

23 November 2023
Mitie Group plc

Interim results for the six months to 30 September 2023

Good HI performance
Revenue +11%; Operating profit +24%; EPS +39%
On track to deliver at least £190m full year operating profit

Highlights

- Revenue¹ increased 11% to £2,132m (HI FY23: £1,923m), reflecting contract re-pricing, continued growth in Key Accounts, Projects upsell and infill M&A, partially offset by contract scope reductions
- Total contract value (TCV) of £2.4bn wins/renewals/extensions; renewal rates of 88%; book to bill ratio of 111%⁴
- Operating profit before other items^{1,2,3} increased 24% to £85m (HI FY23: £68m); operating profit margin³ increased 50bps to 4.0% (HI FY23: 3.5%)
- Basic EPS before other items increased 39% to 5.0p (HI FY23: 3.6p), reflecting the increase in operating profit, reduction in net finance costs and benefit from share buybacks
- Operating profit after other items of £57m (HI FY23: £51m) and basic EPS of 3.3p (HI FY23: 2.6p); Other items increased to £28m (HI FY23: £18m) reflecting costs to deliver margin enhancement initiatives and acquisition costs
- Free cash inflow of £48m (HI FY23: £5m outflow)
- Five acquisitions completed for a net cash consideration of £46m, extending our capabilities in high growth markets
- Average daily net debt of £156m (HI FY23: £62m), reflecting M&A spend and ongoing shareholder returns; Closing net debt of £113m (HI FY23: £64m)
- Strong balance sheet with leverage of 0.6x (average net debt/EBITDA⁵)
- Interim dividend increased 43% to 1.0p per share (HI FY23: 0.7p)
- First £25m tranche of the current £50m share buyback programme completed; second £25m tranche launched on 11 October. 34m shares purchased to date, of which 28m shares held in treasury to satisfy 2020 SAYE scheme
- The Group remains on track to deliver recently raised guidance for operating profit before other items of at least £190m in FY24 (FY23: £162m)

Results for the six months ended 30 September 2023

£m unless otherwise specified	Six months to 30 September 2023			Six months to 30 September 2022		
	Before other items ^{2,5}	Other items ²	Total	Before other items ^{2,5}	Other items ²	Total
Revenue including share of JVs & associates	2,132.4	-	2,132.4	1,922.9	-	1,922.9
Group revenue	2,083.3	-	2,083.3	1,874.3	-	1,874.3
Operating profit/(loss) ³	84.6	(27.8)	56.8	68.0	(17.5)	50.5
Operating profit margin ³	4.0%	-	2.7%	3.5%	-	2.6%
Profit/(loss) before tax	80.1	(27.8)	52.3	60.6	(17.5)	43.1
Profit/(loss) for the period	64.8	(21.9)	42.9	49.1	(13.8)	35.3
Basic earnings per share	5.0p		3.3p	3.6p		2.6p
Interim dividend per share			1.0p			0.7p
Cash generated from operations			73.0			19.5
Free cash inflow / (outflow) ^{5,6}			47.9			(5.0)
Average daily net debt ⁵			(156.1)			(62.0)
Closing net debt ⁵			(112.7)			(64.0)
Total order book ⁴			£9.9bn			£9.6bn
Return on invested capital ⁵			24.6%			22.8%

1. Including share of joint ventures (JVs) and associates.

2. Other items are described in Note 3 to the condensed consolidated financial statements. In HI FY24 £11.4m relates to non-cash amortisation of acquired intangible assets (HI FY23: £10.6m).

3. Operating profit includes share of profit after tax from JVs and associates. Operating profit margin is operating profit as a percentage of revenue including share of JVs 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 during the period and revenue recognised for the period.

5. Performance before other items, 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.

6. Prior year comparative restated to exclude the cash outflow relating to share purchases to satisfy share awards. An explanation is provided in the Alternative Performance Measures in the Appendix to the condensed consolidated financial statements.

Commenting on the first six months and the outlook, Phil Bentley, Group Chief Executive, said:

“We had a good first half with revenue, profits and earnings per share all up strongly. Our strategy of focusing on Key Accounts growth and Projects upsell, combined with contract re-pricing and infill M&A, drove an 11% increase in revenue. The Group’s operating margin before other items increased by 50bps to 4.0%, as a result of the ongoing delivery of margin enhancement initiatives and careful management of inflation.

“Our divisions are performing well, and I’m particularly encouraged by our performance in Technical Services and Central Government & Defence. My appreciation goes to our 65,000 colleagues for their amazing commitment. Through their hard work, allied to our technology-led approach, Mitie is transforming the built environment and the lived experience for our c.3,000 customers.

“The Group is on track to have met, or significantly exceeded, all of our previous medium-term financial targets and guidance for FY24, the final year of our current Three-Year Plan (FY22-FY24).

“At our Capital Markets Event in October we introduced our new Three-Year Plan (FY25-FY27): From Facilities Management to Facilities Transformation, which sets out ambitious financial targets. Our Facilities Transformation strategy will enhance the built environment of our customers by improving productivity, working environments, security and cleanliness, whilst reducing their carbon intensity. This strategy will extend Mitie’s market leadership positions in the UK – the largest and most dynamic FM market in Europe – and will enable Mitie to reach its full potential, both financially and through our positive contribution to the environment and society. I am proud to be leading the Group through this next stage of our development.

“Looking ahead, we are encouraged by new Key Account wins, increased revenues from Projects upsell, and the positive momentum from cost savings initiatives implemented in the first half. The Group remains on track to deliver recently raised guidance for operating profit before other items of at least £190m in FY24”.

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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 (23 November 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.

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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 and transformation company in the UK. We offer a range of services to the public sector through our Central Government & Defence and Communities (Local Government & Education, Healthcare and Care & Custody) divisions. Our Technical Services (Engineering Services) and Business Services (Security, Cleaning, Landscapes, Spain and Waste) divisions serve private sector customers in areas such as Financial & Professional Services, Industrials, Retail and Transport, and increasingly the public sector.



Mitie employs 65,000 people. 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.

Chief Executive's strategic review

Overview

Mitie delivered a good financial performance and further strategic progress in the six months to 30 September 2023 (HI FY24), the final year of our current Three-Year Plan (FY22 – FY24). With these HI results, the Group remains on track to meet, or significantly exceed, all of its previously set medium-term guidance and targets in the current financial year.

Shortly after the period end, at our Capital Markets Event on 12 October 2023, Mitie introduced its new Three-Year Plan for FY25 to FY27: From Facilities Management to Facilities Transformation. The event outlined how customers' needs for the built environment and lived experience are changing to meet increasing demand for asset optimisation; a reduced carbon footprint; higher levels of assurance for security and cleanliness; whilst embracing hybrid-working and creating a 'Great Place to Work'.

The plan sets out ambitious new financial targets for the Group, to measure success and reward shareholders through enhanced returns over the coming three years, as summarised below.

Metric	FY22 – FY24: Targets / guidance	FY25 – FY27: New targets
Annual revenue growth	Mid-to-high single digit	High single digit
Operating profit margin	4.5% to 5.5%	5% by FY27
EBITDA	£200m	>£300m by FY27
Annual EPS growth	n/a - no target set	Higher than revenue growth despite higher corporation tax rates
Free cash flow	£100m per annum	£150m per annum by FY27
Average leverage	1.0x maximum	0.75x to 1.5x
ROIC	>20%	c.20%

Mitie's journey over recent years has been transformative. We are the clear market leader in our industry, overall and in our core service lines – Cleaning & Hygiene, Security and Engineering. The new Three-Year Plan and financial targets continue to build upon our strategic progress and our ambition for the business to reach its full potential, not just financially but through its positive contribution to the environment and society.

The recording and presentations from our Capital Markets Event are available at: <https://www.mitie.com/capital-markets-day/>

Accelerating growth

Our technology-led facilities transformation strategy is expected to deliver accelerated growth through the key pillars of: 1) Key Accounts growth; 2) Projects upsell to existing customers; and 3) infill M&A to add new capabilities. We are targeting high single digit revenue growth annually.

During the period, organic growth through Key Accounts (net contract wins and losses and contract growth) and Projects upsell contributed 9.2% to revenue growth, inclusive of contract re-pricing of 4.8%. Infill M&A completed since 1 April 2022 contributed a further 1.7% of inorganic growth.

We were awarded new contract wins and extensions/renewals of £2.4bn TCV in HI FY24. New Key Accounts included further Amazon sites, the Defence Infrastructure Organisation in Germany, the Home Office and Phoenix Group. Notable extensions/renewals included the Foreign Commonwealth and Development Office, Lloyds Banking Group, the Ministry of Justice, Network Rail, and Sky.

Mitie's renewal rate of 88% (HI FY23: +90%) is testament to the strength of our customer relationships, quality of service and competitiveness on pricing. We have a large, diversified portfolio of blue-chip customers, and contract renewals are therefore completed on a rolling basis throughout each year. During the period, one c.£35m per annum Government contract was not renewed (as a result of pricing) and will be handed over at the end of FY24. An additional c.£55m per annum contract for a private sector customer with international operations will

be transitioned to a global facilities management provider in H2. However, Mitie will continue to deliver higher margin projects work for this customer in the UK.

Projects upsell to existing customers remained robust, with projects work being delivered across Mitie's divisions in the key areas of Buildings Infrastructure, Decarbonisation, Telecoms Infrastructure and Fire & Security. Demand in each of these market segments is supported by attractive macro-trends, as set out at our recent Capital Markets Event. Overall, Projects revenue across the Group increased by c.45% to £437m in the period, boosted by strong performances in CG&D and Technical Services, and the contribution from recent acquisitions. Divisional performance is set out in more detail in the 'Operating Review'.

During the period, Mitie completed five acquisitions for a combined consideration of £46m, net of cash acquired and excluding deferred performance-linked consideration and earnouts.

Our position as the leader in the intelligence and technology-led Fire & Security market has been enhanced by the acquisitions of Linx International (April) – a leading risk management and consulting business; RHI Industrials (May) – a leading installer of high-tech security and access controls; and Biservicus (September) – a Spanish security business.

Enhancing our Mechanical & Electrical (M&E) engineering credentials, within the Buildings Infrastructure segment of our Projects business, we acquired JCA Engineering (September) – a leading principal contractor for complex engineering projects across the UK, with a particular focus on critical environments such as data centres, healthcare and life sciences. We also purchased, via a liquidation process, the assets of G2 Energy (July) – a leading high voltage and battery energy storage contractor.

After the period end, we acquired Cliniwaste (October) – a specialist in treating plastic waste, and GBE Converge Group (November) – a leading independent provider of fire, security and information and communications technology (ICT) solutions, for a total consideration of £21m (excluding performance-linked earnouts). GBE has the potential to provide complementary services to JCA Engineering in critical environments.

Mitie has also reached agreement with its joint venture partner in the 'Landmarc' military training estate to amend the shareholders' agreement and received clearance following mandatory notification under the UK National Security and Investment Act 2021 on 16 November 2023. This will result in Landmarc being consolidated as a subsidiary of Mitie from this date and will enable Landmarc to benefit from the wider capabilities of our business. As highlighted in Mitie's H1 Trading Update (11 October 2023), the consolidation of Landmarc is expected to add c.£40m to Mitie's revenue including share of joint ventures and associates and c.£5m to operating profit in H2 FY24. EPS is not impacted.

Operating margin progression

We are targeting an operating profit margin, before other items, of at least 5% by FY27. This will be achieved through our ongoing programme of margin enhancement initiatives and operational leverage, alongside the contribution from acquisitions, and an increase in higher margin projects works. We expect these management actions to more than offset the continued impact of inflation and pressure on contract pricing in a highly competitive environment.

During the period, the Group achieved an operating profit margin before other items of 4.0%, an increase of 50 bps on the same period in the prior year (H1 FY23: 3.5%). This increase reflects improved underlying trading and the delivery of £21m of savings through margin enhancement initiatives, more than offsetting the net impact of cost inflation that we were unable to pass through to customers (£3m), an additional provision made against one specific contract (£5m) in Communities (explained further in the Communities Operating Review), the wind down of the Afghan Relocations and Assistance contract (£6m) and the completion of Covid contracts (£3m).

Approximately £12m of these savings were delivered through our Target Operating Model (TOM) programme, which is optimising our organisational structure, centralising transactional finance teams, outsourcing certain back-office functions and consolidating systems and processes.

For example, in Mitie Shared Services various HR support functions, such as ‘right to work’ vetting, have been outsourced with transferred services already delivering productivity improvements. Within Group Operations, analytical tools and operational excellence activities are delivering productivity benefits to contracts, and technology solutions are being rolled out to our helpdesk to drive efficient workforce management. We have also been extending lease periods and rolling out dash cams across our electric vehicle (EV) fleet, helping to reduce incidents and fines.

The balance of savings in the period were delivered through further Interserve synergies, Operational Excellence initiatives, and the continued roll out of Coupa, our digital supplier platform, across the divisions. The costs associated with the delivery of margin enhancement initiatives are included in ‘cash other items’.

Looking ahead the focus will shift from overheads to operations and contract efficiencies. There are savings opportunities in areas such as contract productivity, where we are increasingly using AI analysis, from our new Workplace App to drive efficiencies in how we deploy resources, and in the technologies that are helping to reduce vehicle accidents and repair costs.

Free cash flow generation

Mitie’s free cash flow generation has improved materially over the past three years, driven by increased EBITDA combined with tight control over capex and working capital. In H1 FY24, the Group generated a free cash inflow of £48m compared with an outflow of £5m in the same period last year, reflecting strong operating profit generation and a reduced working capital outflow in H1 FY24, following the closure of the customer invoice discounting facility in H1 FY23. The Group remains on track to generate at least £100m of free cash flow in FY24, in line with guidance. This underpins the delivery of our capital allocation policy, which sets out the proactive but disciplined use of our financial resources.

Capital allocation

As set out at our recent Capital Markets Event, we will maintain a progressive dividend policy, targeting a payout ratio of 30-40%, and we will continue to purchase shares for all employee share schemes to mitigate shareholder dilution. We will also pursue infill M&A, primarily targeting higher growth, higher margin projects businesses in the key areas of Buildings Infrastructure, Decarbonisation, Telecoms Infrastructure and Fire & Security. Excess funds will be returned to shareholders through share buybacks.

The Board has declared an interim dividend of 1.0p per share (H1 FY23: 0.7p per share), consistent with our policy of setting the interim dividend at one third of the prior year total dividend (FY23: 2.9p per share). The interim dividend will be paid on 31 January 2024 to all shareholders that are on the register at the close of business on 15 December 2023. Shares in Mitie will be quoted ex-dividend on 14 December 2023 and the dividend reinvestment plan election date is 5 January 2024.

During the period, we purchased 7m shares for £7m for employee incentive schemes (FY24 guidance c.15m shares), and we spent £46m on the five acquisitions outlined above (FY24 guidance c.£75m, depending on the pipeline of opportunities).

The first £25m tranche of the current £50m share buyback programme was completed in H1 FY24, with the purchase of 26m shares at an average price of 96p. Within this tranche, 5m shares were cancelled and the balance held in treasury to satisfy the 2020 SAYE scheme vesting in December 2023 (30m shares required in total). The second £25m tranche was launched after the period end, on 11 October 2023. To date, 34m shares have been purchased in total at an average price of 97p.

Technology leadership

Mitie continues to invest in technology to enhance its unique Mitie Digital Platform and maintain its position as a leading provider of technology-led solutions. During the period, Azure ChatGPT was fully integrated into Aria/ESME (which allows customers to report issues via an app), delivering improved customer communications and raising case accuracy to 97%.

Artificial Intelligence / Machine Learning (AI / ML) trials have been carried out on HVAC units with two of our Key Accounts, including the introduction of Anomaly Detection and Predictive Maintenance models to improve energy efficiency and manage remedial works, with encouraging early results. Internally, Mitie ChatGPT is now being used for all sales bids to improve quality and response times.

Mitie is the first in the industry to fully integrate Secure Government Maximo 7.6, Coupa (digital supplier platform) and SAP, providing a seamless purchase-to-pay (P2P) suite of products in our Central Government & Defence division. This has enabled electronic invoice posting and data /document exchange between the three key systems. During H1, acquired companies (including RHI Industrials, Rock, Custom Solar, DAEL, P2ML and 8point8) were fully migrated onto SAP and Coupa.

Strategic partnerships with global IT companies such as Microsoft, Vodafone, ServiceNow and Wipro are integral to Mitie's technology progression. Shortly after the period end, we entered a strategic go-to-market partnership with Salesforce.com to provide carbon reporting and pathway to Net Zero solutions to our customers.

Environment, Social and Governance (ESG)

Mitie is recognised as a leader in ESG among global industry peers, with these initiatives forming a key part of how we do business and ensuring we grow sustainably and responsibly. Our leading credentials also position us well to work with our customers to realise their own sustainability and Net Zero ambitions across their built estates.

In April 2023, we received validation from the prestigious Science Based Targets Initiative (SBTi) following a robust assessment process, demonstrating our commitment to reducing our carbon footprint. Our largest carbon emissions relate to our vehicles and during the period we transitioned a further c.500 from diesel to electric vehicles (EVs). Our fleet of over 3,800 EVs is one of the largest in the UK. During the period we won Environment awards for Net Zero Strategy of the Year (edie); Best Climate Transition Plan (ESG Investing); and Net Zero Strategy of the Year (Energy Managers' Association).

We continue to offer career development opportunities and industry-leading benefits to our colleagues to attract and retain the best talent. We launched 'Action Now', which is a training programme aimed at embedding sustainability throughout the business – from frontline to Boardroom and we embedded the Social Value platform, 'Thrive', to measure Social Value across our Key Accounts.

During the period, 60 new apprentices joined the business in engineering, project management and data analyst roles. We now have over 1,100 apprentices across the business, enrolled on more than 90 courses, and we were named in the top 100 Apprenticeship Employers for the second consecutive year. We also joined the 5% Club, showing our commitment to getting 5% of our workforce onto 'earn and learn' programmes, including apprenticeships.

Our employee listening sessions led by Jennifer Duvalier, our Non-Executive Director responsible for workforce engagement, with wider Board member participation, continued in the first half of the year with seven visits across different parts of the business, both in the UK and overseas.

Financial highlights

Our good financial results for the six months ended 30 September 2023 demonstrate the resilience of the business, our continued strategic progress and track record for delivery.

Revenue

Revenue, including share of joint ventures and associates, increased by 10.9% to £2,132m (H1 FY23: £1,923m).

Organic growth accounted for 9.2% of the 10.9%, with 4.4% coming from Key Accounts (net contract wins and losses and contract growth) and Projects upsell, partially offset by scope reductions (such as for the Afghan Relocations and Assistance contract in Business Services). The remaining 4.8% of organic growth came from contract re-pricing. Infill M&A contributed 1.7% of inorganic growth.

Profitability

Operating profit before other items increased by 24% to £84.6m (HI FY23: £68.0m) and the operating profit margin before other items increased by 50 bps to 4.0% (HI FY23: 3.5%), reflecting improved underlying trading and the delivery of savings through margin enhancement initiatives, more than offsetting the net impact of inflation, the provision made against one specific contract in Communities, the wind down of the Afghan Relocations and Assistance contract and the completion of Covid contracts.

Basic earnings per share before other items increased by 39% to 5.0p (HI FY23: 3.6p). Basic earnings per share after other items increased by 27% to 3.3p (HI FY23: 2.6p), reflecting improved profitability partially offset by an £8.1m increase in other items after tax to £21.9m (HI FY23: £13.8m), primarily driven by costs associated with delivering the TOM programme.

Financial position

£73.0m of cash from operations (HI FY23: £19.5m) was generated, leading to a £47.9m free cash inflow (HI FY23: £5.0m outflow). This helped to maintain a strong balance sheet, with average leverage (average net debt/EBITDA) of 0.6x.

Average net debt was £156.1m in HI FY24 (HI FY23: £62.0m), and closing net debt at 30 September 2023 was £112.7m, an increase of £68.6m from £44.1m at 31 March 2023. This increase since the year end reflects the free cash inflow being more than offset by capital allocations totalling £107m and a £10m increase in lease obligations.

Operating review

As previously announced, from the start of FY24 Spain, Waste and Landscapes are reported within Business Services and Care & Custody is reported within Communities. These businesses had previously been reported within the now redundant Specialist Services division. Restated prior year comparatives are provided below.

Business Services

Business Services delivers technology-led Security and Cleaning & Hygiene services alongside Landscaping and Waste Management across c.2,000 contracts, with sector expertise in Retail, Transport, Central Government and Financial & Professional services. Mitie Spain is also reported within the division.

Business Services, £m	HI FY24	Restated ¹ HI FY23	Change	Restated ¹ FY23
Revenue	719	708	2%	1,414
Security	408	398	3%	782
Cleaning	194	194	-	390
Spain	51	54	(6)%	102
Waste	38	37	3%	74
Landscapes	28	25	12%	66
Operating profit before other items	41.7	40.5²	3%	92.2³
Operating profit margin before other items	5.8%	5.7% ²	0.1ppt	6.5% ³
Total order book	£2.1bn	£2.1bn	-	£1.8bn

¹ Restated to reflect the change to divisional reporting from HI FY24

² Includes £2.6m from Covid contracts. Excluding this, underlying operating profit was £37.9m, and the operating profit margin was 5.4%

³ Includes £7.0m from Covid contracts. Excluding this, underlying operating profit was £85.2m, and the operating profit margin was 6.1%

Performance highlights

- Revenue increased by 2% to £719m (HI FY23: £708m), reflecting increased projects and variable works, acquisitions and contract re-pricing, offset by scope reductions, Covid work completion and net contract losses
- Operating profit before other items increased by 3% to £41.7m (HI FY23: £40.5m)
- £1.1bn TCV contract wins and renewals/extensions
- Five acquisitions completed (including two after the period end), building on our leading position in the UK intelligence and technology-led Fire & Security market and expanding our security offering in Spain
- Awards include Best Team, Security Manager of the Year, and Service to the Customer – British Security Awards 2023; Highly commended for Security Installation Company of the Year and Security Team of the Year – Fire & Security Matters Awards 2023; Retailer & Policing Collaboration and Physical Risk Management Team of the Year – Retail Risk, Fraud Awards 2023

Operational performance

Business Services delivered an encouraging performance, benefiting from increased projects and variable works (largely driven by elevated levels of crime in the Retail sector), the contribution from recent acquisitions, and contract re-pricing (combined revenue benefit of 8%). This was partially offset by scope reductions, such as for the Afghan Relocations and Assistance contract and the completion of Covid work in FY23 (combined revenue impact of 6%).

The division secured £1.1bn TCV of contract wins and renewals/extensions, including wins for Amazon, ASDA, Heathrow Airport, National Portrait Gallery, Phoenix Group, Reach plc, and Thales. The largest extension was for four years with Network Rail, while other renewals and extensions included the British Broadcasting Corporation, Civilian Guard Force, Lloyds Banking Group and Sky.

Margin enhancement initiatives continued at pace, offsetting the completion of higher margin Covid work and scope reductions. The initiatives primarily focused on operational excellence and improvements in productivity. The division is continuing to leverage the Workplace+ workforce management app to optimise workforce productivity and improve workflows across core services.

Retail is the division's largest sector, with c.£300m in core revenue annually, over 7,000 Mitie colleagues, and a blue-chip customer base of national retailers and flagship shopping centres. Our retail customers are facing unprecedented pressures, driven by changing buying behaviours, rising costs and intense competition; whilst at the same time being impacted by well publicised increases in crime – with an estimated £1bn annual loss due to in-store customer theft.

As the market leader in this sector, Mitie has created a connected security model including bespoke security operations centres, dynamic risk-based deployment of resources, and end-to-end crime management solutions delivered through our dedicated crime analyst teams. Two pivotal initiatives that have gathered momentum in the period and demonstrate our transformative approach are: 1) Operation Alliance – the UK's first direct data sharing agreement, allowing Mitie to aggregate evidence against offenders from multiple retailers and disrupt organised gangs; and 2) Pegasus – Mitie has taken the lead in securing funding from multiple retailers and the Home Office to establish the first police unit solely dedicated to combating organised retail crime.

Mitie added to its position as the leader in the intelligence and technology-led Fire & Security market through the acquisition of three businesses in this area during the period, and a further acquisition after the period end. Acquisitions included Linx International (April), RHI Industrials (May), Biservicus in Spain (September) and GBE Converge Group (November). Mitie also acquired Cliniwaste (October), a specialist in treating plastic waste, after the period end.

Spain revenue reduced by 6%, due to new contract wins (+7%) being offset by the completion of Covid work (-17%) in H1 FY23. New contract wins included Ajuntament de Cornellà de Llobregat (municipal governing body) and EMT Madrid (bus company).

Waste revenue increased by 3%, primarily through organic contract growth. Waste has been successful in extending its contracts with a major global pharmaceutical company and two major property management companies, in addition to supporting wider Group Key Accounts such as BAE.

Landscapes revenue increased by 12%. £5.7m TCV of new wins included Co-op, National Grid, Phoenix Group and Yorkshire Water whilst extensions were secured with both NHS Property Services and Amazon. Within Landscapes, Biotecture (living walls specialist) secured projects with Mace, McLaughlin & Harvey and Rybrook Group. Mitie Landscapes won Pro Landscaper Sustainable Company of the Year, reinforcing its strong reputation within the industry.

Technical Services

Technical Services is the UK's largest provider of Engineering services to manage facilities and critical assets across c.350 contracts. Through existing capabilities and infill M&A, the division delivers projects in the high growth areas of Buildings Infrastructure, Decarbonisation and Telecoms Infrastructure to support customers in the transformation of their built estates.

Technical Services, £m	HI FY24	HI FY23 ¹	Change	FY23 ¹
Revenue	636	526	21%	1,154
<i>Maintenance¹</i>	411	388	6%	808
<i>Projects¹</i>	225	138	63%	346
Operating profit before other items	19.5	14.1	38%	34.1
<i>Operating profit margin before other items</i>	3.1%	2.7%	0.4ppt	3.0%
Total order book	£1.5bn	£1.7bn	(12)%	£1.6bn

¹ Projects revenue restated to include projects delivered for customers as part of large FM contracts (previously reported in Maintenance).

Performance highlights

- Revenue increased by 21% to £636m (HI FY23: £526m), benefitting from continued growth in projects and variable works, contract re-pricing, acquisitions and net new wins
- Operating profit before other items increased by 38% to £19.5m (HI FY23: £14.1m), reflecting underlying contract growth and margin enhancement initiatives, partially offset by non-recoverable cost inflation
- £0.5bn TCV of wins and extensions/renewals
- JCA Engineering and G2 Energy acquired, expanding our projects capabilities
- Awards include Project of the Year – CN Specialist Awards (Custom Solar); People Management and Talent Retention – IWFM Awards 2023

Operational performance

During the period Technical Services benefited from continued growth in projects and variable works, in particular across larger IFM contracts, alongside growth from acquisitions since 1 April 2022 and net new contract wins.

Significant new contracts won in HI included Amazon, Ladbrokes Coral, Pandora and Phoenix Group, whilst those won in the prior year (Dublin Airport Authority, NATS and Rivus Fleet Solutions) continued to perform well. National Grid was won in late FY23 and mobilised at the end of HI FY24. The division also secured a contract extension with Mitie's largest private sector customer, Lloyds Banking Group, in the period and benefitting from work related to its branch refurbishment programme.

Following the implementation of Forté, the digital platform to automate scheduling in Technical Services, efficiency gains are being delivered in helpdesk services through the launch of a new Optimiser tool. This enables the system to automatically plan and deploy engineers in the most effective manner, increasing frontline productivity, whilst also prioritising jobs so that emergency requirements are dealt with ahead of standard tasks. The Optimiser tool will be rolled out to all mobile engineers during H2.

The uptake of Aria, which allows customers to report issues via an app, continues to reduce helpdesk call volumes. Wider deployment of the app presents an opportunity for faster response time and straight through processing of jobs to engineers via the Optimiser tool.

Overall, the Technical Services operating margin increased by 40bps to 3.1% (HI FY23: 2.7%). It remains below that of the Group due to factors including: 1) the division absorbing the management cost of IFM contracts; 2) a higher depreciation charge relating to investments in technology; 3) exposure to non-recoverable cost inflation; and 4) the investment required in recent bolt-on acquisitions, the majority of which have been integrated into the Technical Services division to date.

Approximately half of Mitie's projects revenue is delivered through the Technical Services division. During the period, capability has been added in design, mechanical and engineering work, and high-tech building infrastructure such as data centres through the acquisitions of JCA Engineering and G2 Energy (assets purchased through a voluntary liquidation process).

Within the area of Decarbonisation, a range of customers have engaged Rock Power to deploy ultra-rapid charger hubs, such as MOTO, the motorway service station provider. Rock Power and Custom Solar have joined forces to deliver the Lakeside solar power project for Portsmouth City Council, starting in October 2023.

Technical Services continues to lead through the implementation of new technologies to deliver facilities transformation to customers. Smart Workplaces was launched in H1 to consult, design and deliver projects services and optimise facilities management. More customers are adopting Mitie's digital twin technology through 3D visualisation and building information modelling (BIM) to help them reimagine their workplaces of the future. Connected Workspace technologies such as Digital Maintenance are key to asset optimisation, improving engineering productivity as well as achieving energy savings to support customers' Net Zero goals. With more than 20,000 sensors and 700 'connected' buildings, Connected Workspace continues to be a focus for customers who recognise the need to implement digital solutions to improve the lived experience.

Central Government and Defence (CG&D)

The CG&D division provides facilities management services across central government and defence contracts. CG&D employs 5,600 employees across 24 contracts and 27 government departments and agencies, at over 3,000 locations across the UK and overseas.

CG&D, £m	HI FY24	HI FY23 ¹	Change	FY23 ¹
Revenue including share of joint ventures and associates	406	355	15%	828
<i>Central Government</i>	218	<i>198</i>	<i>10%</i>	<i>439</i>
<i>Defence</i>	188	<i>157</i>	<i>20%</i>	<i>389</i>
Operating profit before other items	34.0	25.5	33%	59.8
<i>Operating profit margin before other items</i>	8.4%	<i>7.2%</i>	<i>1.2ppt</i>	<i>7.2%</i>
Total order book	£2.6bn	£1.8bn	44%	£2.4bn

¹ No change following the change to divisional reporting effective from HI FY24

Performance highlights

- Revenue increased by 15% to £406m (HI FY23: £355m), benefiting from growth in projects and variable works, contract re-pricing and a new contract mobilised in the prior year
- Operating profit before other items increased by 33% to £34.0m (HI FY23: £25.5m), largely reflecting the delivery of margin enhancement initiatives, contract re-pricing and projects and variable work
- £0.6bn TCV of new wins and extensions/renewals
- Awards include 8th consecutive Gold Award (Ascension Island and Gibraltar), 12th consecutive President Award (Cyprus) – RoSPA Awards 2023; 17th consecutive Gold award – Project Armada 2023

Operational performance

The strong performance in CG&D continued into the first half of FY24, with growth in revenue and operating profit driven by contract re-pricing, sustained demand for projects and variable work delivered across government departments such as the Department for Work and Pensions (DWP) and for Future Defence Infrastructure Services (FDIS), and a full period of the RAF Mildenhall contract which mobilised in H2 FY23.

During the period £216m TCV of contract extensions were awarded, including for the DWP, the Foreign and Commonwealth Office and the Ministry of Justice. £352m TCV of new contract wins included the Defence Infrastructure Organisation overseas estate in Germany, and soft services for the Government Property Agency Central region.

Projects work across the division continued to grow, with the most significant being to support the DWP Critical Security Infrastructure (CSI) project to upgrade all security related assets at 597 sites across their estate. CG&D will deliver c.£70m of building infrastructure works, such as to install new and replacement Mechanical & Electrical equipment, during FY24 and into FY25. Mitie continues to support the UK Government in achieving its 2050 decarbonisation target through various initiatives and technologies, including the refurbishment of accommodation blocks for the Ministry of Defence to incorporate low carbon features and energy usage optimisation.

During the period, CG&D continued to roll out and benefit from the new technologies introduced in FY23, such as Aria and Mozaic, and expects to complete the roll out of Mitie's new Azure Secure Cloud infrastructure in H2 FY24. CG&D has built on the operational excellence initiatives implemented in the prior year, continuing to improve the utilisation levels of mobile engineers and increase the proportion of self-delivered work.

The 'Mitie First' strategy to insource services formerly provided by third parties resulted in an additional £6m of cross-selling revenue synergies in HI FY24 compared to the same period in the prior year. The division also started introducing the Coupa digital supplier platform across contracts to deliver a more streamlined purchasing process.

Communities

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

Communities, £m	HI FY24	Restated ¹ HI FY23	Change	Restated ¹ FY23
Revenue including share of joint ventures and associates	371	334	11%	659
Local Government & Education	142	130	9%	240
Healthcare	135	124	9%	250
Care & Custody	94	80	18%	169
Operating profit before other items	13.8	15.8	(13)%	31.5
Operating profit margin before other items	3.7%	4.7%	(1.0)ppt	4.8%
Total order book	£3.7bn	£4.0bn	(8)%	£3.9bn

¹ Restated to reflect the change to divisional reporting from HI FY24. Local Government & Education was previously reported as Education and Campus & Critical.

Performance highlights

- Revenue increased by 11% to £371m (HI FY23: £334m), benefiting from contract re-pricing, growth in projects work and scope changes to existing contracts
- Operating profit before other items of £13.8m (HI FY23: £15.8m) reflected reduced losses in our most challenging PFI contract, underlying contract growth and margin enhancement initiatives, offset by one contract specific provision
- £0.2bn TCV of contract wins, extensions and scope changes; good pipeline progression
- Awards include Estates & Facilities Team of the Year and Highly Commended for Healthcare Supplier of the Year – Institute of Healthcare Engineering & Estates Management (IHEEM)

Operational performance

Communities delivered good revenue growth, but a 13% reduction in operating profit. Positively, profits grew on most contracts, losses reduced on a large PFI contract, and margin enhancement initiatives improved profitability. However, these improvements were more than offset by a £4.7m provision on a PFI contract, where Mitie is liable for rectifying latent defects in fire stopping arising from original flaws in construction by a third party.

The division secured £0.2bn TCV of contract wins, extensions and scope changes to existing contracts, including an increase in the provision of services for the Immigration Escorting Services contract, and contract extensions at the Heathrow Immigration Removal Centre, and King George's Hospital.

Projects work included supporting schools affected by Reinforced Autoclaved Aerated Concrete (RAAC), through remedial works and the provision of temporary classroom accommodation. Communities also delivered a number of Public Sector Decarbonisation Scheme (PSDS) funded green energy schemes, including the provision of air source heat pumps, variable refrigerant flow (VRF) systems, and solar panel installations.

Communities has continued to invest in its technical and technological capabilities. Trials of Mitie's Merlin for Cleaning application have been successfully completed in a mental health facility, improving soft services productivity and innovation. A pilot has been launched using the Internet of Things (IoT) to track the location of non-static assets, such as wheelchairs, at a major acute hospital in partnership with Vodafone.

The division is also continuing to make progress in driving transformation and margin enhancement initiatives across the business. This helped to deliver an improved performance in its most challenging contract, reducing losses to £2.8m in HI FY24 (HI FY23: £4.7m). We continue to expect the contract to achieve profitability in FY26, after further productivity improvements and re-sets to pricing.

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 by 12.5% to £24.4m (HI FY23: £27.9m), reflecting overhead savings across functions and shared services.

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, the 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 is set out below:

£m unless otherwise specified	HI FY24	HI FY23
Revenue including share of joint ventures and associates	2,132.4	1,922.9
Group revenue	2,083.3	1,874.3
Operating profit before other items	84.6	68.0
Other items	(27.8)	(17.5)
Operating profit	56.8	50.5
Net finance costs	(4.5)	(7.4)
Profit before tax	52.3	43.1
Tax	(9.4)	(7.8)
Profit after tax	42.9	35.3
Basic earnings per share before other items	5.0p	3.6p
Basic earnings per share	3.3p	2.6p

Revenue

Revenue for HI FY24 of £2,132m, including share of revenue from joint ventures and associates, has increased by 11% compared to the same period last year (HI FY23: £1,923m). This growth has been driven by increased project and variable works, contract re-pricing, and acquisitions, partially offset by the completion of Covid contracts in Q1 FY23 and scope reductions. Scope reductions include the wind down of the Afghan Relocations and Assistance contract which reduced revenue by £16m.

We estimate that the impact of inflation on revenue in HI FY24 was £93m (+4.8%) (HI FY23: £82m), and inorganic revenue from acquisitions accounted for £32m of growth (+1.7%).

Operating profit

Operating profit before other items was £84.6m (HI FY23: £68.0m), an increase of £16.6m (+24.4%), largely driven by margin enhancement initiative savings (£20.7m), and net wins, projects and other trading (£12.2m), partially offset by unrecovered inflation (-£3.0m), the wind down of the Afghan Relocations and Assistance contract (-£6.0m), a contract specific provision in Communities (-£4.7m) and the completion of Covid contracts in Q1 FY23 (-£2.6m).

Of the incremental £20.7m of profit from margin enhancement initiatives in HI, £12.1m came from the TOM programme, where savings from initiatives such as the outsourcing of finance activities, optimisation of the Group's

organisational structure, and restructuring of the projects business, grew significantly during the period. As a result of these initiatives, the Group has removed a further 300 roles during the period. £3.8m of incremental savings from Interserve synergies were realised in the period, taking the total savings from this programme to £55m. The continued rollout of Coupa, our digital supplier platform, generated further incremental savings of £1.6m, and the Operational Excellence programme also delivered an additional £3.2m of savings.

Projects contributed £12.0m of the profit growth in H1 FY24, with the most significant organic contribution coming from Technical Services, predominantly through infrastructure and engineering works, followed by CG&D. Within this, acquisitions contributed £2.6m of incremental projects profit, including current year acquisitions (RHI Industrials and JCA Engineering) and some inorganic growth from prior year acquisitions (Custom Solar and 8Point8).

The £3.0m negative impact on operating profit from inflation in H1 FY24 represents a 97% recovery rate of cost inflation in the period. This recovery rate is a reflection of the contractual protections in place, and is better than expected due to strong customer relationships.

A provision of £4.7m was made in H1 FY24 in Communities for construction defects on a PFI contract where Mitie did not undertake the construction, but is nevertheless liable for the remedial works.

After accounting for £27.8m of other items (H1 FY23: £17.5m), operating profit was £56.8m (H1 FY23: £50.5m).

Other items

£m	H1 FY24	H1 FY23
Target Operating Model (TOM)	(10.2)	(1.2)
Digital supplier platform (DSP)	(1.8)	(2.1)
Margin enhancement initiatives	(12.0)	(3.3)
Earnout charges	(2.6)	0.5
Other acquisition related costs	(1.8)	(1.7)
Acquisition related costs before amortisation	(4.4)	(1.2)
Amortisation of acquisition related intangible assets	(11.4)	(10.6)
Acquisition related costs	(15.8)	(11.8)
Workflow optimisation (Project Forté)	-	(2.4)
Total other items before tax	(27.8)	(17.5)
Tax	5.9	3.7
Total other items after tax	(21.9)	(13.8)

The Group incurred £27.8m of other items before tax in H1 FY24 (H1 FY23: £17.5m), of which £11.4m (H1 FY23: £10.6m) was the non-cash impact of the amortisation of acquisition related intangible assets.

The increase in other items primarily relates to the TOM programme, reflecting the ramp up of activities in H1 FY24, which has driven the increased level of savings delivered to date. Savings for FY24 are expected to be at least £35m (previous guidance c.£30m), and costs to deliver for FY24 will be in the range of £15m-£20m.

The largest element of acquisition related costs before amortisation relates to earnout charges, where payments will only be made if post acquisition performance targets are hit and employment conditions are satisfied. Based on the acquisitions completed to date, acquisition related costs before amortisation for FY24 are expected to be c.£10m-£15m, with the increased H2 costs being driven by earnout charges on the JCA Engineering acquisition, which was completed towards the end of H1.

Net finance costs

Net finance costs improved (decreased) by 39% to £4.5m compared to the same period last year (HI FY23: £7.4m). The decrease was primarily driven by the improved terms negotiated for the US Private Placement (USPP) notes, which became effective from December 2022, together with the amendment fees from the June 2020 refinancing (during Covid) becoming fully paid (by June 2022) (combined £0.9m benefit), and the termination of the Group's customer invoice discounting facility (£0.5m benefit). Finance income also improved by c.£1m due to increased interest rates on deposited funds.

Tax

The tax charge for the period was £9.4m (HI FY23: £7.8m), comprising a tax charge on profit before other items of £15.3m (HI FY23: £11.5m) and a tax credit for other items of £5.9m (HI FY23: £3.7m). The tax charge represents an effective tax rate of 18.0% (HI FY23: 18.1%), which includes an effective tax rate on profit before other items of 19.1% (HI FY23: 19.0%) offset by a higher effective rate for the tax credit in other items.

The effective tax rate on profit before other items for HI FY24 includes the benefit of recognising deferred tax assets related to the losses acquired with the Interserve business. Excluding the impact of this benefit, the effective tax rate on profit before other items would be 24.1%.

The Group made cash payments for corporation tax of £6.3m in the period (HI FY23: £9.0m), of which £5.1m (HI FY23: £6.8m) was paid in the UK, and £1.2m (HI FY23: £2.2m) overseas.

Joint ventures and associates

Operating profit includes Mitie's share of the profit after tax for its joint ventures and associates of £4.2m (HI FY23: £3.6m), primarily relating to Landmarc.

Earnings per share

Basic earnings per share before other items increased to 5.0p (HI FY23: 3.6p). This improvement is due to the increase in operating profit in the period, the reduction in net finance costs, and the reduction in the weighted average share count, as a result of the ongoing share buyback programme, to 1,290.6m shares (HI FY23: 1,375.2m shares).

Basic earnings per share was 3.3p (HI FY23: 2.6p) with the improvement reflecting the factors outlined above, partially offset by the higher levels of other items. As noted above, the increase in other items was primarily driven by costs associated with delivering the TOM programme, which has driven additional margin enhancement initiative savings in the period.

Return on invested capital (ROIC)

£m unless otherwise specified	HI FY24 (R12M)¹	HI FY23 (R12M)¹
Operating profit before other items	178.7	149.6
Tax ²	(30.3)	(23.6)
Operating profit before other items after tax	148.4	126.0
Invested capital	602.8	551.8
ROIC %	24.6%	22.8%

¹ R12M represents a rolling 12-month basis

² Tax charge has been calculated on operating profits before other items using the effective tax rate of 16.9% (HI FY23: 15.8%)

ROIC (before other items) on a rolling 12-month basis has increased by 180 bps to 24.6% in HI FY24 (HI FY23: 22.8%) as a result of the increase in operating profit before other items for the last 12-month period, partially offset by an increase in invested capital. The increase in invested capital has been driven by the acquisitions completed in HI FY24.

Balance sheet

£m	HI FY24	FY23
Goodwill and intangible assets	606.4	564.9
Property, plant and equipment	163.3	156.9
Interests in joint ventures and associates	6.1	8.8
Working capital balances	(158.4)	(179.2)
Provisions	(114.2)	(111.4)
Net debt	(112.7)	(44.1)
Net retirement benefit liabilities	(0.8)	(0.2)
Deferred tax	19.7	20.4
Other net assets	2.2	5.6
Total net assets	411.6	421.7

The Group's reported net assets stood at £411.6m at 30 September 2023, a reduction of £10.1m since 31 March 2023. Net debt increased to £112.7m (FY23: £44.1m), mainly as a result of the planned capital allocation actions undertaken and working capital movements, both of which are discussed further below (in the 'Cash flow and net debt' section).

Goodwill and intangible assets have increased by £41.5m since 31 March 2023, predominantly as a result of acquisitions undertaken during the period. The in-year acquisitions resulted in additional goodwill of £26.1m and acquired customer lists of £27.2m, with the increase partially offset by the amortisation of intangible assets.

Property, plant and equipment increased by £6.4m, due to the continued expansion of our leased electric vehicle (EV) fleet, with approximately 500 vehicles added in the six months since the year-end.

The net deferred tax asset balance has remained broadly unchanged compared to year-end. The deferred tax assets include those related to losses acquired with the Interserve business.

Provisions

Provisions at 30 September 2023 of £114.2m (FY23: £111.4m) largely comprise contract specific costs of £52.7m (FY23: £49.3m), the insurance reserve of £26.3m (FY23: £26.2m), and pension provisions of £21.7m (FY23: £21.7m) which mainly relate to Section 75 pension liabilities. The net movement included £14.4m of additional provisions, primarily related to construction defects on a PFI contract in Communities and insurance reserve movements, largely offset by utilisations of £9.9m. See Note 10 to the condensed consolidated financial statements for further details on provisions.

Retirement benefit schemes

Net retirement benefit liabilities are broadly unchanged at £0.8m (FY23: £0.2m) as measured on an IAS 19 basis. Whilst an increase in yields on corporate bonds has reduced the present value of schemes' pension obligations, this is largely offset by a fall in the value of the schemes' assets also due, primarily, to rising bond and gilt yields.

The net liabilities at 30 September 2023 include an accounting surplus of £1.4m (FY23: £2.4m) for the main Group scheme, which includes a separate section for the main scheme acquired with the Interserve business. The remaining accounting deficit within net retirement benefit liabilities of £2.2m (FY23: £2.6m) relates to a number of smaller defined benefit schemes, including some Local Government pension schemes. There is also an accounting surplus related to the Landmarc joint venture, Mitie's £1.5m (FY23: £1.5m) 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 agreed a deficit recovery plan with the trustees totalling £93m over seven years, of which £42m had been paid up to 30 September 2023, including £7m paid during H1 FY24.

The next triennial valuation for the main Group scheme, as at 31 March 2023, will conclude in H2 FY24.

Cash flow and net debt

£m	HI FY24	HI FY23
Operating profit before other items	84.6	68.0
Add back: depreciation, amortisation & impairment	26.3	24.6
EBITDA before other items	110.9	92.6
Other items ¹	(12.2)	(7.4)
Other operating movements	(3.2)	(0.7)
Operating cash flows before movements in working capital	95.5	84.5
Working capital movements ²	(22.5)	(47.4)
Capex and capital element of lease payments	(20.8)	(30.7)
Net interest payments	(4.9)	(7.7)
Tax payments	(6.3)	(9.0)
Dividends from joint ventures	6.9	5.3
Free cash inflow/(outflow)	47.9	(5.0)
Share buybacks	(25.2)	(50.7)
Market purchase of own shares	(7.1)	(5.7)
Acquisitions and disposals ³	(45.7)	(20.2)
Dividends paid	(28.6)	(19.5)
Lease liabilities and other ⁴	(9.9)	10.4
Increase in net debt during the period	(68.6)	(90.7)
Closing net debt	(112.7)	(64.0)
Average daily net debt	(156.1)	(62.0)
Leverage (average daily net debt/EBITDA before other items) ⁵	0.6x	0.1x

¹ Other items exclude the non-cash amortisation of acquired intangible assets and items that will be settled in future periods such as earnout charges.

² Working capital movements have been 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)

³ Acquisitions and disposals are shown on a net cash/net debt basis

⁴ Lease liabilities and other includes an increase in lease liabilities in H1 FY24 due to the expansion of the EV fleet. H1 FY23 includes £6.0m which was received in respect of the expert's determination on the Interserve acquisition completion accounts

⁵ Leverage is calculated on a 12-month rolling basis, and uses post-IFRS 16 net debt

The Group generated a free cash inflow of £47.9m for HI FY24, which was an increase of £52.9m compared with HI FY23, due to the strong operating profit before other items in HI FY24 (+£16.6m), and a reduced working capital outflow (+£24.9m) as explained below.

Other items are explained above, but the cash component shown excludes non-cash amortisation of acquisition related intangible assets and items that will be settled in future periods such as earnout charges.

The working capital outflow of £22.5m is a result of the investment required in working capital to support the growth in the projects business, and the seasonal outflow in HI as suppliers are paid for the works performed in the final quarter of the previous year when volumes peak. The impact of this seasonal outflow was more significant in HI FY24 than in the prior period, due to the particularly high volume of project works completed in Q4 FY23. The working capital movement in the prior period also included a £45m outflow related to the termination of the customer invoice discounting facility.

Capex and the capital element of lease payments also decreased compared to the first six months of FY23 (by £9.9m), with spend on other intangible assets £5.8m lower as a result of Forté going live in HI FY23, and the receipt of a lease incentive which was agreed as part of extending the relationship with our lease provider.

Additionally, both interest and tax payments were lower in HI FY24, with the decrease in net interest of £2.8m predominantly a result of the improved rates achieved through the refinancing of the Revolving Credit Facility (RCF) and USPP notes in FY22, and closure of the customer invoice discounting facility in FY23. Tax payments were lower by £2.7m, with the utilisation of losses reducing the tax due.

The first £25m tranche of share buybacks announced in June 2023 was completed in HI, resulting in the repurchase of 26.2m shares, of which 4.9m have been cancelled. The remaining 21.3m shares acquired have been retained in treasury in order to satisfy the 2020 SAYE scheme. A further £7.1m has been spent making market purchases of 7.3m shares into employee trusts to satisfy share schemes.

The acquisitions of Linx International, RHI Industrials, JCA Engineering and Biservicus in HI FY24 have increased net debt by £45.7m, comprising cash consideration of £66.6m partially offset by net cash of £20.9m acquired with these businesses.

The final FY23 dividend of £28.6m was paid in August 2023, with the higher cash outflow reflecting the increased final dividend per share of 2.2p for FY23 (FY22: 1.4p).

Net debt

Average daily net debt of £156.1m for HI FY24 was £71.8m higher than in FY23 (£84.3m) and £94.1m higher than HI FY23 (£62.0m). This resulted in an average leverage ratio (average daily net debt / EBITDA before other items from continuing operations) of 0.6x for HI FY24, compared with 0.1x for HI FY23. The Group reported closing net debt of £112.7m as at 30 September 2023 (FY23: £44.1m).

The increases since FY23 are mainly due to the planned capital allocation activities, totalling £106.6m. These activities relate to the acquisitions completed in the period (£45.7m), shares bought back (£25.2m), share purchases for employee incentive schemes (£7.1m) and dividends paid (£28.6m).

Total Financial Obligations (TFO)

£m	HI FY24	FY23
Net debt	112.7	44.1
Net retirement benefit liabilities	0.8	0.2
Total Financial Obligations (TFO)	113.5	44.3

TFO at 30 September 2023 increased broadly in line with the movement in net debt.

Liquidity and covenants

As at 30 September 2023, the Group had £400m of committed funding arrangements, comprising a £250m RCF and £150m of USPP notes. In September 2023, the RCF was increased by £100m from £150m to £250m, and its maturity was extended to October 2027, with a further one year extension option at the mutual agreement of all parties. In December 2022, £121.5m of USPP notes matured and were replaced by £120m of new notes, issued on more favourable terms, with maturities in December 2030 through to 2034. The remaining £30m of USPP notes are due to mature in December 2024.

On 28 July 2023, 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 adjustments for leases, being primarily the exclusion of lease liabilities from net debt and the inclusion of a charge equivalent to lease payments against EBITDA.

As at 30 September 2023, the Group was operating well within these ratios at <0x covenant leverage and 56.7x interest cover. A reconciliation of the calculations is set out in the table below:

£m		HI FY24 (R12M) ⁵	HI FY23 (R12M) ⁵
Operating profit before other items		178.7	149.9
Add: depreciation, amortisation & impairment		54.1	51.5
Headline EBITDA		232.8	201.4
Add: covenant adjustments ¹		21.5	20.8
Leases adjustment ²		(39.0)	(38.6)
Consolidated EBITDA	(a)	215.3	183.6
Full-year effect of acquisitions & disposals		9.1	2.2
Adjusted consolidated EBITDA	(b)	224.4	185.8
Net finance costs		8.6	17.2
Less: covenant adjustments		(0.1)	(0.8)
Leases adjustment ³		(4.7)	(4.2)
Consolidated net finance costs	(c)	3.8	12.2
Interest cover (ratio of (a) to (c))		56.7x	15.0x
Net debt		112.7	64.0
Impact of hedge accounting & upfront fees		2.6	1.3
Leases adjustment ⁴		(139.1)	(118.5)
Consolidated total net cash	(d)	(23.8)	(53.2)
Covenant leverage (ratio of (d) to (b))		< 0x	< 0x

¹ Covenant adjustments for EBITDA relate to share-based payments charges, and pension administration expenses and past service costs

² Leases adjustment for EBITDA relates to depreciation charge for leased assets and interest charge for lease liabilities (i.e. application of a charge equivalent to lease payments)

³ Leases adjustment for net finance costs relates to interest charge for lease liabilities (i.e. removal of lease interest)

⁴ Leases adjustment for net cash relates to lease liabilities (i.e. removal of lease liabilities)

⁵ R12M represents a rolling 12-month basis

Key risk factors and uncertainties affecting the business

There continue to be risks and uncertainties that may influence the Group's financial performance and overall success. Our strategies to counteract these challenges are detailed in the Group's Annual Report and Accounts 2023 on pages 73 to 82. Although these risks have not materially changed since the report's publication, the Group is constantly assessing macro-economic conditions, currently focused on inflation, rising interest rates, potential supply chain disruptions, and labour relations in an inflation driven environment. The Group is diligently monitoring the repercussions of these events on our employees' wellbeing, aiming to minimise any consequences concerning mental health, productivity, and absenteeism. The Group continues to consider emerging risks and is presently concentrating on addressing both threats and opportunities in relation to the upcoming general election, the current retail sector landscape, and the impact of artificial intelligence.

Responsibility statement

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

- the unaudited condensed consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standard 34 Interim Financial Reporting; and
- the interim management report, as required by rules 4.2.7R and 4.2.8R of the Disclosure Guidance and Transparency Rules, includes a fair review of:
 - important events during the six months ended 30 September 2023 and their impact on the unaudited condensed consolidated financial statements;
 - a description of the principal risks and uncertainties for the second half of the year; and
 - related parties' transactions and changes therein.

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

On behalf of the Board

Phil Bentley

Chief Executive Officer

22 November 2023

INDEPENDENT REVIEW REPORT TO MITIE GROUP PLC

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 is not prepared, in all material respects, in accordance with UK-adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related notes 1 to 19.

Basis for conclusion

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

As disclosed in note 1(a), the annual financial statements of the Group are prepared in accordance with UK-adopted International Accounting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK-adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the Directors have inappropriately adopted the going concern basis of accounting or that the Directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the Group to cease to continue as a going concern.

Responsibilities of Directors

The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

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

BDO LLP
Chartered Accountants
London, UK
22 November 2023

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

Condensed consolidated income statement

For the six months ended 30 September 2023

	Notes	30 September 2023			30 September 2022		
		Before Other items £m	Other items ¹ £m	Total £m	Before Other items £m	Other items ¹ £m	Total £m
Revenue including share of joint ventures and associates	2	2,132.4	–	2,132.4	1,922.9	–	1,922.9
Less: share of revenue of joint ventures and associates	2	(49.1)	–	(49.1)	(48.6)	–	(48.6)
Group revenue	2	2,083.3	–	2,083.3	1,874.3	–	1,874.3
Cost of sales		(1,861.4)	–	(1,861.4)	(1,667.6)	–	(1,667.6)
Gross profit		221.9	–	221.9	206.7	–	206.7
Administrative expenses		(142.8)	(27.8)	(170.6)	(142.3)	(17.5)	(159.8)
Other income		1.3	–	1.3	–	–	–
Share of profit of joint ventures and associates		4.2	–	4.2	3.6	–	3.6
Operating profit²	2	84.6	(27.8)	56.8	68.0	(17.5)	50.5
Finance income		1.8	–	1.8	0.8	–	0.8
Finance costs		(6.3)	–	(6.3)	(8.2)	–	(8.2)
Net finance costs		(4.5)	–	(4.5)	(7.4)	–	(7.4)
Profit before tax		80.1	(27.8)	52.3	60.6	(17.5)	43.1
Tax	4	(15.3)	5.9	(9.4)	(11.5)	3.7	(7.8)
Profit after tax		64.8	(21.9)	42.9	49.1	(13.8)	35.3
Profit for the period attributable to owners of the parent		64.8	(21.9)	42.9	49.1	(13.8)	35.3
Earnings per share (EPS) attributable to owners of the parent							
Basic	6	5.0p		3.3p	3.6p		2.6p
Diluted	6	4.6p		3.0p	3.3p		2.3p

Notes:

1. Other items are as described in Note 3.

2. Including impairment losses on trade receivables, other receivables and accrued income of £1.4m (2022: £1.1m).

Condensed consolidated statement of comprehensive income

For the six months ended 30 September 2023

	Notes	30 September 2023 £m	30 September 2022 £m
Profit for the period		42.9	35.3
Items that will not be reclassified to profit or loss in subsequent periods			
Remeasurement of retirement benefit assets/obligations	16	(7.3)	6.4
Share of other comprehensive income of joint ventures		–	0.1
Tax credit/(charge) relating to items that will not be reclassified to profit or loss in subsequent periods		0.3	(0.8)
		(7.0)	5.7
Items that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		(0.4)	1.4
Loss on hedge of a net investment taken to equity		–	(0.3)
Net losses on cash flow hedges taken to equity		(0.1)	(0.3)
Tax credit relating to items that may be reclassified to profit or loss in subsequent periods		0.1	–
		(0.4)	0.8
Other comprehensive (expense)/income for the period		(7.4)	6.5
Total comprehensive income for the period attributable to owners of the parent		35.5	41.8

Condensed consolidated statement of financial position

As at 30 September 2023

	Notes	30 September 2023 £m	31 March 2023 £m
Non-current assets			
Goodwill	7	338.4	312.3
Other intangible assets		268.0	252.6
Property, plant and equipment ^{1,2}		163.3	156.9
Interests in joint ventures and associates		6.1	8.8
Trade and other receivables	8	23.5	23.5
Contract assets		0.4	0.8
Retirement benefit assets	16	1.4	2.4
Deferred tax assets		19.7	20.4
Total non-current assets		820.8	777.7
Current assets			
Inventories		14.4	13.5
Trade and other receivables	8	768.6	786.8
Contract assets		0.9	1.1
Cash and cash equivalents	11	180.2	248.3
Total current assets		964.1	1,049.7
Total assets		1,784.9	1,827.4
Current liabilities			
Trade and other payables	9	(853.5)	(899.5)
Deferred income		(88.5)	(83.3)
Current tax payable		(4.2)	(0.8)
Financing liabilities	12	(36.0)	(32.0)
Provisions	10	(57.7)	(54.2)
Total current liabilities		(1,039.9)	(1,069.8)
Net current liabilities		(75.8)	(20.1)
Non-current liabilities			
Trade and other payables	9	(3.8)	(2.3)
Deferred income		(20.4)	(19.8)
Financing liabilities	12	(250.5)	(254.0)
Provisions	10	(56.5)	(57.2)
Retirement benefit liabilities	16	(2.2)	(2.6)
Total non-current liabilities		(333.4)	(335.9)
Total liabilities		(1,373.3)	(1,405.7)
Net assets		411.6	421.7

Notes:

- Includes right-of-use assets of £128.5m (31 March 2023: £123.8m). During the six months ended 30 September 2023, right-of-use assets increased due to vehicles lease additions of £25.7m, property lease additions of £0.4m and £1.5m arising on acquisition of businesses, partially offset by depreciation of £16.9m, lease modifications and reassessments of £5.1m, property lease terminations of £0.2m and plant and vehicles lease terminations of £0.7m.
- Includes owned property, plant and equipment of £34.8m (31 March 2023: £33.1m). During the six months ended 30 September 2023, owned property, plant and equipment assets increased due to asset additions of £5.2m and £1.0m arising on acquisition of businesses, partially offset by depreciation of £4.8m. Owned property, plant and equipment also increased by £0.3m as a result of movements in exchange rates.

Condensed consolidated statement of financial position continued
For the six months ended 30 September 2023

	30 September 2023 £m	31 March 2023 £m
Equity		
Share capital	33.9	34.0
Share premium	131.9	131.5
Merger reserve	157.0	157.0
Own shares reserve	(75.5)	(59.0)
Share-based payments reserve	37.1	33.7
Capital redemption reserve	2.7	2.6
Hedging and translation reserve	(1.8)	(1.4)
Retained profits	126.3	123.3
Equity attributable to owners of the parent	411.6	421.7

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2023

30 September 2023

	Share capital £m	Share premium £m	Merger reserve ¹ £m	Own shares reserve £m	Share-based payments reserve £m	Capital redemption reserve £m	Hedging and translation reserve £m	Retained profits £m	Total equity £m
At 1 April 2023	34.0	131.5	157.0	(59.0)	33.7	2.6	(1.4)	123.3	421.7
Profit for the period	–	–	–	–	–	–	–	42.9	42.9
Other comprehensive expense	–	–	–	–	–	–	(0.4)	(7.0)	(7.4)
Total comprehensive income	–	–	–	–	–	–	(0.4)	35.9	35.5
Transactions with owners									
Dividends paid	–	–	–	–	–	–	–	(28.6)	(28.6)
Purchase of own shares ²	–	–	–	(7.1)	–	–	–	–	(7.1)
Share buybacks ³	(0.1)	–	–	(20.4)	–	0.1	–	(4.8)	(25.2)
Share-based payments	–	0.4	–	11.0	3.4	–	–	(2.8)	12.0
Tax on share-based payments	–	–	–	–	–	–	–	3.3	3.3
Total transactions with owners	(0.1)	0.4	–	(16.5)	3.4	0.1	–	(32.9)	(45.6)
At 30 September 2023	33.9	131.9	157.0	(75.5)	37.1	2.7	(1.8)	126.3	411.6

Notes:

- 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 period the Employee Benefit Trust acquired 6.9m ordinary shares through market purchases for a consideration of £6.7m and the Share Incentive Plan Trust acquired 0.4m shares for a consideration of £0.4m.
- The share buyback resulted in market purchases of 26.2m ordinary shares, of which 4.9m shares were subsequently cancelled and 21.3m shares were placed into the Treasury share reserve.

30 September 2022

	Share capital £m	Share premium £m	Merger reserve ¹ £m	Own shares reserve £m	Share-based payments reserve £m	Capital redemption reserve £m	Hedging and translation reserve £m	Retained (losses)/profits £m	Total equity £m
At 1 April 2022	35.7	130.6	358.6	(36.9)	27.5	0.9	(2.6)	(89.1)	424.7
Profit for the period	–	–	–	–	–	–	–	35.3	35.3
Other comprehensive income	–	–	–	–	–	–	0.8	5.7	6.5
Total comprehensive income	–	–	–	–	–	–	0.8	41.0	41.8
Transactions with owners									
Dividends paid	–	–	–	–	–	–	–	(19.5)	(19.5)
Purchase of own shares ²	–	–	–	(5.7)	–	–	–	–	(5.7)
Realisation of merger reserve ¹	–	–	(184.5)	–	–	–	–	184.5	–
Share buybacks ³	(1.7)	–	–	–	–	1.7	–	(50.7)	(50.7)
Share-based payments	–	–	–	3.0	4.6	–	–	1.5	9.1
Tax on share-based payments	–	–	–	–	–	–	–	1.5	1.5
Total transactions with owners	(1.7)	–	(184.5)	(2.7)	4.6	1.7	–	117.3	(65.3)
At 30 September 2022	34.0	130.6	174.1	(39.6)	32.1	2.6	(1.8)	69.2	401.2

Notes:

- 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 six months ended 30 September 2022, the realisation of the merger reserve included £153.2m related to intercompany loans that were settled as qualifying consideration in connection with the rights issue during the year ended 31 March 2021, which utilised a cashbox structure.
- During the period the Employee Benefit Trust acquired the 2.9m ordinary shares committed to in the year ended 31 March 2022 as well as a further 10.4m ordinary shares through market purchases for a consideration of £5.7m.
- The share buyback resulted in market purchases of 68.8m ordinary shares which were subsequently cancelled during the six months ended 30 September 2022.

Condensed consolidated statement of cash flows

For the six months ended 30 September 2023

	Notes	30 September 2023 £m	30 September 2022 £m
Operating profit before Other items	2	84.6	68.0
Other items	3	(27.8)	(17.5)
Adjustments for:			
Share-based payments expense		11.6	9.1
Defined benefit pension costs	16	1.9	1.6
Defined benefit pension contributions	16	(8.3)	(8.3)
Depreciation of property, plant and equipment		21.7	21.3
Amortisation of intangible assets		15.6	13.2
Share of profit of joint ventures and associates		(4.2)	(3.6)
Amortisation of contract assets		0.4	0.5
Impairment of non-current assets		–	0.2
Operating cash flows before movements in working capital		95.5	84.5
Increase in inventories		(0.8)	–
Decrease/(increase) in receivables		35.1	(4.3)
Increase in contract assets		(0.1)	(0.2)
Increase/(decrease) in deferred income		2.3	(4.5)
Decrease in payables		(61.2)	(55.5)
Increase/(decrease) in provisions		2.2	(0.5)
Cash generated from operations		73.0	19.5
Income taxes paid	4	(6.3)	(9.0)
Interest paid ¹		(6.8)	(8.5)
Net cash generated from operating activities		59.9	2.0
Investing activities			
Acquisition of businesses, net of cash acquired ²	15	(45.7)	(16.6)
Interserve completion accounts settlement ³		–	6.0
Interest received		1.9	0.8
Purchase of property, plant and equipment		(5.2)	(4.5)
Dividends received from joint ventures and associates		6.9	5.3
Purchase of other intangible assets		(3.5)	(9.3)
Disposal of property, plant and equipment		0.1	–
Net cash used in investing activities		(45.5)	(18.3)

Notes:

- Interest paid includes £2.6m (2022: £2.1m) in relation to lease liabilities.
- Acquisition of businesses is net of cash acquired of £20.9m (2022: £2.1m). Refer to Note 15.
- Following the expert's determination on the Interserve acquisition completion accounts, for which the expert sought a legal opinion in relation to the interpretation of the complex SPA requirements, an agreement was reached and £6.0m was received in May 2022.

Condensed consolidated statement of cash flows continued

For the six months ended 30 September 2023

	Notes	30 September 2023 £m	30 September 2022 £m
Financing activities			
Purchase of own shares		(7.1)	(5.7)
Shares bought back		(25.2)	(50.7)
Capital element of lease rentals		(17.9)	(16.9)
Lease incentives received		5.7	–
Repayment of bank loans		(8.3)	(4.1)
Payment of arrangement fees		(1.1)	(0.3)
Proceeds received on settlement of share-based payment transactions		0.4	–
Equity dividends paid	5	(28.6)	(19.5)
Net cash used in financing activities		(82.1)	(97.2)
Net decrease in cash and cash equivalents		(67.7)	(113.5)
Net cash and cash equivalents at beginning of the period		248.3	345.2
Effect of foreign exchange rate changes		(0.4)	1.2
Net cash and cash equivalents at end of the period	11	180.2	232.9

Notes to the condensed consolidated financial statements

For the six months ended 30 September 2023

1. Basis of preparation and significant accounting policies

(a) Basis of preparation

Mitie Group plc (the Company) is a company incorporated in the United Kingdom and registered in Scotland. The Company's registered office is at 35 Duchess Road, Rutherglen, Glasgow, G73 1AU. The Group comprises the Company and all its subsidiaries.

These unaudited condensed consolidated financial statements (the 'condensed consolidated financial statements') for the six months ended 30 September 2023 have been prepared in accordance with UK-adopted International Accounting Standard (IAS) 34 *Interim Financial Reporting*, and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The condensed consolidated financial statements have been reviewed by BDO LLP but have not been audited. They do not include all the information and disclosures required in the annual financial statements, and therefore should be read in conjunction with the Group's Annual Report and Accounts for the year ended 31 March 2023 (Annual Report and Accounts 2023).

These condensed consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 March 2023 has been delivered to the Registrar of Companies and is available upon request from the Company's registered office or at mitie.com/investors. The independent auditor's report for the year ended 31 March 2023 was unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

The condensed consolidated financial statements were approved by the Board of Directors on 22 November 2023.

Going concern

The condensed consolidated financial statements for the six months ended 30 September 2023 have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the Group's business activities as set out on pages 6 to 72 of the Annual Report and Accounts 2023 and the principal risks and uncertainties as set out on pages 73 to 82 and the viability statement on page 84 of the same.

The Directors have carried out an assessment of the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the condensed consolidated financial statements (the Going Concern Assessment Period). This assessment was based on the latest 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 over the Going Concern Assessment Period.

The Group's principal debt financing arrangements as at 30 September 2023 were a £250m Revolving Credit Facility (RCF), which was undrawn as at 30 September 2023, and £150m 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, as set out in the Finance review on page 72 of the Annual Report and Accounts 2023.

The RCF was put in place in October 2021, and matures in October 2027. In September 2023, the Group increased the RCF from £150m to £250m and its maturity date was extended for one year to October 2027, with an option to extend for a further one year period.

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 its agreements with its lenders, with consolidated net cash (i.e. net cash adjusted for covenant purposes, primarily by the exclusion of lease liabilities) of £23.8m at 30 September 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 potential 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 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 40% by 30 September 2024 (H1 FY25), 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 a COVID-hit year ended 31 March 2021, Mitie's revenue excluding Interserve declined by only 1.6%; and
- 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 has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of these condensed consolidated financial statements. In addition, the Directors have concluded that the likelihood of the reverse stress scenarios arising is remote and therefore no material uncertainty exists.

(b) Significant accounting policies

In preparing these condensed consolidated financial statements for the six months ended 30 September 2023, the Group's accounting policies and methods of computation are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2023, which were prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

None of the new or amended standards and interpretations below that are effective for the first time for the year ending 31 March 2024 have had a material effect on the Group.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- IFRS 17 Insurance Contracts

On 23 May 2023, the International Accounting Standards Board issued International Tax Reform - Pillar Two Model Rules - Amendments to IAS 12. The Group has applied the mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two rules set out therein.

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

Statutory and non-statutory measures of performance

As a result of the non-statutory measures of performance presented in the condensed consolidated financial statements, the accounting policy used in determining the non-statutory measures of performance, which has remained unchanged in the six months ended 30 September 2023, is set out below.

In the condensed consolidated financial statements, the Group has elected to provide some further disclosures and performance measures, reported as 'before Other items', in order to present its financial results in a way that demonstrates the performance of its operations.

Other items are items of financial performance which management believes should be separately identified on the face of the condensed consolidated 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 costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items and their related tax effect as Other items. Should these items be reversed, disclosure of this would also be as Other items.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the period and the extent to which results are influenced by material unusual and/or non-recurring items. Further detail of Other items is set out in Note 3.

In addition, following the guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority (ESMA), the Group has included an APM appendix to the condensed consolidated financial statements.

(c) Critical accounting judgements and key sources of estimation uncertainty

In preparing these condensed consolidated financial statements, with the exception of judgements relating to the provisional fair value assessments of assets and liabilities recognised as a result of the business combinations in Note 15, the significant estimates and judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Report and Accounts 2023.

Critical judgements in applying the Group's accounting policies

Business combinations - purchase price allocation

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

During the six months ended 30 September 2023, the Group completed the acquisitions of Linx International Group Limited (Linx International), R H Irving Industrials Limited (RHI Industrials), JCA Engineering Limited (JCA Engineering) and Biservicus Sistemas De Seguridad, S.A. (Biservicus). The most significant fair value adjustments arising on the acquisitions related to attributing value to the acquired intangible assets recognised in the form of customer contracts and relationships.

In determining the fair value of customer contracts and relationships, the Group used forecast customer cash flows from the contracts and expected renewal rates and applied an appropriate discount rate. In determining the cash flows, management used judgement to estimate revenue growth, profit margins, contract renewal probability and the average contract duration remaining as well as the discount rate. Based on management's judgement, provisional fair values for customer contracts and relationships of £21.1m for JCA Engineering, £5.3m for RHI Industrials, and £0.8m for Biservicus, with corresponding provisional fair values for deferred tax liabilities in relation to those intangible assets of £5.3m, £1.3m and £0.2m respectively have been recognised.

2. Business segment information

The Group's operating segments are established on the basis of those components of the Group that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has determined the chief operating decision maker to be its Board of Directors. 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.

The Group manages its business on a service division basis. For the year ending 31 March 2024, the Group has four reportable segments (2023: eight reportable segments). This follows the reorganisation of the Group's Specialist Services division, as a result of which the Landscapes, Spain, and Waste divisions were moved into the Business Services division, and the Care & Custody division was moved into the Communities division. The change in operating segments reflects how the chief operating decision maker evaluates the divisions and their performance, and decides on resource allocation.

The comparatives for the six months ended 30 September 2022 have been restated for the change in the composition of reportable segments.

Income statement information

	Six months ended 30 September 2023			Six months ended 30 September 2022		
	Revenue ² £m	Operating profit/(loss) before Other items ³ £m	Operating margin before Other items ³ %	Revenue ² £m	Operating profit/(loss) before Other items ³ £m	Operating margin before Other items ³ %
Business Services	719.0	41.7	5.8	708.3	40.5	5.7
Technical Services	635.9	19.5	3.1	526.3	14.1	2.7
Central Government and Defence (CG&D) ²	406.6	34.0	8.4	354.7	25.5	7.2
Communities ²	370.9	13.8	3.7	333.6	15.8	4.7
Corporate centre	–	(24.4)	–	–	(27.9)	–
Total for the Group	2,132.4	84.6	4.0	1,922.9	68.0	3.5

Notes:

- The comparatives for the six months ended 30 September 2022 have been restated for the change in the composition of reportable segments.
- Revenue includes share of joint ventures and associates, of which £43.7m (2022: £43.0m) is included within CG&D and £5.4m (2022: £5.6m) within Communities.
- Other items are as described in Note 3.
- No single customer accounted for more than 10% of external revenue in the six months ended 30 September 2023 or in the comparative period. The UK Government is not considered a single customer.

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

	Six months ended 30 September 2023	Six months ended 30 September 2022
	£m	£m
Operating profit before Other items	84.6	68.0
Other items ¹	(27.8)	(17.5)
Net finance costs	(4.5)	(7.4)
Profit before tax	52.3	43.1

Note:

- Other items are as described in Note 3.

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.

	Six months ended 30 September 2023					
	Sector ¹		Total £m	Contract duration for timing of revenue recognition		Total £m
	Government £m	Non-government £m		Less than 2 years £m	More than 2 years £m	
Business Services	208.2	510.8	719.0	122.3	596.7	719.0
Technical Services	120.1	515.8	635.9	51.7	584.2	635.9
CG&D	406.6	–	406.6	0.8	405.8	406.6
Communities	370.0	0.9	370.9	–	370.9	370.9
Revenue including joint ventures and associates	1,104.9	1,027.5	2,132.4	174.8	1,957.6	2,132.4
Less: share of joint ventures and associates ²	(49.1)	–	(49.1)	–	(49.1)	(49.1)
Group revenue	1,055.8	1,027.5	2,083.3	174.8	1,908.5	2,083.3

Notes:

- 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.
- Share of revenue from joint ventures and associates includes £43.7m and £5.4m within the CG&D and Communities segments respectively.

	Six months ended 30 September 2022					
	Sector ²		Total £m	Contract duration for timing of revenue recognition		Total £m
	Government £m	Non-government £m		Less than 2 years £m	More than 2 years £m	
Business Services	235.1	473.2	708.3	126.1	582.2	708.3
Technical Services	105.3	421.0	526.3	58.5	467.8	526.3
CG&D	354.7	–	354.7	0.7	354.0	354.7
Communities	332.4	1.2	333.6	0.4	333.2	333.6
Revenue including joint ventures and associates	1,027.5	895.4	1,922.9	185.7	1,737.2	1,922.9
Less: share of joint ventures and associates ³	(48.6)	–	(48.6)	–	(48.6)	(48.6)
Group revenue	978.9	895.4	1,874.3	185.7	1,688.6	1,874.3

Notes:

- The comparatives for the six months ended 30 September 2022 have been restated for the change in the composition of reportable segments.
- 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.
- Share of revenue from joint ventures and associates includes £43.0m and £5.6m within the CG&D and Communities segments respectively.

3. Other items

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

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

	Six months ended 30 September 2023			
	Restructure costs £m	Acquisition and disposal related costs £m	Other exceptional items £m	Total £m
Other items before tax	(10.2)	(15.8)	(1.8)	(27.8)
Tax	2.6	2.9	0.4	5.9
Other items after tax	(7.6)	(12.9)	(1.4)	(21.9)

Six months ended 30 September 2022

	Restructure costs £m	Acquisition and disposal related costs £m	Other exceptional items £m	Total £m
Other items before tax	(3.6)	(11.8)	(2.1)	(17.5)
Tax	0.7	2.6	0.4	3.7
Other items after tax	(2.9)	(9.2)	(1.7)	(13.8)

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:

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Group transformation programme:		
Project Forté ¹	–	(2.4)
Target Operating Model ²	(10.2)	(1.2)
Restructure costs	(10.2)	(3.6)
Tax	2.6	0.7
Restructure costs net of tax	(7.6)	(2.9)

Notes:

1. Project Forté was launched in 2019, primarily focusing on re-engineering the Technical Services division to modernise and optimise workflow processes. The project was completed during the year ended 31 March 2023.
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 2025.

The costs associated with the Group transformation programme include £2.9m of external consultancy costs (2022: £1.0m), fixed-term staff costs of £3.3m (2022: £2.1m) to manage and implement changes, redundancy costs of £1.4m (2022: £0.5m), dual-run licence costs in relation to decommissioned operating system of £2.3m (2022: £nil) and onerous lease costs of £0.3m (2022: £nil).

Acquisition and disposal related costs

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Interserve integration costs	–	(0.6)
Other acquisition related costs ¹	(4.4)	(0.6)
Amortisation of acquisition related intangible assets	(11.4)	(10.6)
Acquisition and disposal costs	(15.8)	(11.8)
Tax	2.9	2.6
Acquisition and disposal costs net of tax	(12.9)	(9.2)

Note:

1. Comprises professional fees of £1.6m (2022: £1.1m), performance-based employment-linked earnout charges and adjustments to contingent consideration after the measurement period of 12 months from the acquisition date had ended of £2.6m (2022: £0.5m credit) and fixed-term staff costs of £0.2m (2022: £nil).

Other exceptional items

Other exceptional items of £1.8m (2022: £2.1m) relate to 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 £1.3m (2022: £1.4m) and third-party implementation costs of £0.5m (2022: £0.7m). This implementation, which is transformational in nature, is expected to be completed during the year ending 31 March 2025. Cumulative cash costs of £9.6m have been recognised within the condensed consolidated income statement and classified as Other items since its launch in 2022.

4. Tax

The tax charge for the period has been calculated based upon the effective tax rate expected to apply to the Group for the year ending 31 March 2024 using rates substantively enacted by 30 September 2023. The rate of tax on profit before Other items for the period was 19.1% (2022: 19.0%). The effective rate of tax on profit before Other items is principally influenced by the recognition, in accordance with the Group's accounting policy, of deferred tax assets related to losses acquired with the Interserve Facilities Management business (Interserve). Other factors are recurring non-tax deductible expenses and a lower effective tax rate on overseas profits. The effective tax rate would be 24.1% if the tax credit arising on the recognition of Interserve losses was excluded.

The rate of tax on Other items was 21.2% (2022: 21.1%) which was primarily affected by non-tax deductible expenses.

The Group expects its sustainable effective tax rate to continue to be approximately equal to the UK statutory rate, which increased from 19% to 25% with effect from 1 April 2023.

Corporation tax payments for the period amounted to £6.3m (2022: £9.0m), of which £5.1m (2022: £6.8m) was paid in the UK and £1.2m (2022: £2.2m) was paid overseas.

The Group has unutilised income tax losses of £197.3m (31 March 2023: £222.3m) that are available for offset against future profits. A deferred tax asset has been recognised in respect of £151.4m (31 March 2023: £158.4m) of these losses to the extent that it is probable that taxable profits will be generated in the future and be available for utilisation. Management has assessed 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. It is expected that a further deferred tax asset in respect of £18.0m of losses is likely to be recognised in the remainder of the financial year ending 31 March 2024. A deferred tax asset has not been recognised on the remaining £27.9m of unrecognised losses at 30 September 2023 because recoverability is uncertain.

The Group has unutilised capital losses of £6.2m (31 March 2023: £6.2m) on which no deferred tax has been recognised. The Group expects no future capital profits to arise that would enable the utilisation of the existing capital losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities; or when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

5. Dividends

During the six months ended 30 September 2023, the Group paid £28.6m in respect of the final dividend for the year ended 31 March 2023 of 2.2p per share (31 March 2022: 1.4p). The Board has declared an interim dividend for the year ending 31 March 2024 of 1.0p per share (31 March 2023: 0.7p per share) which will be paid on 31 January 2024 to all shareholders on the register at the close of business on 15 December 2023.

6. Earnings per share

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

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Profit before Other items attributable to owners of the parent	64.8	49.1
Other items net of tax ¹	(21.9)	(13.8)
Profit attributable to owners of the parent	42.9	35.3

Note:

1. Other items are as described in Note 3.

	Six months ended 30 September 2023 million	Six months ended 30 September 2022 million
Weighted average number of ordinary shares for the purpose of basic EPS ¹	1,290.6	1,375.2
Effect of dilutive potential ordinary shares	127.0	133.2
Weighted average number of ordinary shares for the purpose of diluted EPS	1,417.6	1,508.4

Note:

1. The weighted average number of ordinary shares in issue during the period excludes those accounted for in the own shares reserve.

	Six months ended 30 September 2023 pence per share	Six months ended 30 September 2022 pence per share
Basic EPS before Other items ¹	5.0	3.6
Basic EPS	3.3	2.6
Diluted EPS before Other items ¹	4.6	3.3
Diluted EPS	3.0	2.3

Note:

1. Other items are as described in Note 3.

7. Goodwill

	£m
Cost	
At 31 March 2023	344.8
Arising on business combinations ¹	26.1
At 30 September 2023	370.9
Accumulated impairment losses	
At 31 March 2023	32.5
At 30 September 2023	32.5
Net book value	
At 31 March 2023	312.3
At 30 September 2023	338.4

Note:

1. The Group acquired Linx International, RHI Industrials, JCA Engineering and Biservicus during the six months ended 30 September 2023. Refer to Note 15.

8. Trade and other receivables

	30 September 2023 £m	31 March 2023 £m
Trade receivables	408.8	450.8
Accrued income	294.8	278.9
Prepayments	44.4	40.2
Other receivables	44.1	40.4
Total	792.1	810.3
Included in current assets	768.6	786.8
Included in non-current assets	23.5	23.5
Total	792.1	810.3

Trade receivables at 30 September 2023 represent 30 days credit on sales (31 March 2023: 31 days). Management considers that the carrying amount of trade and other receivables approximates their fair value.

9. Trade and other payables

	30 September 2023 £m	31 March 2023 £m
Trade payables	215.2	230.5
Other taxes and social security	147.7	123.0
Other payables	39.8	22.7
Accruals	454.6	525.6
Total	857.3	901.8
Included in current liabilities	853.5	899.5
Included in non-current liabilities ¹	3.8	2.3
Total	857.3	901.8

Note:

1. Non-current other payables mainly comprise contingent consideration and performance-based employment-linked earnouts arising on the acquisitions of RHI Industrials, Biservicus, JCA Engineering, Rock, Custom Solar and Esoteric.

Trade payables at 30 September 2023 represent 35 days credit on trade purchases (31 March 2023: 32 days). Management considers that the carrying amount of trade and other payables approximates their fair value.

10. Provisions

	Contract specific costs £m	Insurance reserve £m	Pension £m	Dilapidations £m	Restructuring £m	Other £m	Total £m
At 31 March 2023	49.3	26.2	21.7	8.0	2.5	3.7	111.4
Additional provisions	9.7	3.7	–	0.4	0.3	0.3	14.4
Released to the income statement	(1.0)	(0.4)	–	–	–	(0.3)	(1.7)
Utilised	(5.3)	(3.2)	–	(0.1)	(1.0)	(0.3)	(9.9)
At 30 September 2023	52.7	26.3	21.7	8.3	1.8	3.4	114.2
Included in current liabilities	23.3	7.8	21.7	0.1	1.8	3.0	57.7
Included in non-current liabilities	29.4	18.5	–	8.2	–	0.4	56.5
Total	52.7	26.3	21.7	8.3	1.8	3.4	114.2

Contract specific costs

Contract specific costs provisions of £52.7m (31 March 2023: £49.3m) comprise onerous contract provisions of £11.3m (31 March 2023: £10.5m) and other contract specific provisions of £41.4m (31 March 2023: £38.8m).

Onerous contract provisions are made where the forecast direct costs of completing a contract exceed the forecast income from the contract. These provisions relate mainly to 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, as disclosed in the Annual Report and Accounts 2023. The Group recognised additional provisions of £4.7m on a PFI contract, where Mitie is liable for rectifying latent defects in fire stopping arising from original flaws in construction by a third party, and utilised £3.9m in the period 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, and a £5.8m provision relating to a commercial settlement dispute for a certain contract. The value of these provisions reflects the single most likely outcome and is expected to be utilised over a maximum period of eight years. Given the complex nature of these contracts, the calculation of contract specific provisions is a key source of estimation uncertainty, as disclosed in the Annual Report and Accounts 2023. The remaining provision relates to other potential commercial claims and rectification work for other contracts. The Group recognised additional provisions of £5.0m, released to the condensed consolidated income statement £1.0m and utilised £1.4m in the period with respect to 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 statement of financial position date. The provision includes claims incurred but not yet reported and is based on information available at the statement of financial position date. The provision is expected to be utilised over five years.

The insurance reserve of £26.3m is presented gross of an insurer reimbursement asset of £4.2m (31 March 2023: £4.0m), which represents the amount the Group is virtually certain to recover for claims under its insurance policies. Of this other receivable, £2.8m is presented as non-current.

Pension

The pension provision balance at 30 September 2023 includes £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 period longer than one year.

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 over the next fourteen years.

Restructuring

The restructuring provision as at 30 September 2023 includes £1.3m of redundancy 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.

11. Cash and cash equivalents

	30 September 2023 £m	31 March 2023 £m
Cash and cash equivalents	180.2	248.3

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. The carrying amount of the assets approximates their fair value.

At 30 September 2023, included within cash and cash equivalents is £6.4m (31 March 2023: £6.4m) 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.

12. Financing liabilities

	30 September 2023 £m	31 March 2023 £m
Bank loans - under committed facilities	–	8.4
Private placement notes	150.0	150.0
Lease liabilities	139.1	129.4
Prepaid arrangement fees	(2.6)	(1.8)
Total	286.5	286.0
Included in current liabilities	36.0	32.0
Included in non-current liabilities	250.5	254.0
Total	286.5	286.0

In September 2023, the Group increased its revolving credit facility from £150m to £250m, and the maturity date was extended by one year from October 2026 to October 2027, with an option to extend for a further one year period. All other terms remain unchanged and the facility was undrawn at the time of the modification.

In December 2022, the Group issued £120.0m of new US private placement notes (USPP), 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. A further £30.0m of USPP notes with a coupon of 4.04% are due to mature in December 2024.

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 30 September 2023 and hence all amounts are classified in line with repayment dates.

At 30 September 2023, the Group had available £250.0m (31 March 2023: £141.6m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

13. Financial instruments

Fair value estimation

The vast majority of financial instruments are held at amortised cost. However, the Group holds certain financial instruments on the statement of financial position at their fair value. Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from other observable inputs for the asset or liability; and

Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

The following table categorises the Group's financial assets and liabilities included on the Group's condensed consolidated statement of financial position which are measured at fair value. There were no transfers between levels during the period.

30 September 2023
 £m

31 March 2023
 £m

	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held at fair value through other comprehensive income								
Other receivables ¹	–	0.9	–	0.9	–	1.0	–	1.0
Assets measured at fair value	–	0.9	–	0.9	–	1.0	–	1.0
Financial liabilities held at fair value through profit and loss								
Other payables	–	–	1.5	1.5	–	–	0.5	0.5
Liabilities measured at fair value	–	–	1.5	1.5	–	–	0.5	0.5

Note:

1. Other receivables measured at FVTOCI of £0.9m (31 March 2023: £1.0m) relate to a defined benefit reimbursement asset. This is considered to fall under level 2 of the fair value hierarchy.

Certain other payables, which fall into level 3, comprise contingent consideration of £1.5m (31 March 2023: £0.5m) on the acquisitions of Esoteric, RHI Industrials and Biservicus. The fair value has been determined based on management's best estimate of achieving future targets or conditions to which the consideration relates. The most significant unobservable input used in the fair value measurements is the future forecast performance of the acquired businesses. A reasonable change in key unobservable inputs will not have a material impact on the Group.

Credit risk

The Group's credit risk is monitored on an ongoing basis and formally reported quarterly. The value of business placed with financial institutions is reviewed on a daily basis. The Group's credit risk on liquid funds is limited because the external counterparties are banks with high credit ratings assigned by international credit rating agencies and are managed through regular review.

The maximum exposure to credit risk on cash and cash equivalents at the statement of financial position date is £180.2m (31 March 2023: £248.3m).

The Group's credit risk is primarily attributable to its receivable balances from customers. Before accepting a new customer, the Group uses external credit scoring systems to assess the potential customer's credit quality and define an appropriate credit limit which is reviewed regularly.

The maximum exposure to credit risk in relation to trade receivables, other receivables and accrued income at the statement of financial position date is their fair value. The Group's customer base is large and unrelated and, accordingly, the Group does not have a significant concentration of credit risk with any one counterparty or group of counterparties.

The amounts presented in the condensed consolidated statement of financial position in relation to the Group's trade receivables, other receivables and accrued income balances are presented net of combined loss allowances of £31.3m (31 March 2023: £31.1m). The Group performs an impairment analysis at each reporting date and measures loss allowances at an amount equal to lifetime expected credit losses (ECLs) using both quantitative and qualitative information and analysis based on the Group's historical experience and forward-looking information. No material changes to credit risk have been noted since 31 March 2023.

14. Analysis of net debt

	30 September 2023 £m	31 March 2023 £m
Cash and cash equivalents (Note 11)	180.2	248.3
Adjusted for: restricted cash ¹	(6.4)	(6.4)
Bank loans – under committed facilities (Note 12)	–	(8.4)
Private placement notes (Note 12)	(150.0)	(150.0)
Prepaid arrangement fees (Note 12)	2.6	1.8
Net cash before lease obligations	26.4	85.3
Lease liabilities	(139.1)	(129.4)
Net debt	(112.7)	(44.1)

Note:

1. Restricted cash 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.

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Reconciliation of net cash flow to movements in net debt		
Net decrease in cash and cash equivalents	(67.7)	(113.5)
Decrease in restricted cash and other adjustments ¹	–	17.6
Net decrease in unrestricted cash and cash equivalents	(67.7)	(95.9)
Cash drivers		
Repayment of bank loans	8.3	4.1
Payment of arrangement fees	1.1	0.3
Capital element of lease rentals	17.9	16.9
Non-cash drivers		
Non-cash movement in bank loans	(0.1)	(0.2)
Non-cash movement in private placement notes and associated hedges	–	(0.5)
Non-cash movement in lease liabilities ²	(27.6)	(12.9)
Effect of foreign exchange rate changes	(0.5)	1.1
Increase in net debt during the period	(68.6)	(87.1)
Opening net (debt)/ cash	(44.1)	26.7
Debt acquired as part of business combinations	–	(3.6)
Closing net debt	(112.7)	(64.0)

Notes:

- Amounts for the six months ended 30 September 2022 include a decrease of £12.9m in restricted cash and a decrease of £20.0m in relation to 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. This is partially offset by certain payments totalling £15.3m which were initiated on 30 September 2022 but which settled the following working day and in accordance with the Group's accounting policy were not derecognised from cash and cash equivalents until the settlement date.
- Includes lease liabilities in relation to vehicles lease additions of £26.7m, property lease additions of £0.2m, £1.5m arising on acquisition of businesses and modification of lease terms of £0.1m, partially offset by lease terminations of £0.9m.

15. Acquisitions

Linx International

On 5 April 2023, the Group completed the acquisition of the entire issued share capital of Linx International Group Limited (Linx International) for cash consideration of £1.1m. Linx International is a leading provider of security consultancy and technical and management training services.

Linx International contributed £1.7m of revenue and £0.4m of operating profit before Other items to the Group's results during the six months ended 30 September 2023. Goodwill on the acquisition of Linx International represents the premium associated with taking over the operations which are considered to strengthen Mitie's intelligence-led security and risk management offering.

The Group's assessments of the fair values of the assets and liabilities recognised as a result of the acquisition are provisional and will be finalised within 12 months of the acquisition date. The provisional purchase price allocation is as follows:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Other intangible assets	0.3	–	0.3
Trade and other receivables	0.1	–	0.1
Cash and cash equivalents	0.2	–	0.2
Trade and other payables	(0.2)	–	(0.2)
Current tax liabilities	(0.1)	–	(0.1)
Net identifiable assets acquired	0.3	–	0.3
Goodwill			0.8
Total cash consideration			1.1

RHI Industrials

On 2 May 2023, the Group completed the acquisition of the entire issued share capital of R H Irving Industrials Limited (RHI Industrials), a long-established specialist designer, manufacturer and installer of security systems and solutions, as well as earthing services and all associated civil engineering works.

The transaction consideration comprises an initial cash consideration of £19.1m and contingent consideration with a fair value of £1.2m. The maximum value of contingent consideration is £1.5m.

RHI Industrials contributed £7.4m of revenue and £0.6m of operating profit before Other items to the Group's results during the six months ended 30 September 2023. Goodwill on the acquisition of RHI Industrials represents the premium associated with taking over the operations which are considered to strengthen the Group's existing fire and security system capabilities.

The Group's assessments of the fair values of the assets and liabilities recognised as a result of the acquisition are provisional and will be finalised within 12 months of the acquisition date. The provisional purchase price allocation is as follows:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Customer contracts and relationships	–	5.3	5.3
Property, plant and equipment	0.4	–	0.4
Right-of-use assets	0.7	0.4	1.1
Inventories	0.2	–	0.2
Trade and other receivables	4.6	–	4.6
Cash and cash equivalents	1.4	–	1.4
Trade and other payables	(2.5)	–	(2.5)
Provisions	–	(0.1)	(0.1)
Lease liabilities	(0.7)	(0.4)	(1.1)
Deferred tax liabilities	(0.1)	(1.3)	(1.4)
Net identifiable assets acquired	4.0	3.9	7.9
Goodwill			12.4
Total consideration			20.3
Initial cash consideration			19.1
Contingent consideration			1.2
Total consideration			20.3

JCA Engineering

On 3 September 2023, the Group completed the acquisition of the entire issued share capital of JCA Engineering Limited (JCA Engineering), a leading critical environment project designer and principal contractor for mechanical and electrical works, asset upgrades and replacements, and office fitouts.

The transaction consideration comprises an initial cash consideration of £43.8m.

Amounts up to a maximum of £10.5m 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 individuals' continued employment within the Mitie Group. These amounts are payable based on three performance periods for the years ending 31 March 2024, 2025 and 2026 up to a maximum of £10.5m in total. Once the £10.5m maximum has been reached nothing further will be payable in any future performance period. 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 30 September 2023, £0.8m was included in other payables relating to these transactions and the expense has been included in administrative expenses and classified as Other items within the condensed consolidated income statement.

JCA Engineering contributed £11.9m of revenue and £0.9m of operating profit before Other items to the Group's results during the six months ended 30 September 2023. Goodwill on the acquisition of JCA Engineering represents the premium associated with taking over the operations which are considered to strengthen the Group's critical environment capabilities.

The Group's assessments of the fair values of the assets and liabilities recognised as a result of the acquisition are provisional and will be finalised within 12 months of the acquisition date. The provisional purchase price allocation is as follows:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Customer contracts and relationships	–	21.1	21.1
Property, plant and equipment	0.1	–	0.1
Right-of-use assets	–	0.4	0.4
Trade and other receivables	11.6	–	11.6
Deferred tax asset	2.9	–	2.9
Cash and cash equivalents	19.2	–	19.2
Trade and other payables	(12.8)	–	(12.8)
Deferred income	(3.3)	–	(3.3)
Provisions	(0.1)	–	(0.1)
Current tax liabilities	(0.7)	–	(0.7)
Lease liabilities	–	(0.4)	(0.4)
Deferred tax liabilities	–	(5.3)	(5.3)
Net identifiable assets acquired	16.9	15.8	32.7
Goodwill			11.1
Total cash consideration			43.8

Biservicus

On 7 September 2023, the Group completed the acquisition of the entire issued share capital of Biservicus Sistemas De Seguridad, S.A. (Biservicus), a security business in Spain specialising in the installation, maintenance, surveillance and operation of fire, security, and alarm systems.

The transaction consideration comprises an initial cash consideration equivalent to £2.6m and contingent consideration with a fair value of £0.2m, which is also the maximum contingent consideration payable.

Biservicus contributed £0.5m of revenue and £0.1m of operating profit before Other items to the Group's results during the six months ended 30 September 2023. Goodwill on the acquisition of Biservicus represents the premium associated with taking over the operations which are considered to strengthen the Group's existing fire and security system capabilities.

The Group's assessments of the fair values of the assets and liabilities recognised as a result of the acquisition are provisional and will be finalised within 12 months of the acquisition date. The provisional purchase price allocation is as follows:

	Book value £m	Fair value adjustments £m	Provisional fair value £m
Customer contracts and relationships	–	0.8	0.8
Other intangibles	0.1	–	0.1
Property, plant and equipment	0.5	–	0.5
Inventories	0.1	–	0.1
Trade and other receivables	0.7	–	0.7
Cash and cash equivalents	0.1	–	0.1
Trade and other payables	(0.7)	–	(0.7)
Deferred income	(0.3)	–	(0.3)
Current tax liabilities	(0.1)	–	(0.1)
Deferred tax liabilities	–	(0.2)	(0.2)
Net identifiable assets acquired	0.4	0.6	1.0
Goodwill			1.8
Total consideration			2.8
Initial cash consideration			2.6
Contingent consideration			0.2
Total consideration			2.8

Based on estimates made of the full period impact of the above noted acquisitions, Group revenue and operating profit for the six months ended 30 September 2023 would have increased by approximately £63.6m and £4.9m respectively, if the businesses had been acquired on 1 April 2023. This would have resulted in Group revenue of £2,146.9m, Group operating profit before Other items of £89.5m and Group operating profit of £61.7m.

Three of the four acquisitions made during the period have been integrated into the Business Services division (Linx International, RHI Industrials and Biservicus) and JCA Engineering has been integrated into the Technical Services division.

Cash flows on acquisitions

	Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Cash consideration	66.6	18.7
Less: cash balance acquired	(20.9)	(2.1)
Net outflow of cash – investing activities	45.7	16.6

G2 Energy Limited asset purchase

On 28 July 2023, Mitie acquired a portfolio of assets from the liquidators of G2 Energy Limited for cash consideration of £0.6m. The purchase enhances Mitie's high voltage electrical and civil engineering capabilities. This has been accounted for as an asset purchase.

16. Retirement benefit schemes

The Group has a number of pension arrangements for employees:

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

The Group operates a number of defined contribution pension schemes for qualifying employees. During the six months ended 30 September 2023, the Group made a total contribution to defined contribution schemes of £7.5m (2022: £6.9m) and contributions to the auto-enrolment scheme of £10.9m (2022: £10.1m), which are included in the income statement charge.

The defined benefit schemes include the Mitie Group plc Pension Scheme (Group scheme). During the year ended 31 March 2023, 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 Group also operates a number of smaller defined benefit 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, the Group participates in the Landmarc joint venture scheme. Mitie's share of the surplus in this scheme at 30 September 2023 was £1.5m (31 March 2023: £1.5m) and this is reported within interest in joint ventures and associates on the condensed consolidated statement of financial position.

Principal accounting assumptions at statement of financial position date

	Group section/scheme		Interserve section/scheme		Other schemes	
	30 September 2023 %	31 March 2023 %	30 September 2023 %	31 March 2023 %	30 September 2023 %	31 March 2023 %
Key assumptions used for IAS 19 valuation:						
Discount rate	5.60	4.75	5.50	4.80	5.50 – 5.60	4.80
Expected rate of pensionable pay increases	3.30	3.25	3.40	3.40	3.30 – 3.40	3.40
Retail price inflation	3.30	3.25	3.30	3.40	3.30 – 3.40	3.40
Consumer price inflation	2.55	2.50	2.90	2.90	2.55 – 2.90	2.90
Future pension increases	3.35	3.25	3.40	3.40	3.35 – 3.40	3.40

Sensitivity of defined benefit obligations to key assumptions

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

	Change in assumption	Impact on defined benefit obligations	
		Increase/(decrease) in obligations %	Increase/(decrease) in obligations £m
Increase in discount rate	0.1%	(1.3)	(3.2)
Increase in inflation-linked assumptions	0.1%	0.8	1.9
Increase in consumer price inflation (excluding pay)	0.1%	0.7	1.6
Increase in life expectancy	1 year	2.5	6.4

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings, such as a change in discount rates as a result of a change in UK corporate bond yields.

Amounts recognised in financial statements

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

	30 September 2023				30 September 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	–	(0.3)	(0.5)	(0.8)	(0.1)	(0.4)	(0.9)	(1.4)
Past service cost	–	–	(0.2)	(0.2)	–	–	–	–
Total administration expense	(0.9)	–	–	(0.9)	(0.2)	–	–	(0.2)
Amounts recognised in operating profit	(0.9)	(0.3)	(0.7)	(1.9)	(0.3)	(0.4)	(0.9)	(1.6)
Net interest income/(cost)	0.1	0.1	–	0.2	(0.1)	–	–	(0.1)
Amounts recognised in profit before tax	(0.8)	(0.2)	(0.7)	(1.7)	(0.4)	(0.4)	(0.9)	(1.7)

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

	30 September 2023				30 September 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 arising due to changes in financial assumptions	21.4	2.0	9.2	32.6	89.4	11.1	23.9	124.4
Actuarial losses arising from liability experience	(4.9)	(0.3)	(0.1)	(5.3)	(11.2)	(1.3)	(1.8)	(14.3)
Movement in asset ceiling, excluding interest	–	–	(2.3)	(2.3)	–	–	(5.6)	(5.6)
Return on scheme assets, excluding interest income	(23.1)	(3.2)	(5.9)	(32.2)	(76.3)	(9.9)	(11.7)	(97.9)
Return on reimbursement asset ¹	–	–	(0.1)	(0.1)	–	–	(0.2)	(0.2)
Amounts recognised in condensed consolidated statement of comprehensive income	(6.6)	(1.5)	0.8	(7.3)	1.9	(0.1)	4.6	6.4

Note:

- Included within the consolidated statement of comprehensive income is £0.1m loss related to a reimbursement asset. The reimbursement asset of £0.9m at 30 September 2023 (31 March 2023: £1.0m) is recorded within other receivables.

The amounts included in the condensed consolidated statement of financial position are as follows:

	30 September 2023				31 March 2023			
	Group section £m	Interserve section £m	Other schemes £m	Total £m	Group section £m	Interserve section £m	Other schemes £m	Total £m
Fair value of scheme assets	155.0	21.8	71.7	248.5	170.3	24.2	77.1	271.6
Present value of defined benefit obligations ¹	(154.0)	(21.4)	(53.8)	(229.2)	(169.6)	(22.5)	(62.2)	(254.3)
Surplus without restriction	1.0	0.4	17.9	19.3	0.7	1.7	14.9	17.3
Effect of asset ceiling	–	–	(20.1)	(20.1)	–	–	(17.5)	(17.5)
Net pension asset/(liability)	1.0	0.4	(2.2)	(0.8)	0.7	1.7	(2.6)	(0.2)

Note:

- The 31 March 2023 comparatives have been restated to increase the asset ceiling by £8.8m and reduce the present value of the defined benefit obligation by £8.8m in order to properly show the full effect of the asset ceiling separately. Some of the effect of the asset ceiling had been previously included within the defined benefit obligation. There is no impact on the net retirement benefit liabilities recognised on the statement of financial position.

All figures above are shown before deferred tax.

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

	Group section £m	Interserve section £m	Other schemes £m	Total £m
At 31 March 2023 ¹	169.6	22.5	62.2	254.3
Current service cost	–	0.3	0.5	0.8
Interest cost	4.0	0.5	1.6	6.1
Actuarial gains arising due to changes in financial assumptions	(21.4)	(2.0)	(9.2)	(32.6)
Actuarial losses arising from experience	4.9	0.3	0.1	5.3
Benefits paid	(3.1)	(0.2)	(1.1)	(4.4)
Past service cost	–	–	(0.3)	(0.3)
At 30 September 2023	154.0	21.4	53.8	229.2

Note:

1. The 31 March 2023 comparatives have been restated to increase the asset ceiling by £8.8m and reduce the present value of the defined benefit obligation by £8.8m in order to properly show the full effect of the asset ceiling separately. Some of the effect of the asset ceiling had been previously included within the defined benefit obligation. There is no impact on the net retirement benefit liabilities recognised on the statement of financial position.

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

	Group section £m	Interserve section £m	Other schemes £m	Total £m
At 31 March 2023	170.3	24.2	77.1	271.6
Interest income	4.1	0.6	1.6	6.3
Actuarial losses on assets	(23.1)	(3.2)	(5.9)	(32.2)
Contributions from the sponsoring companies	7.7	0.4	0.2	8.3
Contributions from scheme members	–	–	0.3	0.3
Expenses paid	(0.9)	–	–	(0.9)
Benefits paid	(3.1)	(0.2)	(1.1)	(4.4)
Past service cost	–	–	(0.5)	(0.5)
At 30 September 2023	155.0	21.8	71.7	248.5

17. Contingent liabilities

Contractual disputes

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

The Group is currently aware of 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.

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.

18. Related party transactions

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

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company. During the six months ended 30 September 2023, the Group made donations and gifts in kind of £0.1m (2022: £nil) to the Foundation.

During the period ended 30 September 2023, the Group recognised revenue from transactions with joint ventures or associates of £1.4m (2022: £1.4m). The amounts due from joint ventures and associates at 30 September 2023 was £0.2m (31 March 2023: £0.4m) and no expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by joint ventures and associates (2022: £nil).

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 period ended 30 September 2023 meet the definition of related party transactions.

19. Events after the reporting period

Landmarc - amendment to shareholders' agreement

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. As at 30 September 2023, management considered Landmarc to be a joint venture despite the Group having majority voting rights. This is because, under the terms of the shareholders' agreement prevalent at that date, joint agreement was required with the other party to pass resolutions for all significant activities. Accordingly, the Group did not control Landmarc and did not recognise it as a subsidiary as at 30 September 2023.

On 10 October 2023, Mitie entered into an agreement with Mitie's joint venture partner to amend the Landmarc shareholders' agreement. The change of control in relation to Landmarc required a mandatory notification under the UK National Security and Investment Act 2021 due to Landmarc's business of providing services for the management and operation of the UK Defence Training Estate. Clearance was granted on 16 November 2023 at which point the amendments to the shareholders' agreement became effective. Landmarc will be consolidated as a subsidiary of Mitie from that date. Given the proximity of the clearance to the reporting date, management has provided information available at the time of approval of the condensed consolidated financial statements. Further disclosures will be made within the Group's Annual Report and Accounts 2024.

Cliniwaste acquisition

On 10 October 2023, the Group acquired Cliniwaste Holdings Limited (Cliniwaste) for cash consideration of £1.0m. Cliniwaste specialises in treating plastic waste generated by the NHS and pharmaceutical manufacturers, turning it into a reusable resource. This acquisition is part of Mitie's strategy of providing sustainable waste management solutions to its clients, particularly in the healthcare and pharmaceutical sectors. Given the proximity of the acquisition to the reporting date, management has provided information available at the time of approval of the condensed consolidated financial statements. Further disclosures will be made within the Group's Annual Report and Accounts 2024.

Share buyback

On 11 October 2023, the Group announced the launch of the second £25m tranche of the current share buyback programme.

GBE Converge Group acquisition

On 2 November 2023 the Group announced the acquisition of GBE Converge Group Ltd (GBE), a leading independent provider of fire, security and information and communications technology (ICT) solutions, for a maximum cash consideration of £27m (comprising an initial payment of £20m and contingent payments of up to £7m over three years, linked to performance). Given the proximity of the acquisition to the reporting date, management has provided information available at the time of approval of the condensed consolidated financial statements. Further disclosures will be made within the Group's Annual Report and Accounts 2024.

Appendix - Alternative Performance Measures

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

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

Performance before Other items

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

These Other items include impairment of goodwill, impairment and amortisation of acquisition related intangible assets, acquisition and disposal related costs, gain or loss on business disposals, cost of restructuring programmes and other exceptional items. Further details of these Other items are provided in Note 3.

		Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
Operating profit			
Operating profit	Statutory measures	56.8	50.5
Adjust for: restructure costs	Note 3	10.2	3.6
Adjust for: acquisition and disposal related costs	Note 3	15.8	11.8
Adjust for: other exceptional items	Note 3	1.8	2.1
Operating profit before Other items	Performance measures	84.6	68.0

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

Operating profit/(loss)	Six months ended 30 September 2023 £m			Six months ended 30 September 2022 ¹ £m		
	Reported results	Adjust for: Other items (Note 3)	Performance measures	Reported results	Adjust for: Other items (Note 3)	Performance measures
Segment						
Business Services	40.3	1.4	41.7	40.0	0.5	40.5
Technical Services	15.8	3.7	19.5	12.2	1.9	14.1
CG&D	34.0	–	34.0	25.5	–	25.5
Communities	13.8	–	13.8	15.7	0.1	15.8
Corporate centre	(47.1)	22.7	(24.4)	(42.9)	15.0	(27.9)
Total	56.8	27.8	84.6	50.5	17.5	68.0

Note:

- The comparatives for the six months ended 30 September 2022 have been restated for the change in the composition of reportable segments.

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

		Six months ended 30 September 2023 pence	Six months ended 30 September 2022 pence
Earnings per share			
Statutory basic earnings per share	Statutory measures	3.3	2.6
Adjust for: Other items per share		1.7	1.0
Basic earnings per share before Other items	Performance measures	5.0	3.6

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.

		Six months ended 30 September 2023	Six months ended 30 September 2022
		£m	£m
Revenue			
Group revenue	Statutory measures	2,083.3	1,874.3
Adjust for: share of revenue of joint ventures and associates	Note 2	49.1	48.6
Revenue including share of joint ventures and associates	Performance measures	2,132.4	1,922.9
Adjust for: revenue from short-term COVID-related contracts ¹		–	(12.6)
Revenue excluding short-term COVID-related contracts	Performance measures	2,132.4	1,910.3

Note:

1. In 2022, includes £11.7m attributable to the Business Services segment.

		Six months ended 30 September 2023	Six months ended 30 September 2022
		£m	£m
Operating profit			
Operating profit	Statutory measures	56.8	50.5
Adjust for: Other items	Note 3	27.8	17.5
Operating profit before Other items	Performance measures	84.6	68.0
Adjust for: operating profit from short-term COVID-related contracts ¹		–	(2.6)
Operating profit excluding short-term COVID-related contracts	Performance measures	84.6	65.4

Note:

1. In 2022, includes £2.6m attributable to the Business Services segment.

Net debt and total financial obligations

Net debt 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 measure.

Total financial obligations (TFO) is defined as the Group's net debt including net retirement benefit liabilities. TFO represents all debt-like financing items the Group has made use of at period end.

A reconciliation from reported figures is presented below:

		30 September 2023	31 March 2023	30 September 2022
		£m	£m	£m
Net debt				
Cash and cash equivalents	Statutory measures	180.2	248.3	232.9
Adjusted for: restricted cash and other adjustments ¹	Note 14	(6.4)	(6.4)	(19.9)
Financing liabilities	Note 12	(286.5)	(286.0)	(318.1)
Derivative financial instruments hedging Private Placement notes		–	–	41.1
Net debt	Performance measures	(112.7)	(44.1)	(64.0)
Net retirement benefit liabilities	Note 16	(0.8)	(0.2)	1.1
TFO	Performance measures	(113.5)	(44.3)	(62.9)

Note:

1. Included within these amounts is restricted cash of £6.4m (31 March 2023: £6.4m; 30 September 2022: £4.6m). Amounts at 30 September 2022 also included certain payments totalling £15.3m which were initiated on 30 September 2022 but which settled the following working day and in accordance with the Group's accounting policy were not derecognised from cash and cash equivalents until settlement date.

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 £156.1m for the six months ended 30 September 2023, compared with £84.3m for the year ended 31 March 2023 and £62.0m for the six months ended 30 September 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/(outflow).

		Six months ended 30 September 2023 £m	Restated ¹ Six months ended 30 September 2022 £m
Free cash flow			
Net cash generated from operating activities	Statutory measures	59.9	2.0
Add: net decrease in restricted cash and other adjustments		–	17.6
Interest received		1.9	0.8
Dividends received from joint ventures and associates		6.9	5.3
Purchase of property, plant and equipment		(5.2)	(4.5)
Purchase of other intangible assets		(3.5)	(9.3)
Disposal of property, plant and equipment		0.1	–
Lease incentives received		5.7	–
Capital element of lease rentals paid		(17.9)	(16.9)
Free cash inflow/(outflow)	Performance measures	47.9	(5.0)

Note:

- During the year ended 31 March 2023, management updated its definition of free cash flow to exclude cash outflow on purchase of own shares. This was due to a change in management's policy on satisfying share awards to purchasing shares rather than issuing new shares and was consistent with the exclusion of cash outflow on share buybacks from free cash flow. The prior year comparative has been restated to reflect this change.

Earnings before interest, tax, depreciation and amortisation

Earnings before interest, tax, depreciation and amortisation (EBITDA) is a measure of the Group's profitability. EBITDA is measured as profit before tax excluding the impact of net finance costs, Other items, depreciation on property, plant and equipment, amortisation and impairment of non-current assets and amortisation of contract assets.

		Six months ended 30 September 2023 £m	Six months ended 30 September 2022 £m
EBITDA			
Profit before tax	Statutory measures	52.3	43.1
Add: net finance costs		4.5	7.4
Operating profit		56.8	50.5
Add: Other items	Note 3	27.8	17.5
Operating profit before Other items		84.6	68.0
Add:			
Depreciation of property, plant and equipment		21.7	21.3
Amortisation of non-current assets ¹		4.2	2.6
Amortisation of contract assets		0.4	0.5
Impairment of non-current assets ¹		–	0.2
EBITDA	Performance measures	110.9	92.6

Note:

- Excludes amounts classified in the condensed consolidated income statement as Other items.

Return on invested capital

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

		30 September 2023 £m	31 March 2023 £m	30 September 2022 £m
Net assets	Statutory measures	411.6	421.7	402.3
Add:				
Non-current liabilities		333.4	335.9	211.8
Current provisions		57.7	54.2	57.3
Current Private Placement notes		–	–	162.6
Deduct:				
Current derivative financial assets		–	–	(41.1)
Non-current deferred tax assets		(19.7)	(20.4)	(8.2)
Cash and cash equivalents		(180.2)	(248.3)	(232.9)
Invested capital	Performance measures	602.8	543.1	551.8
Operating profit before Other items¹		178.7	162.1	149.6
Tax ²		(30.3)	(24.3)	(23.6)
Operating profit before Other items after tax¹		148.4	137.8	126.0
ROIC %³	Performance measures	24.6%	25.4%	22.8%

Notes:

1. Operating profit is presented on a rolling 12-month basis.
2. The tax charge has been calculated at the effective tax rate on pre-tax profits before other items of 16.9% (31 March 2023: 15.0%, 30 September 2022: 15.8%).
3. The ROIC metric used for the purposes of the Enhanced Delivery Plan (EDP) requires further adjustments under the detailed rules agreed with shareholders.