Statutory measures	**117.0**	72.1
Adjust for: Other items		**45.1**	94.8
Operating profit before other items	Performance measures	**162.1**	166.9
Adjust for: operating profit from short-term Covid-related contracts[1]		**(7.1)**	(59.6)
Operating profit excluding short-term Covid-related contracts	Performance measures	**155.0**	107.3

Note:

1. *Includes £7.0m (2022: £59.6m) attributable to the Business Services segment.*

Net (debt)/cash and total financial obligations

Net (debt)/cash is defined as the difference between total borrowings and cash and cash equivalents. It is a measure that provides additional information on the Group's financial position. Restricted cash which is subject to various constraints on the Group's ability to utilise these balances has been excluded from the net (debt)/cash measure.

Total financial obligations (TFO) is defined as the Group's net (debt)/cash including the amount of invoice discounting under the Group's customer invoice discounting (CID) facility and the net retirement benefit liabilities. TFO represents all debt-like financing items the Group has made use of at the year end.

A reconciliation from reported figures is presented below:

Net (debt)/cash		**2023 £m**	2022 £m
Cash and cash equivalents	Statutory measures	**248.3**	345.2
Adjusted for: restricted cash and cash held on trust[1]	Note 15	**(6.4)**	(37.5)
Financing liabilities	Note 16	**(286.0)**	(300.6)
Derivative financial instruments hedging private placement notes		**–**	19.6
Net (debt)/cash	Performance measures	**(44.1)**	26.7
Customer invoice discounting facility	Note 11	**–**	(44.5)
Net retirement benefit liabilities	Note 19	**(0.2)**	(12.2)
TFO	Performance measures	**(44.3)**	(30.0)

Note:

1. *Included within these amounts is restricted cash of £6.4m (2022: £17.5m). Amounts at 31 March 2022 included £20.0m that was held across the Group's bank accounts in respect of the customer invoice discounting (CID) facility where cash collected from the Group's customers was held on trust for the CID facility provider. This cash was subsequently remitted to the CID facility provider by 5 April 2022.*

The Group uses an average net debt measure as this reflects its financing requirements throughout the period. The Group calculates its average net debt based on the daily closing figures, including its foreign currency bank loans translated at the closing exchange rate for the previous month end. This measure showed average daily net debt of £84.3m for the year ended 31 March 2023, compared with £24.7m for the year ended 31 March 2022.

Free cash flow

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

Free cash flow		**2023[1] £m**	2022 £m
Net cash generated from operating activities	Statutory measures	**83.0**	230.2
Add: net decrease/(increase) in restricted cash and cash held on trust		**31.1**	(18.8)
Interest received		**2.2**	0.3
Dividends received from joint ventures and associates	Note 10	**9.0**	4.0
Purchase of property, plant and equipment		**(10.9)**	(15.4)
Purchase of other intangible assets	Note 9	**(14.3)**	(20.2)
Disposal of property, plant and equipment		**0.1**	0.4
Capital element of lease rentals paid		**(34.5)**	(33.9)
Free cash inflow	Performance measures	**65.7**	146.6

Note:

1. *During the year ended 31 March 2023, management has updated its definition of free cash flow to exclude cash outflow on purchase of own shares. This is due to a change in management's policy on satisfying share awards to purchasing shares rather than issuing new shares and is consistent with the exclusion of cash outflow on share buybacks from free cash flow.*

Earnings before interest, tax, depreciation and amortisation

Earnings from continuing operations before interest, tax, depreciation and amortisation (EBITDA) is a measure of the Group's profitability. EBITDA is measured as profit/(loss) before tax from continuing operations excluding the impact

of net finance costs, Other items, depreciation of property, plant and equipment, amortisation and impairment of non-current assets and amortisation of contract assets.

EBITDA		**2023 £m**	2022 £m
Profit/(loss) before tax from continuing operations	Statutory measures	**105.5**	52.3
Add: net finance costs from continuing operations		**11.5**	19.8
Operating profit from continuing operations		**117.0**	72.1
Add: Other items from continuing operations	Note 4	**45.1**	94.8
Operating profit before Other items from continuing operations		**162.1**	166.9
Add:			
Depreciation of property, plant and equipment		**43.1**	41.4
Amortisation of non-current assets[1]	Note 9	**7.8**	7.7
Amortisation of contract assets		**1.3**	1.7
Impairment of non-current assets[1]	Note 9	**0.2**	0.8
EBITDA	Performance measures	**214.5**	218.5

Note:

1. *Excludes amounts classified in the consolidated income statement as Other items and amounts for discontinued operations.*

Return on invested capital

Return on invested capital (ROIC) is a measure of how efficiently the Group utilises its invested capital to generate profits. The table below reconciles the Group's net assets to invested capital and summarises how the ROIC is derived.

		2023 £m	2022 £m
Net assets	Statutory measures	**421.7**	425.8
Add:			
Non-current liabilities		**335.9**	241.0
Current provisions	Note 13	**54.2**	54.7
Current private placement notes	Note 16	**–**	141.0
Deduct:			
Current derivative financial assets		**–**	(19.6)
Non-current deferred tax assets	Note 14	**(20.4)**	(11.1)
Cash and cash equivalents	Note 15	**(248.3)**	(345.2)
Invested capital	Performance measures	**543.1**	486.6
Continuing operating profit before Other items		**162.1**	166.9
Tax[1]		**(24.3)**	(21.5)
Continuing operating profit before Other items after tax[1]		**137.8**	145.4
ROIC %[2]	Performance measures	**25.4%**	29.9%

Notes:

1. *Tax charge has been calculated at the effective tax rate for the year on pre-tax profits before Other items for continuing operations of 15.0% (2022: 12.9%).*
2. *The ROIC metric used for the purposes of the Enhanced Delivery Plan (EDP) requires further adjustments under the detailed rules agreed with shareholders.*