

# Delivering today Inspiring tomorrow

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Our sustainability and business goals are intertwined, and this year you will find material sustainability content discussed throughout this report.

You can find further information on the sustainability section of our website, and detailed performance data in our Sustainability Report.

[www.mitie.com/sustainability](http://www.mitie.com/sustainability)

## Financial highlights

**£2.232bn**

**Revenue**  
(2015: £2.274bn)

**£128.9m**

**Operating profit<sup>1</sup>**  
(2015: £128.6m)

**5.8%**

**Operating profit margin<sup>1</sup>**  
(2015: 5.7%)

**75.2%**

**Cash conversion**  
(2015: 126.5%)

**12.1p**

**Dividend per share**  
(2015: 11.7p)

**25.0p**

**Basic earnings per share<sup>1</sup>**  
(2015: 24.8p)

**17.5%**

**Return on capital employed**  
(2015: 18.6%)

**82%**

**2017 budgeted revenue secured**  
(2015: 85%)

**£8.5bn**

**Order book**  
(2015: £9.0bn)

**£9.1bn**

**Sales pipeline**  
(2015: £9.7bn)

1. Before other items (Note 5)

## For further information

 Visit our corporate website  
[mitie.com/investors](http://mitie.com/investors)

 Visit our facebook page  
[facebook.com/mitiepeople](https://facebook.com/mitiepeople)

 Follow us on twitter  
[@wearemitie](https://twitter.com/wearemitie)

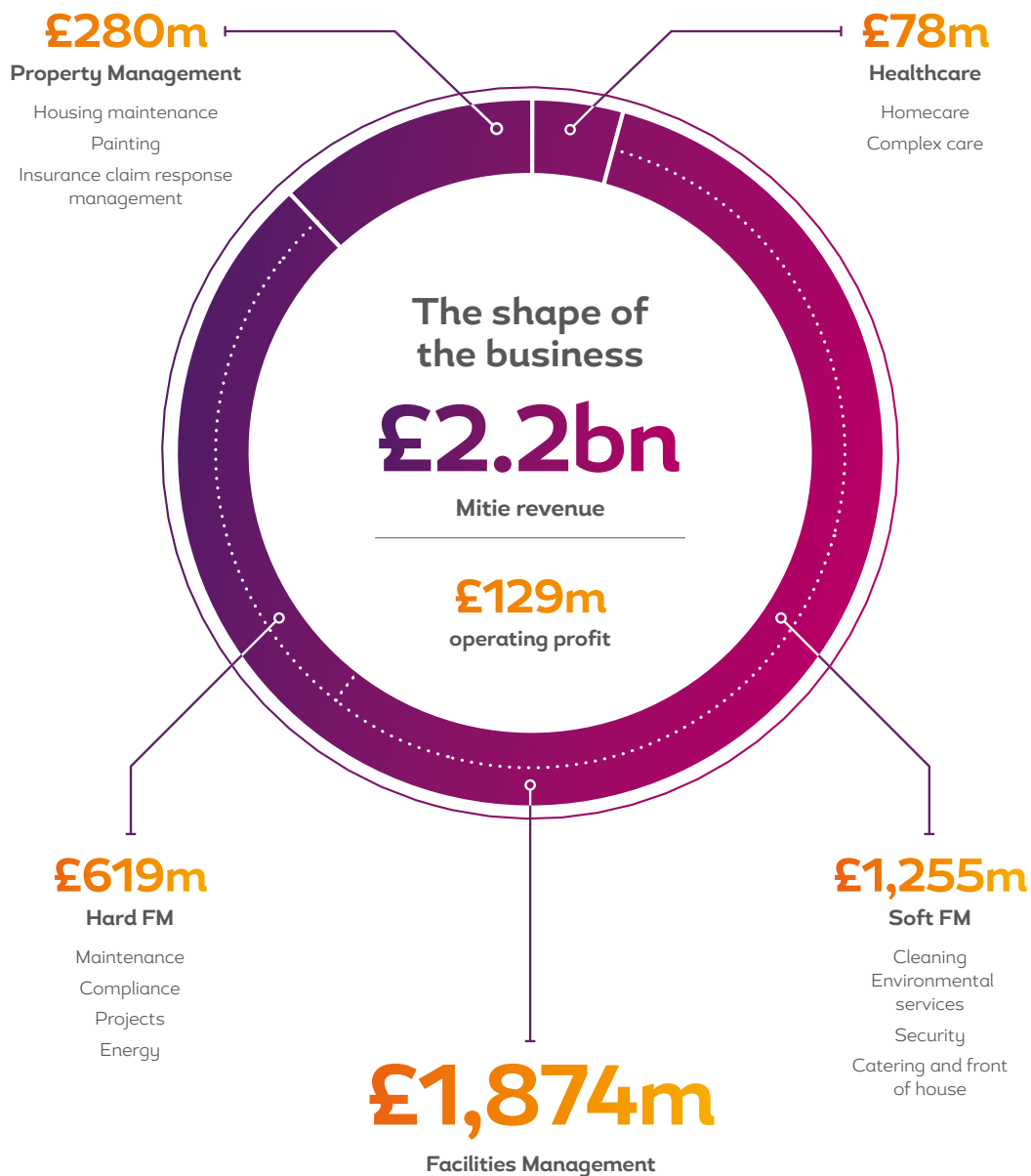
 Watch our latest content  
[youtube.com/user/mitiegroupplc](https://youtube.com/user/mitiegroupplc)

**Mitie is the outsourcing partner of choice. We deliver services that help clients be more efficient and effective, today and tomorrow.**

We are all about developing people to excel at what they do, challenge how things are done and inspire change.

# We provide a range of diverse services

Our facilities management services are delivered as integrated FM contracts, in bundles or as single services, depending on client requirements. The property management business provides repair and maintenance services in the social housing market and we also provide high quality care to people at home.



## to high quality clients

We have a strong track record of building long-term relationships with our clients. Our top 100 clients represent 50% of our revenues, many of whom we have worked with for over ten years. 80% of our integrated FM contracts have developed from single services relationships.

sky

h&f  
hammersmith & fulham

vodafone

Transport for London

NHS

Home Office  
HUB-BING-A SAFE, JUST AND TOLERANT SOCIETY

JONES LANG LASALLE

LinkedIn

ABInBev

RBS  
The Royal Bank of Scotland

THALES

NetworkRail

O<sub>2</sub>

Santander

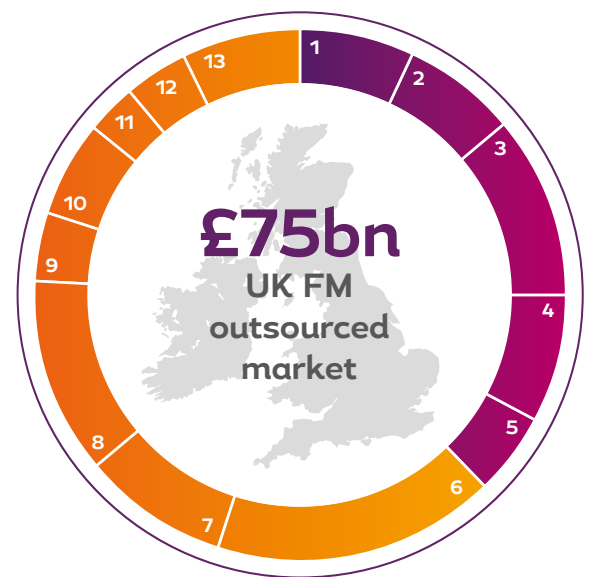
CAPITA

orbit  
HEART OF ENGLAND

Deloitte. dmg::media

## across a broad range of markets

We work in most market sectors across the UK with an emphasis on the private sector. Over the past few years we have started to expand our services in international markets and in 2016 we worked in over 50 countries, and generate 3.4% of revenues from outside the UK.



### Revenue break down by end market

#### Public sector

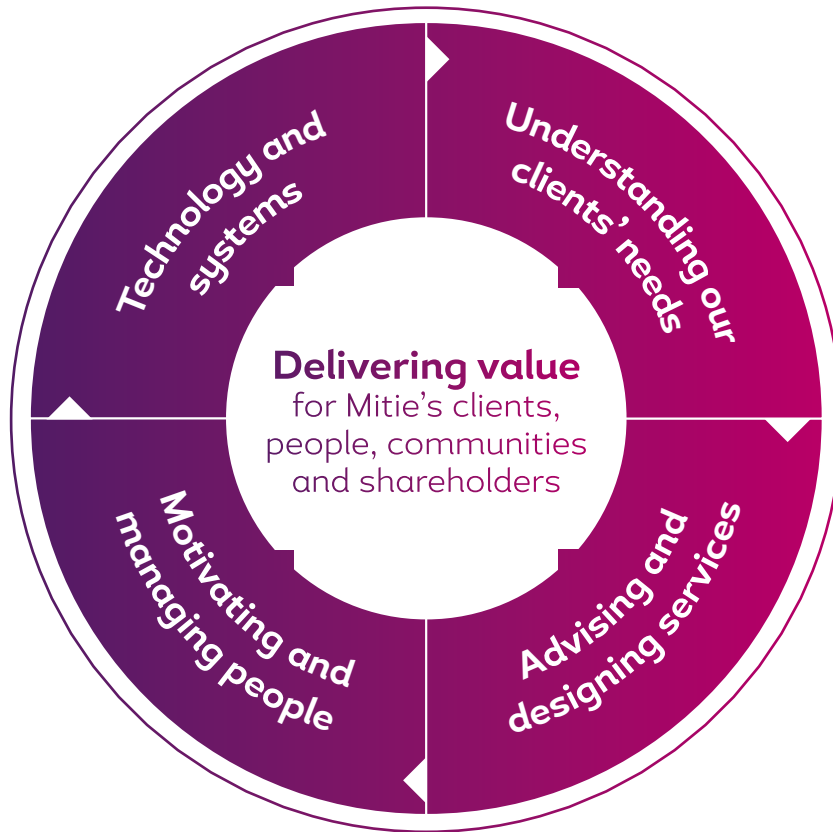
1. Central government 7%
2. Local government 7%
3. Social housing 11%
4. Healthcare 8%
5. Education 5%

#### Private sector

6. Finance and professional services 17%
7. Manufacturing 9%
8. Retail 12%
9. Property management 4%
10. Technology 6%
11. Utilities 3%
12. Leisure 4%
13. Transport 7%

# A low risk and resilient business model designed for growth

Our business model is designed to allow Mitie to succeed in the long term. Our starting point is always to talk to our clients, understand their strategy and work out what they want to achieve. We then use our experience and knowledge of property, workplaces and services to advise them on the best way forward. We apply fresh thinking to create services that produce innovative ways for our clients to live and work. To deliver the services they need we make sure that our people are well managed and motivated. We make sure that we get the basics right and provide opportunities for our diverse workforce to develop careers. Our increasingly mobile workforce needs systems that are flexible and adapt to changes in the workplace. We use a variety of technology-based solutions to make our services more effective. As our clients' needs change we keep evolving the way we do things to make sure we support them over the long term.



## How we create value

For a business to be able to succeed over the long term it needs to be able to generate value for all of its stakeholders. We provide value for our clients by delivering efficient services that support their strategic objectives. Our people are part of a business that celebrates and respects differences, gives opportunities for development and encourages people to reach their potential. We have significant engagement with the communities where we work, supporting schools and the disadvantaged, because we realise that we do not work in isolation. What we do affects the way people think about us and allows us to operate. Our shareholders are looking for a return on their investment that is compatible with the risks they are taking. As a stable predictable business we are well placed to deliver value for all of our stakeholders.

# with a clear investment case

Mitie is different because our people are motivated and entrepreneurial. Mitie has created long-term value for shareholders by incentivising management teams to outperform. We have focused on having the best people in our business, providing them with the technology and equipment they need, working in long-term partnerships with our clients and providing a leading range of quality services. We know that by getting this right growth and a strong financial performance follow. Today we are a UK based business with a market leading position that provides a platform for sustainable growth.

## Pure services business

Market leading integrated facilities management offer  
Reduced risk with focus on facilities management

## Quality client base in diversified end markets

Broad client base across private and public sectors  
Consultancy services provide strategic differentiation

## High retention rates and significant pipeline

Long-term relationships as a trusted partner supporting clients' strategies  
Good pipeline of future opportunities

## Innovation and technology capabilities

Reputation for high quality efficient services and delivery capability  
Technology enables data analytics and insight to enhance decision making and performance

## Entrepreneurial people and high management retention

Entrepreneurial people who are totally focused on client needs  
Strong, diverse talent pool and succession plan

## Stable, predictable profits

Margins consistently between 5% and 6%  
Long-term order book

## Disciplined capital allocation

We invest in our business using working capital to win and retain contracts  
Long-term track record of dividend growth



# A flexible and resilient business model

## Overview

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

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

Our FM business continues to perform well, particularly in the area of integrated FM where we have successfully re-bid or extended all of our major integrated contracts until at least 2019. Significant new contracts have also been secured with Deloitte, Thales, dmg media, NHS Property Services, CTIL and Ladbrokes with a combined annual value in excess of £80m. Revenues were slightly lower than

the prior year, partly due to new contract awards being mobilised late in the financial year, and also as a result of some project works being delayed or cancelled. However, with new contracts starting in the new financial year, a good pipeline of sales opportunities and a number one market position in the UK, we are positive about the potential for long-term growth.

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

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

## Results

During the year, revenue decreased by 1.8% to £2,231.9m (2015: £2,273.8m). Operating profit before other items increased by 0.2% to £128.9m (2015: £128.6m), reflecting a margin of 5.8% (2015: 5.7%). Profit before tax increased by 133.3% to



£96.8m (2015: £41.5m) and earnings per share before other items increased by 0.8% to 25.0p (2015: 24.8p). Earnings per share has increased by 119.6% to 21.3p (2015:9.7p).

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

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

### Dividend

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

### Capital allocation

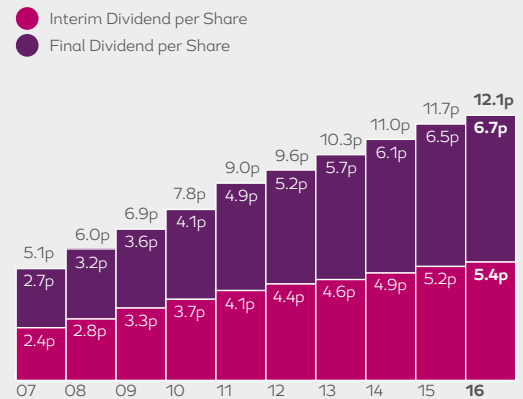
We are focused on returning sustainable, long-term value for our shareholders and as part of that we take a disciplined approach to capital allocation. First and foremost, we invest in working capital to support the organic growth of the business. We will also continue to make small, bolt-on acquisitions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

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

### Board and corporate governance

As Chairman of the company one of my primary responsibilities is to make sure that the business has the appropriate systems and procedures in place to ensure that it does the right thing from the perspective of ethics and values and that it acts in a way that protects the interests of shareholders and

### 10 year dividend (p)



➔ For more information, see our financial review on pages 52-56

wider stakeholders. This year the Board has prioritised the development of our long-term growth strategy, the review of ongoing performance, capital allocation and the composition of the Board.

During the year both David Jenkins and Crawford Gillies retired from the Board and I would like to thank them both for their valuable contributions to the success of Mitie during their tenure.

Mark Reckitt was appointed to the Board on 1 July 2015 and became Chairman of the Audit Committee on 14 July 2015. It is our intention to recruit additional Non-Executive Directors in due course to complement the current skills and experience that we have on the Board.

### Outlook

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

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

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

**Roger Matthews**  
Chairman



## A year of good progress

Mitie has made good progress during the year. We have held our own in a competitive marketplace, against the backdrop of a somewhat challenging environment. However, outsourcing remains the most effective way for public and private sector organisations to innovate and improve efficiency and achieve competitive advantage. We have a flexible, resilient business model and a track record of responding to changing market conditions and client needs.

We look after our clients' buildings, facilities and people – and we continue to do these things very well. We are recognised as the outsourcing partner of choice as well as the employer of choice, twin strengths that enable us to deliver high quality services and the greatest innovation in our chosen markets.

Our mission is to create stakeholder value by focusing on sustainable, profitable growth – and we achieve this by implementing a clear strategy.

# A clear strategy to deliver sustainable, profitable growth

## Achieved through our six distinct pillars

1

### Maintain our position as the leading provider of FM services in the UK

- > Client and contract retention
- > Executive relationship programme
- > Economies of scale
- > High-quality innovative services

2

### Increase the range and scale of services we provide to our top 200 clients, in the UK and internationally

- > Proven efficiencies from integration
- > Streamlined management structures
- > Investment in relationships
- > Scope for international expansion

3

### Attract, retain and develop the best people in our industry

- > Nurture and develop a diverse talent pool
- > Increase employee satisfaction
- > Promote career pathways from apprenticeships to management
- > Reward and recognition schemes
- > Employee share ownership

4

### Increase the provision of technology-led services

- > Investment in technology to improve operational efficiency and management information
- > Mobile workforce tasking, management, tracking and reporting
- > MiWorld portal
- > Vetting and screening
- > Remote monitoring and tracking

5

### Grow our public services businesses by developing relationships with key clients

- > Careful selection of public sector clients in housing, justice and health
- > Emphasis on quality of services and mature relationships
- > Bespoke partnering models
- > Bundling and integration of services
- > Long-term contracts

6

### Expand the scale and breadth of our higher-value consultancy services

- > Real estate, technology and risk management
- > IT infrastructure, telecomms, voice and data
- > Strategic advisory services and business intelligence

## Supported by a strong foundation

of sound business processes and a commitment to fulfilling our responsibilities to the wider community.

### Sustainability

- > Reduce the environmental impact of our operations
- > Reinforce our culture to "do the right thing"
- > Improve the diversity, engagement, health and safety of our people

> For more information, see pages 18-19

### Risk management

- > Macroeconomic environment (including Brexit) creates the operating and investment environment for Mitie and its clients
- > Protect our reputation

> For more information, see pages 57-60

### Governance

- > Strategy and performance review
- > Compliance, ethics and conduct
- > Board composition and succession planning
- > Audit and internal controls

> For more information, see pages 64-100

## Chief Executive's strategy overview continued

### 1 Maintain our position as the leading provider of FM services in the UK

Our clients appoint us because they are looking for improved services at lower cost - and they stay with us because we exceed expectations and constantly identify new and better ways of working. In our business, service is everything and we take the time to gain a detailed understanding of our clients' businesses, objectives and opportunities.

more information on pages 37-51

Clients continue to reward our approach to outsourcing with praise as well as contracts. We were named Best Overall FM Provider in the i-FM Brand Survey Report for the third consecutive year. Of the eight categories relevant to our operations (integrated FM, technical FM, cleaning, security, catering, front of house, landscaping and waste) we were #1 in five, #2 in two and #3 in one. In each category, we have either improved or maintained our position during the last 12 months - so this element of our strategy is clearly demonstrated by our momentum and direction of travel.

### Rankings

	2013	2014	2015	Direction of Travel
Overall FM provider	#1	#1	#1	Maintain lead
Integrated FM	#1	#1	#1	Maintain lead
Hard FM	#2	#2	#1	Maintain lead
Cleaning	#2	#2	#2	Maintain
Security	#2	#2	#2	Maintain
Catering	#5	#5	#3	^
Front of house	#1	#2	#1	^
Landscaping	#2	#2	#1	^
Waste	#3	#2	#1	^



Our people are what make Mitie such a compelling partner for organisations looking to improve performance and reduce costs.

“We have a track record of responding to changing market conditions and client needs”

We retained 88%\* of contracts up for review during the year - and were particularly delighted to successfully rebid our contract for the FM of Rolls-Royce's UK and European estate for a further five years. We have worked with Rolls-Royce for 24 years and in that time have seen our partnership grow from a single contract to a fully integrated, European-wide service. Among other notable developments, we also successfully rebid our integrated FM contract with RWE npower and extended in scope and term contracts with St George's Hospital NHS Hospital Trust and the Cumbrian Collaboration during the year, underlining the link between long-term relationships and long-term value.

At the same time, we have continued to generate more business from new and existing clients. Among the highlights are a new £100 million contract to provide FM services to NHS Property Services across England. Our appointment followed an intense rationalisation of services by NHS Property Services - with Mitie winning 25 of the 31 lots on offer. We have also been successful in adding a range of new single, bundled and integrated services contracts to our portfolio during the year, more details of which can be found in the Operating Review on pp 37-51.

In November, the Mitie Executive Relationship Programme (ERP) was honoured as the 'Best Corporate Decision-Maker-Targeted Campaign' at the Business-to-Business Awards. The ERP is a great example of how we work hard to get close to our clients, building relationships based on trust and mutual respect. We held 13 dinners and roundtables under the ERP umbrella, engaging with 118 representatives from clients and prospects. Topics covered included: agile working; data; energy; evolving FM contract models; productivity; the challenges faced by specific sectors; and our views on FM industry drivers. We published three major pieces of research during the year, 18 strategy reports, over 30 PR articles, 76 blogs and made eight presentations of our white papers. In addition to the clients we met face-to-face, articles on our website received over 10,000 hits.

\* This represents the retention % of the top 50 contracts across the group, calculated using the same method as the prior year (96%).

## 2 Increase the range and scale of services we provide to our top 200 clients, in the UK and internationally

Over the last decade, we have seen a clear trend for clients to trust us to deliver an ever increasing range of services. Typically, they begin their journey by first testing the outsourcing water with a single service. The next stage is to access broader cost savings and synergies by bundling a range of services into a single contract. Finally, they move to fully integrated FM where they benefit from greater savings, additional synergies and integrated delivery co-ordinated by a Mitie-managed team.

Once clients experience IFM from Mitie, they become long-term advocates – in fact our retention rate in IFM was 100% during the last 12 months. Now we are sharpening our focus on moving our top 200 FM clients towards IFM, with skilled account directors building and maintaining close relationships that last.

An example of this during the year was when we were awarded a new integrated FM contract with dmg media, having previously provided security to the group. The expanded five-year contract has an expected total value in excess of £20 million, with a further potential two-year extension period. We were also delighted that our catering business, Gather & Gather, was awarded a new contract by Vodafone, adding to the existing integrated FM

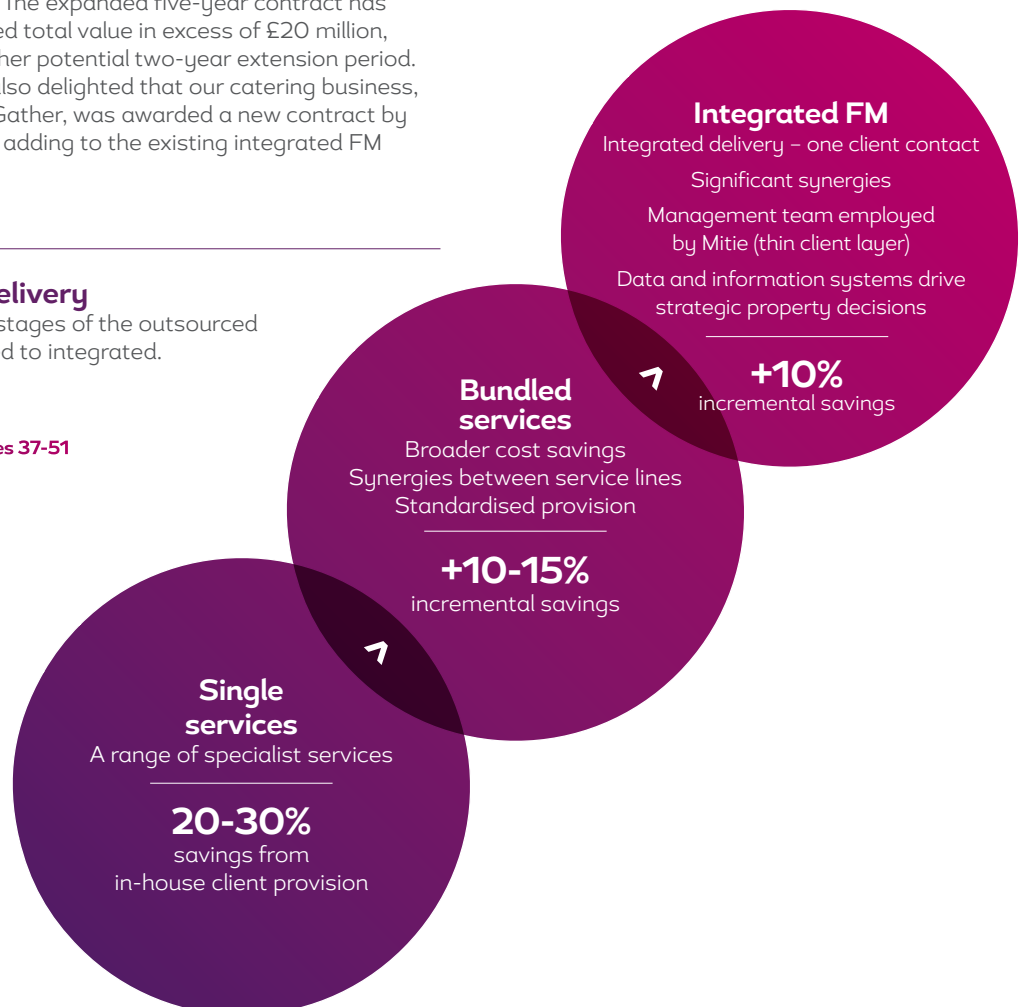
work we already provide across their UK and Irish estate. Growing the scope of our work with existing clients has been key to our growth, and this approach remains a critical element of our long-term growth strategy.

We work hard to give our clients the best possible service - not only how and when they want it, but where they want it too. Our business model is equally relevant across Europe. So when our clients expand into new territories, we make sure they can benefit from the same high quality services that they enjoy in the UK. We have followed our clients and built a Mitie presence in countries including Ireland, Germany and Norway. Once established in a new country with an existing client, we take the opportunity to evaluate local markets and identify opportunities for further expansion and growth.

### Evolution of service delivery

Our clients are all at varying stages of the outsourced journey from single to bundled to integrated.

➤ Turn to our operating review for more information on pages 37-51



## Chief Executive's strategy overview continued

### 3 Attract, retain and develop the best people in our industry

As a services business, we are nothing without our people, and we strive to support and engage with them in a wide range of ways. Only when we have excellent people supporting great clients are we in a position to inspire change in the way people live and work.

Companies with highly engaged workforces outperform their peers and achieve significantly greater productivity and profitability, with fewer safety incidents, less sick leave and reduced people turnover. During the year we carried out a full company-wide Misay employee engagement survey, which attracted over 80,000 individual comments and has resulted in a variety of actions being taken across the business.

Our approach to engagement is to listen to what our people say, address their needs and concerns, share best practice and build a strong group culture - and we do this across the full hire-inspire-admire-retire employee lifecycle. At the hiring stage of the employee journey, we focus on engagement and teamwork. Then we inspire them with training and development, including our Key Accounts Leadership Development Programme, opening up opportunities for careers - not just jobs. This is followed by the admire stage, where we recognise and reward their achievements. We continue to be recognised as a good employer by our peers and others. For the fifth year running, we have been named as one of The Times Top 50 Employers for

### Diversity

We are passionate about diversity, and that is why we are introducing aspirational targets throughout our business. Read more on page 18.

#### Executive Directors

**2**  
Women                      **0**  
Men

#### Senior managers

**114**  
Women                      **480**  
Men

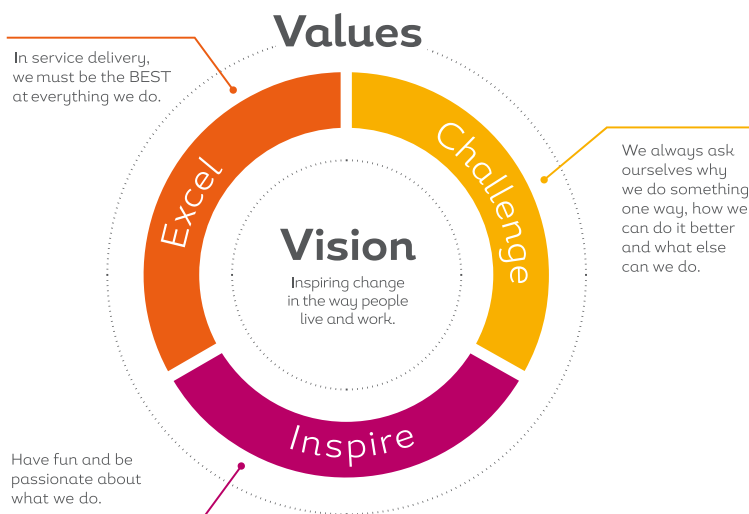
#### Employees

**28,924**  
Women                      **33,824**  
Men

Women while our apprenticeship programmes won the silver award at the Apprenticeships 4 England Awards. We also won our eighth consecutive Gold Medal Award from the Royal Society for the Prevention of Accidents, in recognition of our track record on employee health and safety.

Being a diverse business makes us a better business. This year we set ambitious internal diversity targets for each of our subsidiary Boards, which cover ethnicity, gender and age, and tasked each of our management teams to deliver on these targets by 2020. In the long-term we aim to have management teams at all levels representative of our wider people mix, which is currently 46/54 : female/male and 20% disclosed BME. As a business we also want to lead the way in transparency and reporting, which is why we are now opting to include our employee data, broken down by salary, gender and ethnicity, in this report and can be found on p18 (in addition to our sustainability report where it has been historically reported).

## Our vision and values



#### 4 Increase the provision of technology-led services

We are constantly searching for new ways to work as well as ways to improve what we already do well. Our experience, scale and scope combine to give us the ability to share best practice - we are able to rapidly transform organisations by applying the lessons learnt in one sector to the challenges being faced elsewhere. We have made significant investment in technological solutions and we expect it to be an increasing component of everything we do.

Where we take a technology-led approach, it has the potential to reduce revenues, but sustain profitability. Technology has already had a positive impact on our profitability. A decade ago, technology accounted for less than 5% of our security business revenue and 0% of its profits. In 2015, those figures were more than 10% and 20% respectively. Not surprisingly, our strategy is to invest further in technology, ensuring high data quality and developing bespoke solutions based on analytics and data.

With the rise in agile working practices such as hot-desking and home working, the office environment is changing fast. We are constantly exploring how we can work smarter by using data and technology to deliver service excellence with fewer people - and drive our financial performance. For example, we are revolutionising cleaning services by using sensors to detect usage levels of office facilities from washrooms to boardrooms. Where usage is low, cleaning schedules can be updated in real time so our people can be deployed where they are really needed. That means less time wasted and more efficient use of resources.

We are investing in wearable technology, robotics and a range of applications, and continue to develop our existing technologies, such as remote monitoring and vetting, which differentiate our services. For example, during the year we created a wearable app which can track site-based teams via Bluetooth. This means we can schedule and re-schedule teams to meet real-time requirements as well as measure service delivery. Similarly, our document management business has developed a new app that allows clients to track goods and deliveries across multiple sites - all via a tablet instead of a desk-based system.



Our catering business, Gather & Gather has developed a bespoke customer app which delivers instant offers, latest news and loyalty rewards directly into the hands of our customers.

Our security business is another example of how new technology is giving us a competitive advantage. Through Mitec, we will be the first UK company to incorporate revolutionary Facewatch software into our CCTV monitoring contracts. Facewatch simplifies the evidence collection process, and enables clients to report incidents directly to police and track the progress of investigations. In addition, we will be using Mitec data to identify risks and trends in particular areas, supporting our clients as they work to tackle business crime and anti-social behaviour.

Our investment in technology was acknowledged by our peers during the year, when we were crowned winner of i-FM's Technology in FM Award, in recognition of the benefits that our Miworld management information tool is generating for clients. Miworld gives our largest IFM clients a minute-by-minute activity report of service delivery. In the words of the judges, we were "able to demonstrate a number of examples where the technology has delivered significant savings."

## Chief Executive's strategy overview continued

### 5 Grow our public services businesses by developing relationships with key clients

We know how to manage talented, committed people and engage with clients in order to create innovative, hugely effective services that provide outstanding value over the long term. This business model has been the foundation of our growth in FM, but is also relevant across the provision of public services.

A key element of our strategy is to ensure that we serve a variety of markets that will sustainably give us the growth and margins we desire. Over the full economic cycle all of our chosen markets have the potential to deliver successfully. This diversification has been key to our resilience. We generate over a third of our revenues from the public sector, where we remain focused on three key areas: social housing, justice and healthcare.

In our Property Management business, we provide repair and maintenance services to the social housing sector. Like our FM business, this market features clients keen to establish long-term relationships and access a steadily increasing range of services. We work with a wide range of housing associations and local authorities and aim to leverage our capabilities in this area to grow our business with new and existing clients.

We are also increasing our focus on the justice sector where we have a growing track record in providing services including immigration removal centres. The Home Office is a key client and we see a continuing flow of opportunities for our Care and Custody business. In 2016 we made a small acquisition in this area: Tascor Health, which provides police forensic medical examination services delivered by qualified doctors and nurses to police forces. It is a specialised service that will further strengthen our offering, by giving us presence and capability in the offender health market.

In the homecare market, our MiHomecare business delivers social care services to people who require help and support due to illness or disability. Complete Care provides nurse-led complex care solutions in the home. Although the homecare environment is facing challenges driven by local authority spending cuts, we are focused on establishing strategic partnerships with clients, which will position us well for the opportunities that we believe this market will generate in the longer term. In the short term, we are focused on delivering quality services, maintaining operational efficiency and returning to profitability in the next financial year.

### 6 Expand the scale and breadth of our higher value consultancy services

By engaging with clients at a boardroom or senior management level, our consultancy business frequently supports and differentiates our mainstream FM services. Our capabilities include: energy, waste, sustainability, real estate, workspace management, vetting, risk and assurance. We see further opportunities to leverage our existing client base to expand our services, as well as offer them in new markets.

Our Source8 business delivers real estate, technology and risk management consultancy services to leading global corporations. It has forged a reputation for providing advisory and business support services to government and non-governmental organisations in real estate, technology and risk management globally. Clients in over 20 countries worldwide rely on analysis by the Source8 team to underpin key decisions that impact their organisations. Source8 has particular expertise in emerging markets, but because it works on a project basis, there is usually no need to establish a permanent presence in each of those countries. During the year it continued to expand its operations in the Middle East and Asia, and opened an office in Singapore.

#### Underpinning the strategy

Our strategy is supported by sound business processes and a commitment to fulfilling our responsibilities to the wider community.

#### Sustainability

Our business incorporates our sustainability agenda into the way it operates every day. We realise that having satisfied clients, employees who are engaged, safe and respected, a community that recognises our contribution to society, minimum impact on the environment and an aligned supply chain are the fundamentals for success.

Our culture is about 'doing the right thing', supporting each other and being a positive force in our local communities. This approach is enabled by rigorous policies on issues such as health and safety and diversity, together with a commitment to reducing the impact of our operations and helping our clients achieve their own environmental targets. This approach is ingrained in the way we do everything and is described in more detail on pages 18 to 19.

more information  
on pages 18-19

“The outsourcing market remains one of change and opportunity.”



more information  
on pages 57-60

### Risk management

Everything we do is undertaken against a backdrop of effective risk management. We categorise our key risks as strategic, financial, operational or regulatory and you can find more details on each category on pages 57-60.

### Governance

We have the processes in place to ensure that Mitie is fully compliant, operates effectively and is properly valued as a business. These include audit and internal controls, financial reporting and quality systems, together with processes and policies to ensure appropriate remuneration as well as compliance with the regulatory framework. Please see pages 64-100 for details.

### Market developments

The outsourcing market remains one of change and opportunity. We are the leading FM provider with some of the best technology, people and clients in the market and we can continue to grow our position. We also have a growing presence and range of opportunities outside the UK and in new services, which we intend to carefully explore and develop.

Customers are seeking a more joined-up approach to different services, whether that be bundles or fully integrated FM contracts. They seek providers that can provide best-in-class services, add real value and harness technology, but that are also easy and flexible to do business with.

### National Living Wage

As a top ten private sector employer, we welcomed the announcement that a new National Living Wage (NLW) would be introduced in the UK in April 2016. We are supportive of this move, which ensures that those of our people who are affected, are better rewarded and feel more motivated to do the jobs they do. It will also improve retention rates across our business.

Since the minimum wage was introduced in 1999, we have managed the impact from its annual change as part of the normal course of our business. Having completed discussions with our clients in relation to both the regular annual increase in the minimum wage and the introduction of the National Living Wage in April 2016, we remain confident that our contractual protections ensure that it will not have a material impact on our future earnings.

We also believe that this was an important move for the outsourcing industry, as it affects all competitors equally and creates a level playing field in terms of bidding. Outsourcing prices are increasing as a consequence of this. We will continue to work with our clients to identify cost efficiencies in other areas.

Going forward, there are broader changes to UK employment costs in addition to the National Living Wage, such as rising employer pension contributions, a new apprentice levy, and additional labour legislation. These changes are contributing to an increase in the overall cost of more labour-intensive services. In what is already a competitive environment, we expect this will create further shifts in our markets. We are responding to these changes by accelerating our focus on technology solutions to drive greater efficiency and smarter working in all the core services we provide.

### Business evolution

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

These changes will allow us to optimise our back office and support functions, ensuring we provide the best solutions and services to our clients. This presents a tremendous opportunity for us all to challenge our approach, deliver our services in a more efficient manner, invest in our technology, and use the passion of our people to meet the changing demands of our customers.

### Looking ahead

We have a flexible, resilient business model and a track record of responding to changing market conditions and client needs. Due to current macroeconomic factors, we anticipate modest growth in the current financial year.

Mitie remains a vibrant, sustainable and profitable business. Everything we do is about our people. I would like to thank everyone across the group who works so hard to deliver good services to our clients. You make us who we are.

Our strategy is clear, with an excellent business model our commitment to helping our clients achieve more with less continues to be our guiding purpose. We face the future with determination and confidence.

**Ruby McGregor-Smith, CBE**  
Chief Executive

# Measuring our progress

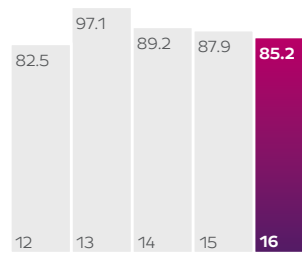
## Our six strategic pillars

We measure performance using a range of financial and non-financial key performance indicators which are closely linked to the six pillars of our strategy.

> **Our financial KPIs are detailed on pages 52-56.**

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

## Management retention (%)



Link to strategic priority:

**6**

### Description:

Mitie is a people business and we pride ourselves on creating and nurturing outstanding managers.

How successful we are in retaining our people is an important measure for us.

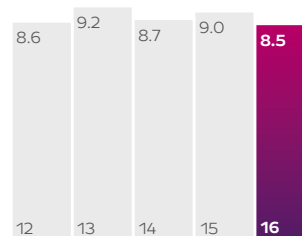
### Target:

Maintaining a management retention rate of over 80%.

### Comment:

Our management retention rate was 85.2% for the year, excluding redundancies.

## Order book (£bn)



Link to strategic priority:

**1 2 4 5**

### Description:

The order book reflects the value of future revenues based on all existing contracts and it is a key part of our focus on building long-term recurring revenue.

### Target:

We aim to grow our order book at least in line with revenue growth.

### Comment:

Our order book reduced by 5.6% during the year to £8.5bn.

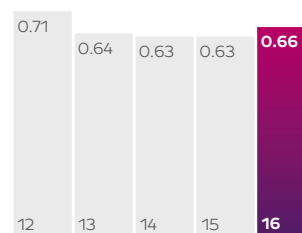
## Supported by having the right culture, values and process

Sustainability

Risk management

Governance

## Carbon dioxide emissions (tonnes per employee)



### Description:

Emissions are calculated using the Defra guidance on how to measure and report GHG emissions and apply the 2010 guidelines for company reporting. The rate of CO<sub>2</sub>e emissions per Mitie employee is calculated using the average number of people employed during the year.

### Target:

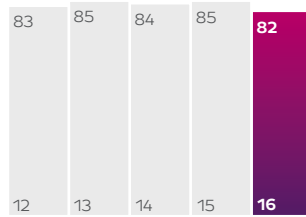
Understand and minimise the environmental impact of our operations.

### Comment:

Emissions per employee are 16% lower than the 2010 baseline.

### Secured revenue (%)

82%



Link to strategic priority:

1 2 4 5

#### Description:

We are focused on long-term recurring revenue streams.

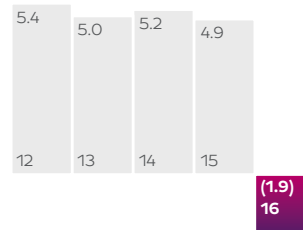
At the start of each financial year, we calculate the percentage of budgeted revenue that is already contracted.

#### Comment:

At the start of the financial year, 82% of budgeted revenue for 2016/17 was secured, a reflection of the success of our strategy to focus on long-term secured revenue.

### Organic revenue growth (%)

-1.9%



Link to strategic priority:

1 2 4 5

#### Description:

Mitie has historically tracked and reported organic revenue growth as a key measure of its success. Organic growth is calculated by using revenue as reported in the Accounts, based on the continuing businesses and excluding the impact of material acquisitions or disposals made during the performance period.

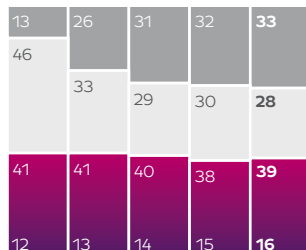
#### Target:

Grow revenue organically every year.

#### Comment:

Revenues declined slightly during the year.

### Single/bundled/integrated contracts (%)



■ Single ■ Bundled ■ Integrated

Link to strategic priority:

1 2 4 5

#### Description:

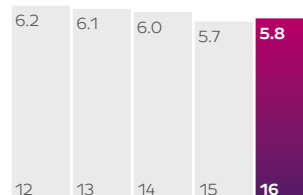
As a substantial portion of our revenue was historically generated through single service contracts, one of our opportunities for growth is through expanding our relationships with existing clients by providing other services. We have seen a trend in the market towards bundled and FM contracts over the past few years and we are well positioned to meet the demands of this trend due to our broad range of services. We measure the percentage of revenue that is generated by these types of contracts in order to measure how well we are performing in this area.

#### Comment:

61% of revenues are attributable to bundled and integrated FM contracts.

### Operating profit margin (%) before other items

5.8%



Link to strategic priority:

3

#### Description:

Our operating profit margin before other items provides us with a good indicator of the efficiency of our business.

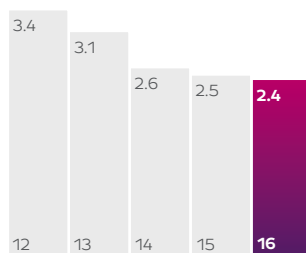
#### Target:

Margin within range of 5-6%.

#### Comment:

Margins improved to 5.8% driven by strong margins in our FM business.

### Reportable accidents (per 1,000 employees)



#### Description:

The health and safety of our people is critical to our business. Reportable accidents are those defined as fatalities, major injuries or resulting in over seven days absence or restriction from work.

#### Target:

In line with our Work Safe Home Safe! employee engagement programme, our objective is to embed safe working behaviours and ensure every employee goes home safely at the end of their working day.

#### Comment:

Our reportable accident rate shows an improvement on the 2015 rate, with a 3% reduction in the number of reportable accidents. We will maintain our focus on continual improvement in health and safety risk management to fulfil our Work Safe Home Safe! vision.

# Sustainability underpins everything that we do

Being a sustainable business underpins everything that we do to such an extent that it warrants a separate section in our annual report. While sustainability is fully integrated in our day-to-day operations we want to make sure that our stakeholders are aware of our approach and how it impacts the business.

The results of our materiality analysis this year have shown we are in line with our stakeholders needs in terms of priorities – it was good to see that ethical behaviour and health and safety are also at the top of our stakeholders’ concerns.

A responsible company is one that will succeed and continue to grow, which is why we take our ethical business framework very seriously. Introduced in 2014, our Code of Conduct provides the guidance and support necessary for everyone at Mitie to behave in the right way. It helps our people understand Mitie’s values and the responsible behaviours that underpin them. The Code of Conduct remains a key part of our induction programme as well as a priority on our internal communication plans throughout the year and we operate a confidential Speak Up line for anyone wishing to make a complaint outside the usual management channels. Our code of ethics lays down our core values and the responsible behaviours that underpin them. We expect our people to follow the code at all times and we use our influence to encourage our suppliers to observe its principles too.

Health and safety remains an absolute priority for the group, wherever we work and whatever we do. This year we delivered further enhancements through improvements to our risk management framework, investments in training and continued promotion of our award-winning Work Safe Home Safe! employee engagement programme. This has resulted in improvements in all our health and safety measures.

- > RIDDOR reportable rate: 3% improvement
- > Over 7 day reportable rate: 4% improvement
- > Over 7 + Over 3 day rate: 7% improvement
- > Total recordable rate (Major, >7 and .3 day): 6% improvement
- > Total days lost: 15% improvement

While this is pleasing we are never complacent and are fully committed to driving further improvement in our performance.

Employee engagement, and employee satisfaction and retention were also high on the list in our materiality analysis – both for the business and for our stakeholders. This shows our stakeholders truly understand Mitie is a people business – without engaged and motivated employees, we would not be the business we are today. We place a particular emphasis on the inclusion and diversity of all of our people. Whilst the Board is responsible for driving the diversity agenda throughout the organisation, it is supported by a Diversity and Inclusion Steering Group comprised of senior business leaders from all business areas. The Steering Group identifies group-wide strategy and facilitates business specific diversity action plans to drive that agenda and manages four diversity networks on gender, sexuality, disability and race. These networks are called: Engender, Proud to be, Enable and Kaleidoscope. This year we have introduced ambitious targets for all of our subsidiary boards to increase the diversity of board members by 2020.

## Ethnicity summary

Salary band	White	Black	Asian	Other	Undisclosed	Total
0-30k	34,699	6,525	2,729	2,844	11,453	<b>58,250</b>
30-60k	2,593	86	112	64	1,049	<b>3,904</b>
60-100k	292	2	8	3	157	<b>462</b>
Over 100k	92	-	2	2	36	<b>132</b>
Total	37,676	6,613	2,851	2,913	12,695	<b>62,748</b>

## Gender summary

Salary band	Female	Male	Total
0-30k	27,944	30,306	<b>58,250</b>
30-60k	866	3,038	<b>3,904</b>
60-100k	95	367	<b>462</b>
Over 100k	19	113	<b>132</b>
Total	28,924	33,824	<b>62,748</b>

As set out in the Equality, Diversity and Inclusion Policy, Mitie's approach to business is underpinned by a belief that all individuals should be treated fairly, and should have access to equal opportunities, regardless of their status. More specifically, the policy states that no job applicant or employee should receive less favourable treatment on grounds of, amongst other things, disability.

During the year Mitie successfully built on its long-standing relationship with Remploy, providing practical support for disabled people through the provision of work experience and employment opportunities, with a number of disabled people being employed in the group to date. Opportunities also exist for employees of the group who become disabled to continue their employment, with any reasonable adjustments being made, or to be retrained for other positions in the group.

We put a lot of time and effort into understanding our employees better this year – with the addition of a culture team and a more in-depth employee survey – and thanks to the insight we now have, we will be working on various projects to enhance employee engagement and satisfaction over the coming months.

This year we have increased our focus on the evaluation of our environmental impacts and we have been working with the Carbon Trust to assess our policies, processes and performance. Our environmental performance has improved in this financial year.

We depend on our local communities to provide the engaged, dedicated and talented people we need to deliver great service and in return we support them through a wide range of initiatives. Over the last year we have donated time and money, raised awareness and funds, and hosted a range of events for local people to participate in and enjoy.

### Environmental performance

	Resource	Units	2010 restated baseline	2015	2016	% change against baseline
<b>Scope 1</b>	Gas and fleet fuel	Tonnes of CO <sub>2</sub> e	41,343	41,090	<b>38,688</b>	- 6%
<b>Scope 2</b>	Electricity	Tonnes of CO <sub>2</sub> e	3,490	2,938	<b>2,763</b>	- 21%
<b>Scope 1 and 2</b>	Intensity	Tonnes of CO <sub>2</sub> e/employee	0.79	0.63	<b>0.66</b>	- 16%
	Intensity	Tonnes/£m	26.07	19.36	<b>18.56</b>	- 29%
<b>Scope 3</b>	Energy and business car travel	Tonnes of CO <sub>2</sub> e	4,564	7,411	<b>4,679</b>	+ 3%
<b>Upstream</b>	Water	Tonnes of CO <sub>2</sub> e	10	12	<b>10</b>	+ 1%
	Created waste	Tonnes	1,436	1,503	<b>971</b>	- 32%
	Intensity	Tonnes/employee	0.025	0.022	<b>0.016</b>	- 8%
	General waste	Tonnes	989	792	<b>368</b>	- 63%
	Recycled waste	Tonnes	447	711	<b>603</b>	+ 35%
	% recycled		31	47	<b>62</b>	+100%

### Human rights

Mitie is committed to the UN Guiding Principles on Business and Human Rights and the International Labour Organisation convention. Protecting and preserving human rights in every territory we operate in is embedded in our culture and fundamental to our company values. This is reflected in our policies and actions towards our people, suppliers, clients and the communities and countries where we do business.

### Modern Slavery Act

We recognise our responsibilities to society in relation to our supply chain. We actively engage with our suppliers to ensure that they share our values and comply with relevant legislation. We welcome the introduction of the 2015 Modern Slavery Act and the provisions within Section 54 covering supply chain transparency in the Home Office guide. We will not tolerate human trafficking, slavery or forced labour of any type. We will be producing our slavery and human trafficking statement in accordance with Home Office guidelines by September 2016.

We are making good progress against our sustainability targets for 2020. These are discussed in more detail in our sustainability report where there is more detailed information and data on all aspects of our performance on [www.mitie.com/sustainability](http://www.mitie.com/sustainability).

🕒 4AM

### St Paul's Cathedral, London

Working in partnership with Transport for London, cleaning the bus stops.





# Bringing our strategy to life

24 hours a day, 7 days a week,  
365 days a year, there is a Mitie  
force at work delivering essential  
services around the clock and  
inspiring change in the way  
people live and work.

Bringing our strategy to life

1

## Maintain our position as the **leading provider** of FM in the UK

### Using innovation to provide an edge where every second counts

In October 2015, we were awarded a hard FM services contract with Red Bull Racing in Milton Keynes.

The contract has quickly evolved into a centre of excellence for Mitie's Intelligent Buildings solution. Working in partnership with Red Bull Racing we have taken innovative steps to optimise their environments, from bustling manufacturing space to open plan areas. We're shifting the focus of FM, adopting a more proactive approach which prioritises comfort and enhances the productivity of building users.

In Formula One, teams either innovate or stagnate. Mitie's innovative solutions are challenging the role of FM in building management, giving Red Bull Racing the edge in how they operate both on and off the track.







 **7AM**

**Red Bull Racing,  
Milton Keynes**

An analyst from Mitie's Remote Operating Centre sends a daily observations log to our onsite team, highlighting any areas where the building is operating outside its agreed comfort policy.



 **11AM**

**Rolls-Royce, Norway**

Cleaning the floors of the Rolls-Royce technology and training facility in Ålesund, Norway.

Bringing our strategy to life

2

## Increase the range and scale of services

we provide to our top 200 clients, in the UK and internationally

In October 2015, we successfully re-secured our pan-European, integrated FM contract with Rolls-Royce.

The renewed contract, our largest out to tender this year, builds on a strong 20-year relationship which started life as a single-service cleaning contract in East Kilbride, Scotland in 1996.

Over the years, we've developed a strong working relationship with our clients at Rolls-Royce, underpinned by our dedicated service to and support of their property management strategy, as well as by our investments in technological innovations. In turn, Rolls-Royce has recognised the benefits of our partnership, with subsequent extensions and expansions of our contract – both at home and abroad – proving their trust in our ability to deliver integrated services internationally.

- > We currently provide integrated facilities management to 700 Rolls-Royce properties across the UK, Norway, Finland, Sweden, Germany, France and Poland.
- > We have over 1,000 Mitie people working on the Rolls-Royce contract across Europe.





 **1PM**

**Mitie's office, London Bridge**

Kirsty meets senior operations directors to discuss contract development ideas.

## Attract, retain and develop the **best talent** in the industry

### **Apprentice to Head of Business Improvement**

Kirsty joined Mitie as a contract administrator, initially overseeing helpdesk, administration and finance for one of our key clients, before completing her Technical HVAC Apprenticeship in 2012. In the years since, Kirsty has quickly progressed up through the business, holding various managerial roles with increasing responsibility.

Kirsty continues to develop professionally and personally at Mitie. She was recently promoted in our Technical Facilities Management (TFM) business to Head of Business Improvement, a managerial role responsible for operational and service delivery improvement, governance and efficiencies within critical engineering contracts. Kirsty has also successfully completed her Higher National Certificate qualification in Building Services Engineering and Heating Ventilation and Air-conditioning.

This year, Kirsty was awarded the Outstanding Achievement Award (Individual) at the TFM Apprentice of the Year and Outstanding Achievement Awards 2016, She was also recently shortlisted for WeAreTheCity's Rising Star Awards, both of which serve to recognise Kirsty's career journey from an administrative role to an operational management position, and highlight just how valuable an apprenticeship can be for those wanting to further develop their career at Mitie.

**“I aspire to become a director in facilities management, and with the continual training, support, and opportunity available at Mitie I know I can achieve that.”**

**Kirsty Johnston, Head of Business Improvement**



# 3PM

## Network Rail, Milton Keynes

A cleaning operative receives an instant alert to his wearable device about a spillage in the building that requires urgent attention.



Bringing our strategy to life

4

## Increase the provision of **technology-led** services

### **Wearables**

We continually challenge our service offering to our clients and customers and we're always seeking innovative ways to improve efficiency.

Across a number of our client sites, we've introduced wearable technology for our cleaning teams which allows us to locate and communicate with our people in an instant, track reactive tasks and more robustly measure productivity.

For the first time in real time we can provide our clients with a fully accountable service delivery, measured against their specific requirements and any adhoc demands. These simple metrics allow us to adapt our service to suit each of our clients' needs and ensure we are consistently operating at our optimum productivity.

The technology also has a number of built-in features, including a pedometer and heart rate monitor, to allow our people to measure their walking distance and heart rate, encouraging positive health and wellbeing.

Bringing our strategy to life

5

## Grow our public services businesses by **developing relationships with key clients**

Mitie has been caring for residents' homes and public buildings for over 25 years. Our people are experts in all of the key building and specialist trades, delivering responsive repairs and planned and cyclical social housing maintenance services to over 100 local authorities and social housing providers nationwide. Our success can be attributed to the open, transparent and mutually beneficial relationships we build with not only our clients, but also the residents we serve.

As a service provider involved with local communities and residents every day, we're in a unique position to give something back to the areas we work in and contribute to the communities we are part of. Residents are encouraged to take a more active role in their communities, and Mitie helps to facilitate that. Through residents' forums, coffee mornings, repairs surgeries, and estate fun days, we encourage them to play an active role not only in the planning and delivery of our services, but in helping to shape and build sustainable communities.

Another area of focus within our communities has been health and wellbeing. In partnership with Kent County Council, Kent NHS Trust, Wellbeing People and long-term partner Golding Homes, we launched a Health MOT Roadshow, delivering free mobile health checks to local residents. The unique partnership won us the highly acclaimed 'Innovation in Partnering using TPC2005 Award', as well as the prestigious CIH Award for 'Innovators of the year'. In addition, we were recently recognised for our 'Outstanding Approach to Repairs and Maintenance' at the 2016 UK Housing Awards (UKHA), in recognition of our repairs and maintenance contract with Golding Homes.







 **5PM**

**Hammersmith & Fulham**

A Mitie Resident Liaison Officer discusses upcoming maintenance plans with residents on a Hammersmith & Fulham estate

Bringing our strategy to life

6

## Expand the scale and breadth of our higher-value **consultancy services**

As more and more companies look to expand into developing economies, understanding the environment they work in is crucial. As experts in this field, our Source8 business offers clients pragmatic advice in the realms of real estate, technology and risk management – specifically, how to increase efficiencies and reduce risk, whether they're looking to expand offices into new markets or consolidate office space in existing markets.

Over the past 12 months, Source8 has begun work with a number of new clients, expanding operations further afield into the Middle East and Asia, recently opening a new office for a major financial services client in Singapore. In doing so, Source8 created an ongoing FM solution that is also scalable for the client's other international properties.

**30+**

different languages  
spoken by Source8  
employees

**£6m**

consultancy contracts  
secured with Mitie  
clients this year





 **8PM**

**Client's office, Singapore**

The Source8 team in Singapore discuss the ongoing operations and maintenance of the new facility on a conference call with our Mitie FM team in the UK.

# Opportunities and challenges

The key trends that are shaping our industry.

The total UK FM market is valued at over £100 billion and of this, around £75 billion is currently outsourced. Our principal addressable market, defined as contracts worth over £500,000 a year, is valued at around £45 billion, of which we hold a 5% share. The FM market is highly fragmented at the smaller end of the market, but overall is dominated by some 120 large providers. At the larger end of the market, the 12 largest players generate over £30 billion in revenues, or one-third of the total outsourced market. (Source: management consultancy, MTW Research)

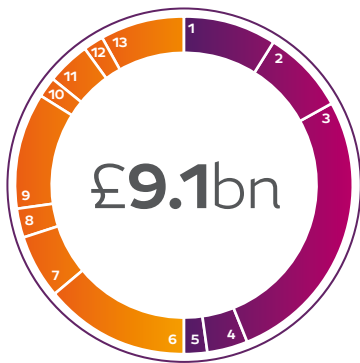


### Modest macro-economic growth

The UK economy remains in relatively low growth and low inflation mode. GDP increased by 2.2% during 2015, down from 2.9% in 2014, and is currently forecast to grow by a modest 2.0% in the year ahead.

In our markets over the past year, we have seen client behaviour and decision making impacted by a range of external factors. These include the general election, changes in government policy, China, the oil price and the Brexit referendum. These have had a negative impact on sentiment and reduced the levels of discretionary spend from our clients, as well as cause some project works to be delayed, deferred or cancelled.

### Major markets: Sales pipeline



Public sector	
1. Central government	9%
2. Local government	8%
3. Social housing	27%
4. Healthcare	4%
5. Education	2%
Private sector	
6. Finance and professional services	14%
7. Manufacturing	6%
8. Retail	3%
9. Property management	11%
10. Technology	2%
11. Utilities	4%
12. Leisure	2%
13. Transport	8%



### Private sector partnership approach

The private sector continues to drive the growth of outsourcing in the UK, with the key driver being improved services with reduced costs. Our focus is on a wide range of sectors including finance and professional services, manufacturing and leisure. The private sector accounted for 62% of our 2015/16 revenue.

Private sector clients have always wanted more for less and this is definitely the case now. With the UK and European economies delivering limited growth, the focus has returned to cost and increasing the efficiency of service provision.

However, many of our clients, particularly in the private sector, are looking to shift from a transactional and contractual approach to a partnership model. This model considers how services can be provided to support the client's strategic goals over the longer term. It results in clients generating the best value from their relationships with service providers, by reducing the number of suppliers they work with and ensuring both parties are working towards common goals. We have seen an increasing number of our clients decide to take this approach, which works particularly well where we are delivering integrated services.



### Public sector funding constraints

The public sector backdrop remains one of austerity. The Government's Spending Review and Autumn Statement set out how it will cut the forecast deficit by three quarters by 2016-17 from its peak and eliminate it altogether by 2019-20, suggesting that both significant public sector cuts and more reforms lie ahead.

Our focus on the public sector remains on healthcare, social housing, justice and local government. Continued budgetary constraints and the back-end loading of Government cuts, in a period of low economic growth, are forcing our public sector clients to look for ways to do things differently. Whilst procurement still remains very focused on cost, we see good long-term growth opportunities, as governments turn to outsourcing to help them manage those costs while still providing good service levels.

We made good progress during the year, with our largest new contract award coming from the public sector – a £100m agreement to provide a range of FM services to NHS Property Services across England.

In July 2015, the Chancellor announced that social housing tenants in the UK would see their rent reduced by 1% a year for the next four years after compelling housing associations to lower them. In anticipation of this statutory reduction in social housing rents, which came into effect on 1 April 2016, we saw changes in spending patterns by our local authority and housing association clients in the second half of the financial year.

### Homecare

The homecare market in the UK has suffered from a severe lack of funding, particularly in the last two years, as local government spending has been heavily constrained. The National Audit Office reports that central government will have reduced its funding to local authorities by 37 per cent in real terms between 2010-11 and 2015-16.

The United Kingdom Homecare Association (UKHCA), the professional association of home care providers, recently set out the case for a sustainable hourly rate of around £16.00 an hour now, rising to £23.00 an hour over the next four years. However on average across the UK, councils currently pay significantly below the sustainable rate.

Homecare should be seen as a critical strategic resource for the key priority of containing spending and pressure on the NHS. Without quality homecare, most service users would have to be looked after either in nursing homes or in hospitals. The average cost of homecare based on daily visits and intensive support is £200-250 a week. The cost of nursing home care now averages £800 a week. Hospital care ranges from £1,500-£2,000 a week. Without homecare there would be extreme pressure to increase use of these high-cost services.

Although the market does remain challenging, we are encouraged by the tangible progress we have seen in our healthcare business recently, with improving quality scores and more evidence of higher, sustainable, charge-out rates.



### Increasing cost of labour

In the summer 2015 Budget, the UK government announced the introduction of a new National Living Wage. It represents a premium to the National Minimum Wage (NMW), for people aged over 25. It increased rates for over 25s from £6.70 to £7.20 per hour in April 2016, and the Government's objective is to increase it to 60% of median earnings by 2020, and for it to be over £9 by that time. Automatic enrolment in workplace pension schemes is also increasing the cost of labour over the next three years. The Government has also proposed the introduction of an apprentice levy, which, if implemented in April 2017, will further add to employment costs.

These initiatives will see a significantly increased cost of labour in some areas of our business, including cleaning, a small area of security, catering and healthcare. This will in turn impact on outsourcing prices, however we will continue to work with our clients to identify cost efficiencies in other areas.

## Marketplace continued



### Greater globalisation

The world is coming closer together. While our business footprint currently covers nine countries, our people represent 138 different nationalities, demonstrating that Mitie is one of the most diverse businesses in one of the world's most diverse marketplaces. Gender diversity is also on the rise, with women now earning 60% of university degrees in the US and Europe.

Increasingly, globalisation means that efficient working practices in one country are quickly replicated elsewhere to the benefit of all - and this trend is magnified when organisations move into new territories. We follow our clients, ensuring that they can access the same level of service that they enjoy in the UK.



### Changing demographics

The population is growing and, in Europe, also ageing. By 2025 there will be a further one billion people on our planet, with 50% of that growth in Africa. In the UK, one in five of us will be over 65 by 2050 and this has clear implications for Governments as well as our healthcare business.

According to Deloitte's 2016 Global health care outlook, healthcare expenditure per capita was \$3,698 in the UK, behind Germany (\$5,006) and the US (\$9,146). Deloitte also confirmed that the population is ageing rapidly worldwide. Increased life expectancy - up from an estimated 72.3 years in 2014 to 73.3 years in 2019 - will bring the number of people aged 65+ worldwide to over 604 million, or 10.8 percent of the total global population. That number is anticipated to be even higher in Western Europe (almost 21%) and Japan (28%), driving increased demand for homecare.

Deloitte's view is that "with the appropriate use of technology and monitoring, home health care may reach hospital-level care. It also provides treatment with reduced costs and improved patient satisfaction. The US home health care market alone was valued at \$77.8 billion in 2012 and is projected to grow to \$157 billion by 2022. India's home health care market is worth \$2 billion and is growing at the rate of 20 percent annually, while in Europe, home health care is expected to be worth \$57.2 billion by 2017." The UKHCA estimates the UK's home care market to be valued at £5.2 billion in 2015, serving approximately 900,000 individuals. With the size of the population aged over 65 expected to increase by 7%, or over four million people, in the next ten years, the UK market is expected to grow significantly.



### Changing workplaces

For the last three years, we have engaged with senior property and FM directors through a series of research projects. We have conducted extensive interviews to build a detailed understanding of the factors that are influencing the shape and operation of commercial property estates. In 2015, we extended this research project to knowledge (office-based) workers, in order to gain a better understanding of how different groups of employees are reacting to new working patterns.

These are a few examples of how property directors see their world in 2020:

- The need for commercial office space in the UK will be half that of 2010
- Just 40% of office workers will have their 'own' desk
- 62% of the UK's commercial space will be in London and the South East
- 55% of UK businesses will have merged FM, Property, HR & IT functions
- 60% of staff will spend more time working out of the office than in it

As clients' needs evolve so too must the FM services created to meet them. In sectors from front of house and security to cleaning, that means being innovative - understanding how property is being used and tailoring our solutions accordingly, often with the use of technology.



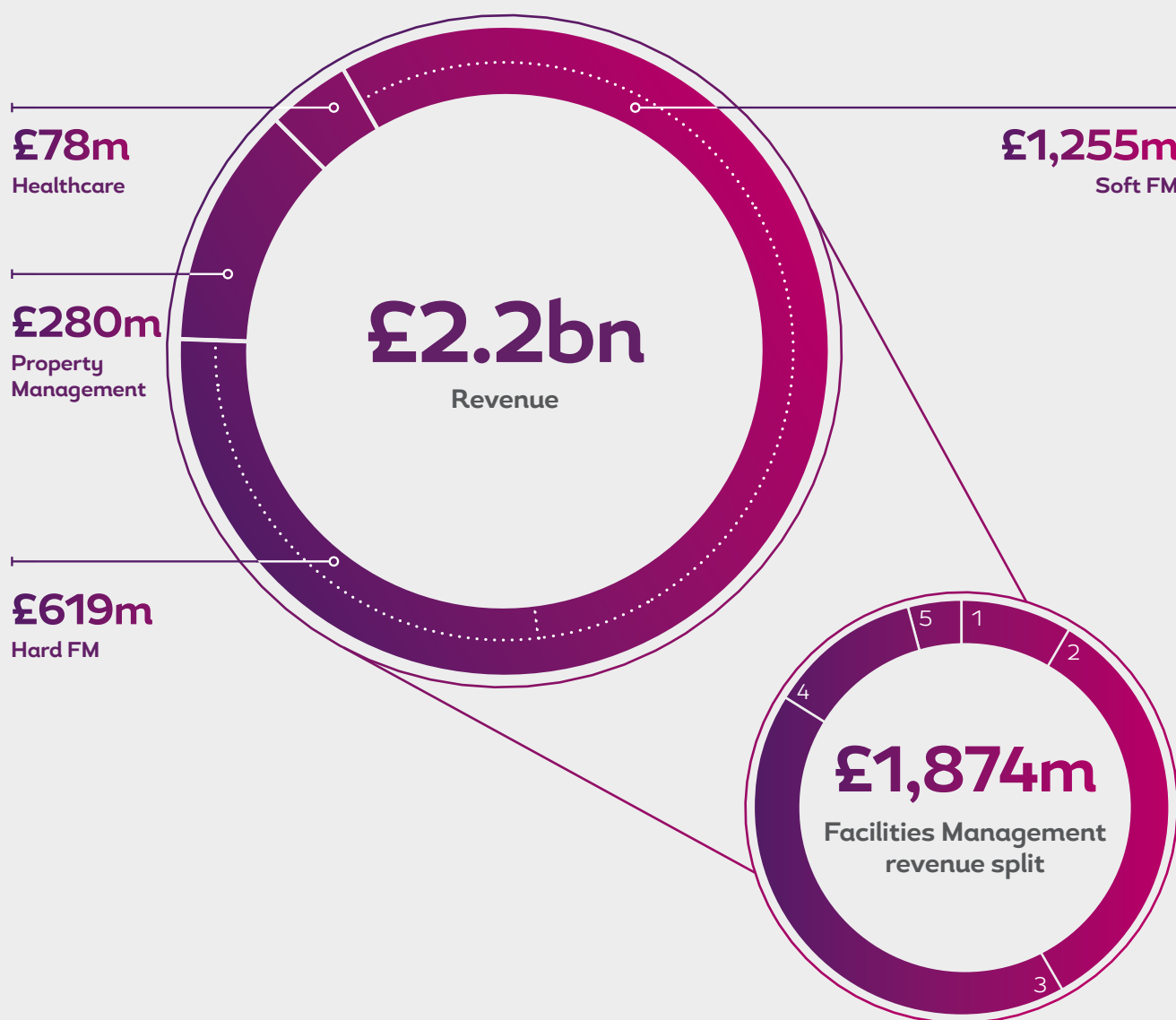
### Increasing use of technology

New technologies are transforming the way people work. One of our industry surveys found that around three-quarters of businesses use social media and a similar number of executives say they are working towards using analytics, while 72% of businesses agreed that mobile adaptation was improving productivity.

Even the jobs that people still do have changed as automation has impacted many aspects of our working lives. There are 271,000 more care workers today than there were to 15 years ago, while the number of PAs, secretaries and typists has fallen by 312,000 (source: Frey & Osborn, Deloitte analysis 2015). Digital know-how sits at the top of the table of skills required by businesses for the future (source: Deloitte survey of 100 businesses).

There has been a huge leap in the amount of data being captured and collated by FM departments and service providers, with sophisticated dashboards able to drill down into the details of everything from utility costs to how people move around a building. The single view of data provided by our Miworld initiative gives clients the opportunity to improve the way they manage workplaces. This is just one example of the technologies that are reshaping our markets, others include mobile apps that streamline processes for our managers, enabling them to spend more time with clients, and wearable technology that tracks our site-based teams.

# The shape of our business



Facilities Management revenue split

	2016	2015
1. Cleaning and environmental services	<b>£354m</b>	£360m
2. Security	<b>£236m</b>	£214m
3. Catering and front of house	<b>£112m</b>	£114m
4. Hard FM	<b>£427m</b>	£479m
5. Integrated FM	<b>£745m</b>	£734m

# Facilities Management

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

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

## Key contract awards:

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

## Developments during the year

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

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

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



## Mitec

Mitec is our remote monitoring disaster recovery and technology centre, central to our communications and technology services – operational 24 hours a day, 365 days a year.





### **Lone worker protection**

Earlier this year we were awarded a five-year contract to provide lone-worker protection services for Northumbrian Water Group based on our wide range of lone worker solutions and industry leading technology.

Another major factor this year was the impact of a series of initiatives by the UK Government that will result in significant increases to the cost of employing people over the next few years, especially people on lower incomes. Our response is to engage with our clients and discuss the possible options in detail, before implementing the necessary changes. The actions that we take vary depending upon the circumstances of each individual client. While some clients are able to afford and pass on

any increases, many are not able to do so. In these instances we work with them to identify changes to either the quantity or scope of services that we provide. Another option that we are finding increasingly appropriate is to increase the extent to which we use technology to support our service delivery. Recent innovations mean that we are now able to track more accurately the needs of our clients, both in terms of the buildings they occupy and the people who use them.

## Operating review continued

### Integrated FM

#### Key contract awards:

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

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

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

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

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

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

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



Our telephonists in our front of house business answer over 10,000 calls per day.

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

Our methodology is to:

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

Our IFM proposition is based on:

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

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



Cleaning the windows of the airport control tower at Heathrow.

that help us to gain a deeper understanding of advocacy, pinch points and strengths and weaknesses which are used as a robust feedback loop. Finally, senior members of the IFM Board and Mitie's Executive Board regularly spend time with our largest clients, developing strategic relationships at the highest level and making sure that these clients' concerns and priorities are understood.

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

## Operating review continued

### Soft FM: Cleaning

#### Key contract awards:

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

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

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

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

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

Our cleaning business is differentiated by the degree of innovation that we bring to the market. For example, we were the first to use microfibre technology, an early adopter of vacuum back-packs

and among the first to rigorously enforce ethical procurement policies for uniform suppliers. We were the first to set up independent lean Six Sigma applications, with our own lean software and Lean Academy. We are now taking cleaning to the next level of innovation by investing in and implementing automation, wearable technology, apps focusing on quality, telemetrics, intelligent sensors and real-time energy meterage together with liquid glass and ozone technology.

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

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

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



Clean Environments is one of Mitie's largest offerings with over 30,000 employees working across the UK.

## Soft FM: Environmental services

### Key contract awards:

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

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

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

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

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



Our trained sniffer dogs are specialists in rodent and bed bug detection.

## Operating review continued

### Soft FM: Security

#### Key contract awards:

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

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

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

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

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

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

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



We have more than 250 highly trained security professionals ensuring the safety and wellbeing of Eurostar passengers.

## Soft FM: Catering and front of house

### Key contract awards:

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

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

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

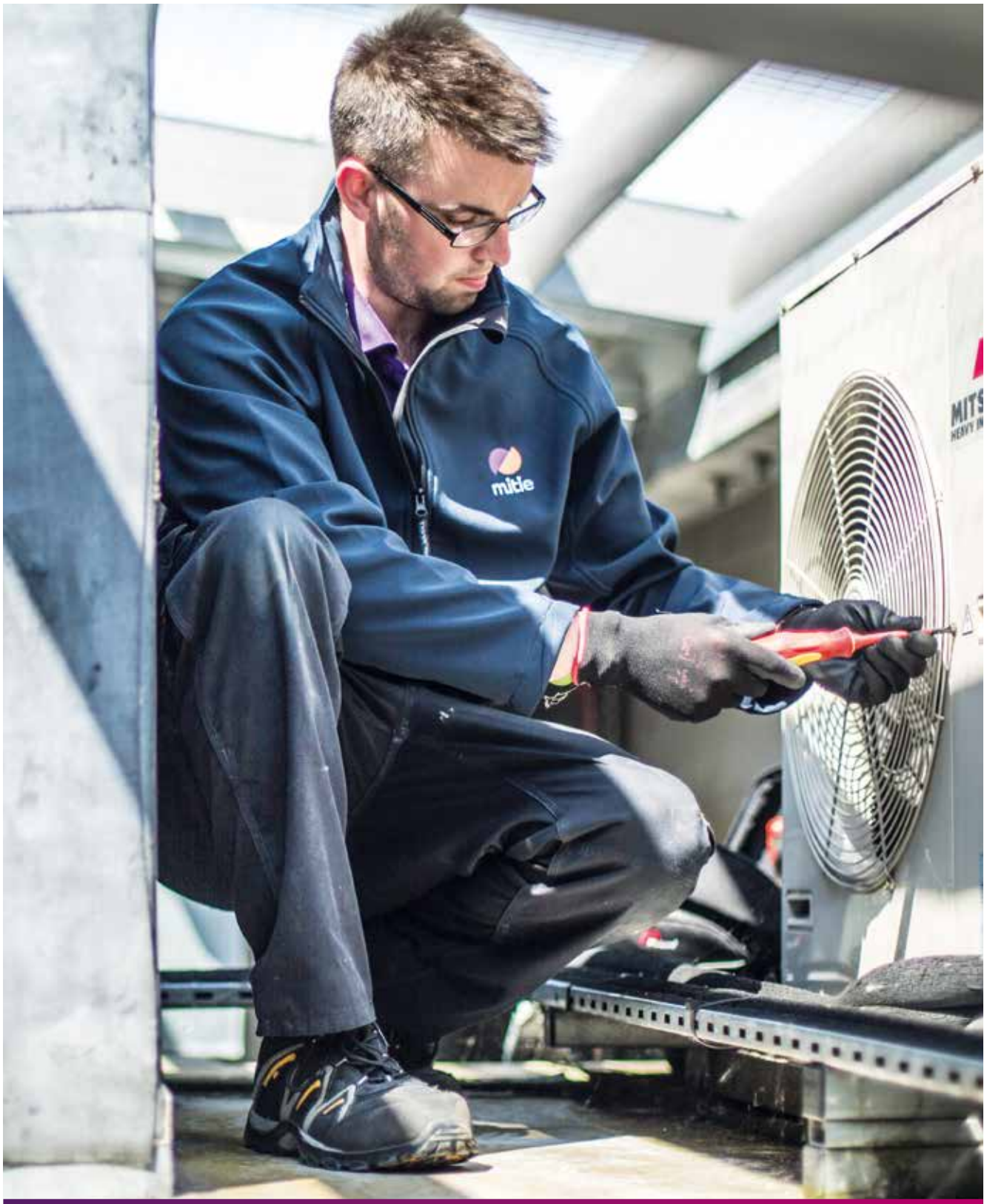
Sustainability is a big focus area for the business, and we successfully moved from 2 stars to the maximum 3 star sustainability champion rating from the Sustainable Restaurant Association. We also made significant investments in driving technology solutions across the business, including the launch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

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

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



Gather & Gather encourage a holistic approach to wellbeing in our clients' workplace by promoting healthier lifestyle choices including fitness, mental wellbeing and nutrition.



Our team of over 2,000 multi-skilled engineers provide vital services for thousands of clients across the UK, 24 hours a day, 365 days a year.



## Hard FM

### Key contract awards:

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

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

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

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

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



Our MobileTech service has over 750 engineers maintaining 40,000 client sites across the UK.

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

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

# Property Management

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

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

## Key contract awards:

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

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

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

The Government's actions are driving social landlords to consider different ways to look after their homes. Some are re-tendering services in the traditional way, hoping that competition will drive down prices, while others are looking at new models where the range of services provided and the



We received the 'Outstanding Approach to Repairs and Maintenance' award at the 2016 UK Housing Awards (UKHA), in recognition of our repairs and maintenance contract with Golding Homes.



We are the largest painting business in the UK, providing a full range of painting services, from planned maintenance and specialist coatings, to historical property redecoration and painting repairs.

responsibilities of partners vary. It is worth noting that a feature of the current market is that we are being approached by some of our clients to take over contracts from other providers that are not meeting expectations.

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

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

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

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

# Healthcare

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

	2016	2015	Growth
<b>Revenue</b>	<b>£78.0m</b>	£91.4m	(14.7%)
<b>Operating profit before other items</b>	<b>(£4.0m)</b>	£4.9m	nm
<b>Operating profit margin before other items</b>	<b>(5.1%)</b>	5.4%	nm
<b>Order book</b>	<b>£0.5bn</b>	£0.4bn	25%

### Key contract awards:

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

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

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

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



We help people to live a happier and more independent life in the comfort of their own home.



Our Complete Care business employs over 700 people – including registered nurses and person care assistants – who specialise in caring for clients with a range of conditions, including acquired brain injury, cerebral palsy and muscular dystrophy.

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

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

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

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

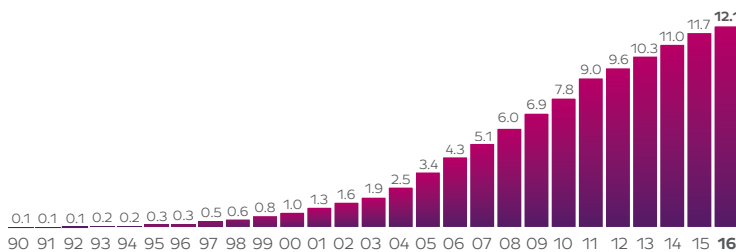
Our Care Agency business delivers privately-funded care. This can range from the traditional domiciliary care and support to providing carers who will live permanently at a service user's home. Although the Care Agency is currently a relatively small part of the business, the signs are encouraging for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



# A strong financial position

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

## Dividend per share history (p)



## Revenue

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

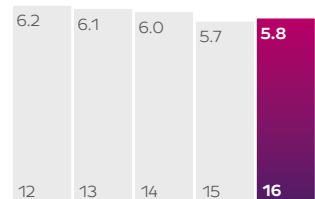
## Operating Profit

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

## Operating profit margin before other items (%)

KPI

5.8%



## Other Items

Costs of £16.4m disclosed as other items represent the amortisation of acquisition related intangible assets and acquisition related costs. This included a write off of intangible assets of £6.2m attributable to healthcare contracts exited during the year on financial grounds. Last year we completed the exit from our construction market exposures and there have been no net residual charges arising from this activity in the current year (2015: £61.6m). Further details of other items are set out in Note 5 to the financial statements.

## Generating sustainable shareholder value

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

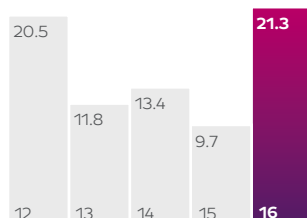
Profit after tax was £77.5m (2015: £35.7m) and following a small reduction in the weighted average number of shares for the year to 355.4 million (2015: 359.3 million), drove basic earnings per share of 21.3p, an increase of 120% on the prior year (2015: 9.7p).

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

#### Basic earnings per share (pence)

KPI

**21.3p**



#### Returning cash to shareholders

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

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

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

#### Highlights

**£2.232bn**

**Revenue**  
(2015: £2.274bn)

**£128.9m**

**Operating profit  
before other items**  
(2015: £128.6m)

**£112.5m**

**Operating profit**  
(2015: £56.0m)

**5.8%**

**Operating profit margin  
before other items**  
(2015: 5.7%)

**12.1p**

**Dividend per share**  
(2015: 11.7p)

**1.2x**

**Net debt: EBITDA  
before other items**  
(2015: 1.2x)

**21.3p**

**Earnings per share**  
(2015: 9.7p)

**25.0p**

**Earnings per share  
before other items**  
(2015: 24.8p)

**75.2%**

**Cash conversion**  
(2015: 126.5%)

**76.1%**

**Cash conversion  
before other items**  
(2015: 95.1%)

### Return on capital employed

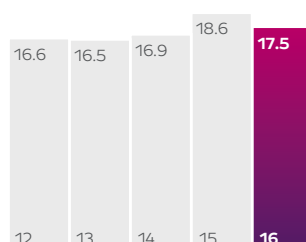
Our return on capital employed (ROCE) for the year is 17.5% (2015: 18.6%). ROCE is calculated as operating profit after tax before other items (adjusted for the pro-forma, full year effect of acquisitions) divided by capital employed. Capital employed is calculated as net assets excluding net debt less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

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

### Return on capital employed

(%)

**17.5%**



### Balance sheet

	2016 £m	2015 £m
Goodwill and other intangible assets	<b>532.4</b>	541.0
Property, plant and equipment	<b>49.3</b>	53.3
Net working capital	<b>(31.6)</b>	(48.5)
Net debt	<b>(178.3)</b>	(177.8)
Other	<b>78.8</b>	46.1
Pensions	<b>(35.5)</b>	(35.8)
Net assets	<b>415.1</b>	378.3

### Balance sheet

Goodwill and other intangible assets of £532.4m (2015: £541.0m) were held on the balance sheet at 31 March 2016; the reduction during the year was driven by a £6.2m write off from the Healthcare intangible assets, as explained in Note 14, along with the usual charge for the amortisation of intangible assets across the group.

This asset profile is typical of our sector, which is people based and low in capital intensity, and of businesses growing through acquisition. Details of the group's goodwill are set out in Note 13.

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

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

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



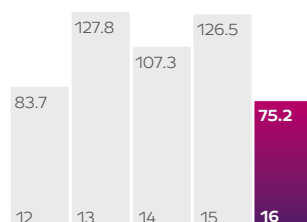
	2016 £m	2015 £m
Inventories	9.9	11.0
Current trade and other receivables	446.7	421.4
Current trade and other payables	(487.8)	(476.0)
Current provisions	(0.4)	(4.9)
Short-term working capital	(31.6)	(48.5)
Non-current trade and other receivables	86.0	58.5
Working capital	54.4	10.0

### Good cash conversion

Our profits are strongly backed by cash flows. Cash conversion measures our success in converting operating profit (measured by earnings before interest, tax, depreciation and amortisation 'EBITDA') to cash and reflects both the quality of our earnings and the effectiveness of our cash management activities. This year, cash inflows from operations were £114.6m (2015: £113.2m), representing cash conversion of 75.2% (2015: 126.5%). Our cash conversion has been consistently strong and the average cash conversion achieved by the group over the last 5 years is 100.3%. Before other items, cash conversion was 76.1% (2015: 95.1%). The calculation of cash conversion is set out in Note 39. This strong cash performance has been achieved through a clear strategy to actively manage our exposure to trade accounts receivable.

### Conversion of EBITDA to cash (%)

**75.2%**



### Net debt

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

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

### Committed facilities to fund future growth

	2016 £m	Tenure
Syndicated revolving credit facility	275	July 2019
US private placement loan notes	252	2017-2024
Committed facilities	527	

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

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

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

### Acquisitions

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

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

### Driving entrepreneurialism through equity participation

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

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

This purchase and other acquisitions are discussed in more detail in Note 33 to the financial statements.

### Tax contribution

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

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

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

After adjusting for the tax credit of £3.4m (2015: £18.3m) on other items, the income tax charge was £19.3m (2015: £5.8m), an effective rate of 19.9% (2015: 14.0%).

### Pensions

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

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

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

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

**Suzanne Baxter**  
Group Finance Director

## 2016 Principal Risks and Uncertainties

Identified principal risks to the achievement of our strategic business objectives are outlined in the section below, together with their potential impact and the mitigation measures in place. The Board believe these risks to be the most significant with the potential to impact our strategy, our financial and operational performance and, ultimately, our reputation. There may be other risks which are currently unknown to the group or which may become material in the future. Our key risk categories continue to be: strategic, financial, operational, and regulatory.

### Strategic

Risk Event	Controls and mitigation	Risk movement
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#### Continuing uncertainty in economic environment (including Brexit) creates unstable operating and investment environment for Mitie and its clients



Our principal macro economic exposure remains the UK, with only very limited exposure to the wider global economy. We are closely monitoring the outcomes of the 2015 Spending Review and the potential for changes in government spending; we await the outcome of the Brexit referendum and potential resulting policy changes to determine the impact on future contract opportunities. Regulatory wage inflation and other labour costs together with restrictions on specific terms and conditions in relation to certain labour models provides further challenge. Our ability to recognise and respond to variations in the volume, value and range of services required, particularly from our private sector clients, may impact the Group's ability to win or retain significant business opportunities. Resilience is provided by our diverse business portfolio during times of economic change, with varying demands on our resources dependent on the way in which our client base responds to the economic cycle.

The group continues to target strategic high-margin growth areas, underpinned by the right supporting business infrastructure. Development of a long-term contract portfolio combining a mix of both public and private sector contracts mitigates the financial impact of rapid changes in the economic environment. The Board retains formal oversight and approval of entry into new business areas, supported by a targeted and considered acquisition strategy to enhance our capabilities in complementary areas.

#### Protecting our reputation



Maintaining our strong reputation is critical for the achievement of our strategic objectives. Our growth and financial targets could be significantly impacted through an adverse impact to our reputation leading to a loss of confidence from our current, or potential, client base.

Such an impact on reputation could be caused by any incident involving major harm to one of our people or one of our clients/partners, or others affected by our services, inadequate financial control processes, a failure to comply with regulatory requirements or corrupt practices involving fraud or bribery. Incidents of these types would potentially result in financial penalties, losses of key contracts, an inability to win new business, and/or an inability to retain key staff and recruit new staff. The impact would therefore be potentially greater than the impact of the underlying incident alone.

Our strong corporate governance framework supported by our core values and behaviours forms the basis for ensuring the protection of our reputation. This framework is communicated throughout the business.

A strong and consistent 'tone from the top' is provided by our senior management to ensure our values and expected behaviours are clear and understood by everyone.

Our code of conduct forms the cornerstone of our ethical business framework, linking together our policies, procedures, training programmes and expectations of employee behaviour.

As our business continues to grow and develop into new sectors we will remain strongly focused on protecting the strength of our reputation through effective governance, leadership and the continued enhancement of our ethical business framework.

### Financial

Risk Event	Controls and mitigation	Risk movement
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#### Financial strength and access to appropriately scaled and diverse sources of funding



Although we are an attractive partner to our clients and stakeholders (including our funding partners) due to our financial strength, deterioration in our financial performance could limit our ability to grow either organically or through acquisition by restricting our ability to access competitively termed funding or by increased costs of borrowing.

Given that staff costs remain our most significant expenditure, the availability of funding from a variety of sources, strong cash flow and working capital remain central to our ability to pay our people regularly and at specific times. Funding is therefore critical to the ongoing success and continuity of our business.


We maintain strong banking, debt finance and equity relationships, and a diverse committed long-term funding portfolio.

Our established financial governance arrangements provide oversight of our financial performance including daily monitoring of bank balances, regular forecasting of cash flow and regular financial performance and balance sheet reviews. We have a diverse committed long-term funding portfolio and strong banking, debt finance and equity relationships.


## 2016 Principal Risks and Uncertainties continued

Financial		
Risk Event	Controls and mitigation	Risk movement
<p><b>Reliance on material counterparties</b></p> <p>We are reliant on several significant counterparties such as insurers, banks, clients and suppliers to maintain our business activities. Our ability to trade and the operational and financial effectiveness of our business could be materially affected by a failure of one of these key counterparties.</p> <p>The need to maintain effective ongoing relationships with our material counterparties is therefore critical if the Group is to meet its strategic objectives</p>	<p>The impact of any potential failure of one counterparty is limited due to the development of a diverse range of robust counterparties. A formal review of material counterparty risk is undertaken at Board, divisional and business level.</p>	
Operational		
Risk Event	Controls and mitigation	Risk movement
<p><b>Contract bidding, mobilisation and delivery</b></p> <p>We see an increasingly complex service offering as a business differentiator to our clients, supported by ever more sophisticated and complex technological solutions, and maintaining our strong financial position is dependent upon our ability to successfully bid, mobilise and deliver large scale, complex integrated facilities management contracts.</p> <p>When compared to our more traditional business activities, these solutions necessarily carry increased risk around bidding, design, delivery and successful implementation. Our ability to manage these risks is therefore critical to ensuring the group's growth.</p>	<p>Our executive management team oversee our bid, mobilisation and delivery processes for large integrated facilities management contacts.</p> <p>Teams of experienced bid, mobilisation and delivery experts support the contracts through each stage of development to ensure operation within the delegated authority.</p> <p>A focus on developing long-term client relationships occurs – supported by a strengthened framework to retain our existing client base.</p> <p>The development and deployment of sophisticated technical solutions to facilitate improved contract delivery is governed by our Board, with governance arrangements operating to provide assurance on their ongoing performance.</p>	
<p><b>Significant health, safety or environmental incident</b></p> <p>We undertake a broad and diverse range of services for our clients, some of which are potentially hazardous and so the potential to cause significant harm to our employees, our business partners, members of the public, or to damage the environment exists.</p> <p>We maintain an unwavering commitment to safeguarding our people, others who potentially could be affected by our activities, and protecting the environment wherever we operate. Failure to maintain our high standards could result in a significant incident affecting an employee, their family, friends or colleagues; or lead to regulatory action, financial impact or damage to our reputation.</p>	<p>The Board maintains a strong focus on providing effective governance, oversight and management standards and a commitment to achieving the highest standards of quality, health, safety and environmental (QHSE) performance, with QHSE performance continuing to be the first item on every Board agenda.</p> <p>Our well established and award winning employee engagement programme, Work Safe Home Safe, was strengthened during the year, and we continued to maintain our QHSE management systems which are certified to the ISO 9001, 14001 and OHSAS 18001 standards.</p> <p>To support our management system and engagement programme we focus on developing training programmes to ensure every employee, at every level of the business, has the core competencies required to do their work safely.</p>	

## Operational

Risk Event	Controls and mitigation	Risk movement
<b>Intentional/unintentional business disruption through system, process or control failure</b>		
<p>Our business is underpinned by operational efficiency, with future business performance built upon the use of sophisticated, interdependent business systems, with greater use and reliance on such systems increasing in the future as we provide more sophisticated services to our client base. These systems, combined with our governance framework of policies and procedures, remain critical for the control and success of the business and the achievement of our strategic objectives.</p> <p>Due to the business critical nature of these systems, operational failure may result in a significant impact on operational delivery, or contract management and client expectations, with a breakdown in the controls around high volume transactions and compliance areas such as vetting and employment legislation caused by system failure. As a result of either operational or system failure, financial misstatements, fines for statutory non-compliance and loss of client and/or regulator confidence could occur.</p>	<p>Our governance framework, specifically our core policies and procedures is continually reviewed and optimised to ensure it remains effective and is fit for purpose as our business grows and diversifies.</p> <p>We formally review the effectiveness of internal controls, supported by a programme of internal audits and self-certification on the operation of key controls and procedures.</p> <p>Business critical systems are formally identified and subject to testing to ensure effective recovery following a potential disaster scenario. IT-related governance oversight is provided by the IT Board (comprising executive management) who continue to monitor the effectiveness of the information security management system, which is aligned with recognised international standards. Cyber security arrangements and the threat of malicious attacks on our systems are under continual surveillance operationally and monitored by the Board. We have undertaken Cyber Essentials certification and are working towards Cyber Essentials Plus.</p> <p>An assurance programme is in place to test the adequacy of our mitigation activity.</p>	

## Operational

Risk Event	Controls and mitigation	Risk movement
<b>Attracting and retaining the right people in the right places</b>		
<p>To achieve our strategic objectives and deliver our long-term growth aspirations, we need to retain our most skilled people at all levels of the business, as well as attracting new staff to join us. Of particular importance is the need to have access to a diverse range of views and experience and to attract specific technical expertise where the market may be highly competitive.</p> <p>Failure to retain and develop our existing employees or to attract new talent could impact our ability to achieve our strategic growth objectives.</p>	<p>We focus on training and competency at all levels of the business to ensure the development of our people to enable them to successfully manage the changing profile of our business – putting the right people, with the right skills, in the right places. We aim to reward achievement by offering promotion, by ensuring a pipeline of opportunities exists for staff at every level of the business. Talent management and succession planning therefore continues to be a key focus for our management teams.</p> <p>We are also looking to the future and aiming to develop the next generation of leaders via our established graduate programme.</p>	

## Regulatory

Risk Event	Controls and mitigation	Risk movement
<b>Non-compliance with the developing regulatory framework</b>		
<p>Our ability, as a major employer, to respond to the developing legal and regulatory framework in areas such as national living wage, healthcare and the broad range of applicable operational laws is essential to ensure we meet our strategic targets and avoid potential material financial and reputational impacts associated with non-compliance. Labour legislation, including the National Living Wage, apprentice levy and changes to pension legislation contribute to a change in the cost of our more labour intensive services.</p> <p>As a minimum requirement we demand legal and regulatory compliance in all of our business areas, covering all our activities, with strong management oversight of our compliance status – particularly where we operate in a new or changing business environment.</p>	<p>Our governance framework, comprising our code of conduct, policies and procedures and specific training activity forms the cornerstone of our legal and regulatory compliance programme.</p> <p>Responsibility for ensuring legal and regulatory compliance remains primarily with our operational management teams, supported where necessary with specific technical expertise and related assurance activity. Management oversight occurs via divisional and Group Risk Committees. Challenges associated with changes to labour legislation are being addressed through a change to our business model, including increased focus on technological solutions and a drive for greater operational efficiency in our core services.</p> <p>The developing regulatory framework is proactively monitored to plan and budget for ongoing compliance.</p>	

## 2016 Principal Risks and Uncertainties continued

The table below maps our strategic aims with our principal risks, to demonstrate which of the risks could have an impact on the achievement of these strategic aims.

Risk	Strategy					
	Maintain our position as the leading provider of FM services in the UK	Increase the range and scale of services we provide to our top 200 clients in the UK and internationally	Increase the provision of technology-led services	Grow our public services businesses by developing relationships with key clients	Expand the scale and breadth of our higher-value consultancy services	Attract, retain and develop the best people in our industry
Continuing uncertainty in economic environment (including Brexit) creates unstable operating and investment environment for Mitie and its clients	✓	✓	✓	✓		✓
Protecting our reputation	✓	✓		✓	✓	✓
Financial strength and access to appropriately scaled and diverse sources of funding	✓	✓		✓		
Reliance on material counterparties	✓	✓				
Contract bidding, mobilisation and delivery	✓	✓		✓	✓	✓
Significant health, safety or environmental incident	✓			✓		✓
Intentional/unintentional business disruption through system, process or control failure	✓		✓	✓		
Attracting and retaining the right people in the right places	✓	✓		✓		✓
Non-compliance with the developing regulatory framework	✓	✓		✓		✓

## Viability statement

In accordance with section 2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the prospects of the group over a three year period. This assessment took account of the group's current position and potential impact of the principal risks of the Group as set out on pages 57 to 60 of the Annual Report. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue operation and meet its liabilities as they fall due over the period to 31 March 2019.

The Directors believe that a three year period of review is appropriate for their viability assessment as its supported by our strategic, budgeting and business planning cycles and is relevant to the duration of the Group's existing contracts with customers which typically range from three to five years. It therefore represents a timeframe over which the Directors believe they can reasonably forecast the group's performance.

At 31 March 2016 the Group had available £259m of undrawn committed borrowing facilities in respect of which all conditions had been met. Its borrowing facilities total £527m and include a £275m Revolving Credit Facility with an expiry date of July 2019 and £252m of US Private Placement notes which have a range of maturity dates commencing from December 2017 out to December 2024. Over the period under consideration for viability testing £60m of the £527m of committed borrowing facilities reaches maturity. The maturing facility is wholly comprised of the repayment of the 2010 US private placement 7 year notes. The Group is confident that the facilities falling due for repayment or renewal during the period of the viability assessment could be refinanced in the ordinary course of business. Letters of support to this effect have been requested and received from two of the Group's principal reducing credit facility lenders.

In making this statement, the Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This included the availability and effectiveness of mitigating actions that could realistically be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk management and internal control systems, as described on page 68, are taken into account.

In undertaking its assessment, the Board has considered annually a detailed financial plan and budget which includes analysis of the forecast and actual performance of the group's existing contract base, its expectation for future growth including sales targets and expected win rates, its overhead cost base, the expected costs of financing and the availability of future funding facilities. The group's forecasts of its divisional and consolidated income statement, balance sheet and cash flows are used to perform analysis of forecast headroom on the group's borrowing facilities and the group's consequent solvency and liquidity.

Specific sensitivities were applied to the plan which included early termination of key contracts; zero revenue growth over the plan period; reduced rates of margin on the existing contract base and a decline in availability of sources of financing for the group. The customer and sector diversification of the Group's operations helps minimise the risk of serious business interruption or a catastrophic damage to our reputation. Our largest client constitutes 7.2% of Group revenue. The group's ability to flex its cost base protects its viability in the face of adverse economic conditions and/or political uncertainty. The directors considered mitigating factors that could be employed to counter the negative effects of the crystallisation of each of these risks. The main actions included the short term down scaling of investment in the business, limitations to acquisition activity and reductions in cash distributions.

## Board of Directors



**Roger Matthews**  
Non-Executive Chairman

### Board Committees

Chairman of the Nomination Committee  
Member of the Remuneration Committee

### Date of appointment to the Board

December 2006

### Other current appointments

None

### Past roles

Previously a Non-Executive Director of Mitie until his appointment as Chairman in 2008. Roger qualified as a Chartered Accountant with PricewaterhouseCoopers. He held a number of finance roles at Cadbury Schweppes PLC and Grand Metropolitan PLC before becoming Group Finance Director and Group Managing Director at Compass Group PLC and Group Finance Director at J Sainsbury PLC. During the last 11 years he has held a number of non-executive roles including Non-Executive Chairman of Pertemps Network Group Limited and LSL Property Services plc. He was previously a Non-Executive Director at RHM PLC, Zetar PLC and trustee of Cancer Research UK.

### Skills and experience

- > Over 25 years as a public company director.
- > Experienced FTSE 100 and FTSE 250 director in executive and non-executive roles.
- > Extensive experience in outsourcing, retail, hospitality and food manufacturing sectors.
- > Significant experience in strategy, international, finance and mergers and acquisitions.
- > Chartered Accountant.



**Ruby McGregor-Smith**  
**Baroness McGregor-Smith, CBE**  
Chief Executive

### Board Committees

Chair of the Results and Investment Committees

### Date of appointment to the Board

December 2002

### Other current appointments

Senior Independent Director and member of the Audit, Nomination and Remuneration Committees at Michael Page International plc; Non-Executive Director of the Department of Education. Ruby's charitable and community interests include acting as Chair of the Women's Business Council and Business Ambassador for UK Trade and Investment. In November 2015 she was also appointed to the House of Lords.

### Past roles

Ruby qualified as a Chartered Accountant with BDO Stoy Hayward. Prior to joining Mitie, she held a range of operational and financial roles, primarily at Serco Group plc. Ruby joined Mitie as Group Finance Director in December 2002 and was promoted to Chief Operating Officer in 2005 before being appointed as Chief Executive in April 2007.

### Skills and experience

- > Executive and non-executive experience with FTSE 250 public companies for over 12 years.
- > Significant strategic and commercial experience.
- > Extensive experience in the support services sector for over 24 years.
- > Significant experience in government and private sector contracting and employment matters including diversity.
- > Extensive financial, audit and risk management systems experience.
- > Chartered Accountant.



**Suzanne Baxter**  
Group Finance Director

### Board Committees

Member of the Results and Investment Committees

### Date of appointment to the Board

April 2006

### Other current appointments

Non-Executive Director, Chair of the Audit Committee and member of the Nomination and Remuneration Committees of WH Smith PLC. Chair of the Business Services Association, a policy and research centre of excellence for the support services industry, and Chair of the Business in the Community (BITC) South West Strategic Advisory Board.

### Past roles

Suzanne qualified as a Chartered Accountant with PricewaterhouseCoopers, where she specialised in audit and corporate finance. Prior to joining Mitie, she held an advisory role at Deloitte, supporting mergers and acquisitions, privatisation and IPO activities. She then moved to Serco Group plc where she gained divisional board level responsibility for sales, operations, finance and commercial aspects of the business.

On a pro bono basis, she worked with Opportunity Now, the gender equality campaign, for over 10 years and was latterly Deputy Chair.

### Skills and experience

- > Executive and non-executive experience with FTSE 250 public companies for over 10 years.
- > Significant strategic, commercial and operational experience.
- > Extensive experience in the support services sector for circa 20 years.
- > Significant experience in government and private sector contracting and employment matters including diversity.
- > Expertise in mergers and acquisitions.
- > Chartered Accountant.





**Larry Hirst, CBE**  
Senior Independent Director

#### Board Committees

Member of the Audit, Nomination and Remuneration Committees

#### Date of appointment to the Board

February 2010

#### Other current appointments

Non-Executive Director and Chairman of the Remuneration Committee, ARM Holdings plc and Chairman of the Imperial College Data Science Institute Advisory Board. Community interests include acting as an Ambassador to Everywoman and Black British Business. Member of the National Research Council for Cyber Security.

#### Past roles

Until his retirement from IBM in 2010, Larry was Chairman of IBM (EMEA) and held a number of other senior positions during his 33 year career with IBM. He represented IBM to the European Commission and other authorities. Chairman of the Transition to Teaching Committee; a Commissioner for the Government's Employment and Skills Council; Chairman of the UK Trade and Investment Executive Board; Chairman of e-skills, the Sector Skills Council; member of the British Airways International Advisory Board; a private sector Business Ambassador, appointed by the Prime Minister; member of the South African President's Advisory Council.

#### Skills and experience

- > Served on both government and private sector boards at senior level.
- > Significant expertise in the global Information Technology industry, in particular in relation to defining and executing the strategies required to drive business success.



**Jack Boyer, OBE**  
Independent  
Non-Executive Director

#### Board Committees

Chairman of the Remuneration Committee

Member of the Audit and Nomination Committees

#### Date of appointment to the Board

June 2013

#### Other current appointments

Council Member of the board of the Engineering and Physical Sciences Research Council and the Innovate UK Energy Catalyst. Deputy Chair of the Advanced Materials Leadership Council.

#### Past roles

Previously founded and was CEO of companies in the engineering, telecommunications and biotechnology sectors; former Chairman of Ilika plc; former Non-Executive Director and Chairman of the Remuneration Committee of Laird PLC; investment banker at Goldman Sachs and strategy consultant at Bain & Co.

#### Skills and experience

- > Director of FTSE 250, AIM and private companies, and Chairman of AIM companies and private companies.
- > Chief Executive and entrepreneur with a track record of steering successful corporate innovation, growth and globalisation in multiple sectors.
- > Significant experience in mergers and acquisitions, IPOs and financial markets in the UK, US and Asian capital markets.
- > MBA.



**Mark Reckitt**  
Independent  
Non-Executive Director

#### Board Committees

Chairman of the Audit Committee

Member of the Nomination and Remuneration Committees

#### Date of appointment to the Board

July 2015

#### Other current appointments

Non-Executive Director and Chairman of the Audit Committee at Cranswick plc and J D Wetherspoon plc.

#### Past roles

Group Strategy Director, Smiths Group plc; Divisional President, Smiths Interconnect; interim Managing Director, Green & Black's Chocolate; Chief Strategy Officer at Cadbury plc. Mark also held a range of Strategy and Finance roles at Cadbury since joining in 1989, including Finance Director of Cadbury UK. Prior to joining Cadbury, Mark spent six years in Investment Banking and Retailing.

#### Skills and experience

- > Significant international strategic experience.
- > Chartered Accountant.

## Chairman's introduction to Corporate Governance



### Compliance with the Code

I can confirm on behalf of the Board that the group has complied in all respects with all of the principles and relevant provisions set out in the September 2014 edition of the Code throughout the year. Details of how we have applied the principles and complied with the provisions are explained throughout the report. The Code can be found on the Financial Reporting Council website at [www.frc.org.uk](http://www.frc.org.uk). The September 2014 edition of the Code included a number of changes regarding directors' remuneration, risk management and control, which we have adopted. One of the new requirements of the Code is for the Board to explain how it has assessed the prospects of the Company, taking account of the Company's current position and principal risks (referred to as the 'annual viability statement'), which can be found in the Strategic report on page 61.

The Board considers that throughout the year sufficient time has been spent reviewing and discussing strategy, risk, financial performance, investor communication and engagement, and key matters of governance both at the Board and the committee meetings. An overview of the activities and the effectiveness of each of our Board committees is explained further on pages 65 to 77.

The Board is responsible to shareholders and other stakeholders for the group's activities and its long-term success. The value of good governance is recognised by the Board as an area of great importance and, in this governance report, we explain how the main principles of good governance are applied across the group. We also describe how the governance framework implements the UK Corporate Governance Code (the Code).

Key areas of governance that have been reviewed in the year include:

### Ethics, compliance and code of conduct

During the year we continued to focus on embedding our ethical business framework and, specifically, ensuring the requirements of our code of conduct (One Code) were understood and being followed. We strengthened awareness of One Code through the introduction of a summary version distributed to employees as part of our induction pack, and a supplier version, to make sure our values and expected behaviours are fully communicated and understood by our supply chain. One Code can be found on our website at [www.mitie.com/about-us/our-culture/one-code-our-code-of-conduct](http://www.mitie.com/about-us/our-culture/one-code-our-code-of-conduct).

In addition, our Speak Up (whistle-blowing) service continued to operate and was widely communicated as part of our One Code promotion programme.

### Board composition

As a Board, we are keen to ensure that a balance of views is available and that the right decisions are taken. Our Board comprises directors with a breadth of professional and sector experience from various backgrounds. As a result we have a balanced Board with the right range of skills and experience to contribute to and, where appropriate, challenge decision making.

During the year there were a number of changes to the Board composition. Crawford Gillies retired from the Board at the Annual General Meeting (AGM) in July 2015 and David Jenkins retired from the Board in December 2015, having stepped down as Senior Independent Director and Chairman of the Audit Committee at the AGM. Mark Reckitt was appointed as a Non-Executive Director of Mitie with effect from 1 July 2015. Larry Hirst, who has been a Non-Executive Director for the past five years, was appointed Senior Independent Director and Mark Reckitt as Chairman of the Audit Committee, in each case upon David stepping down.

The Board retains a focus on diversity and takes into consideration the diverse demographic of the group's employee population. Mitie's female population accounts for 46% of employees, and its disclosed BME population for 20% of employees.

### Remuneration Policy review

During 2015 the review of the executive remuneration policy was completed and a revised policy designed to operate for three years was presented and approved by the group's shareholders at the AGM in July 2015.

Further details are provided in the Directors' remuneration report which can be found on pages 76 to 94.

### Roger Matthews

Chairman

## The Board

### Board members

The members of the Board and their accompanying biographies are set out on pages 62 and 63. All Directors are expected to allocate sufficient time to the Company to discharge their responsibilities effectively and, where possible, attend all Board meetings and the AGM. Any time commitment matters are addressed by the Chairman with the Director concerned.

<b>Chairman</b>	Roger Matthews
<b>Board members (executive)</b>	Ruby McGregor-Smith Suzanne Baxter
<b>Board members (non-executive)</b>	Jack Boyer Larry Hirst Mark Reckitt (from 1 July 2015) Crawford Gillies (until 13 July 2015) David Jenkins (until 31 December 2015)

### Key purpose of the Board

The Board is collectively responsible for the sustainable long-term success of the Company and provides leadership and direction to management. Accordingly, the Board reviews and agrees the strategy for the group, proposed by the Executive Directors, on an annual basis and reviews certain aspects of the strategy at Board meetings during the year. In setting the strategy, the Board takes account of matters such as: market trends; competitive environment; private/public sector approach; international aspects of the business and opportunities; finance; shareholder returns; people and talent; and the Mitie Model, ensuring at all times that sufficient consideration is given to risk and internal controls.

### Key responsibilities

There are key matters and responsibilities that are set aside to be dealt with exclusively by the Board. These include:

- strategy – including setting group strategies and objectives;
- structure – including approval of material changes to the group’s structure;
- financial reporting – including approving the group’s Half-Year and Annual Report and Accounts, and approving business plans and budgets and monitoring performance against them;
- internal controls – including ensuring that a sound system of internal controls is maintained which is designed to safeguard assets and ensure the reliability of financial information for both internal use and external publication; and reviewing and monitoring the effectiveness of those risk and control processes, with the assistance of the Audit Committee through Internal Audit and the Group Enterprise Risk framework;
- acquisitions, disposals and contracts – including approving material acquisitions, disposals and business start-ups (including any material transactions outside of the normal course of business);
- corporate governance matters – including undertaking a formal and rigorous review annually of its own performance and that of its committees and individual directors; determining the independence of directors and reviewing the group’s overall corporate governance arrangements;

- delegation of authority – including the division of responsibilities between the Chairman and the Chief Executive and approval of terms of reference of Board Committees;
- communication – including making arrangements for dialogue with shareholders and canvassing shareholder opinion;
- people – including consideration of appointments to and resignations from the Board, changes to the structure, size, composition and diversity of the Board and ensuring adequate succession planning for the Board and senior management;
- policies – including approval of group policies relating to share dealing, code of conduct, health and safety, corporate social responsibility and ethical trading; and
- other matters – including approval of new material banking facilities; appointment of principal professional advisors; approval of the annual renewal of the group’s insurance arrangements; and material changes to the rules or statement of investment principles of the group’s pension schemes.

Full details of the matters reserved for the Board can be found at [www.mitie.com/investors/shareholder-services/corporate-governance](http://www.mitie.com/investors/shareholder-services/corporate-governance).

The Directors are mindful of their legal duties to act in a way they consider, in good faith, will be most likely to promote the success of the Company for its shareholders, having regard also to other stakeholders.

### Frequency of Board meetings

During the year ended 31 March 2016, there were six scheduled Board meetings.

	Attendance
Number of scheduled Board meetings held in the year:	6
Roger Matthews	6
Ruby McGregor-Smith	6
Suzanne Baxter	6
Jack Boyer	6
Larry Hirst	6
Mark Reckitt <sup>3</sup>	5 of 5
Crawford Gillies <sup>1</sup>	2 of 2
David Jenkins <sup>2</sup>	3 of 4

Notes:

1. Crawford Gillies retired from the Board on 13 July 2015.
2. David Jenkins retired from the Board on 31 December 2015.
3. Mark Reckitt was appointed to the Board on 1 July 2015.

Additional unscheduled Board meetings were held, to the extent necessary, to deal with the review and approval of material transactions, key contracts, acquisitions and issues relating to shares and other administrative matters.

## The Board continued

### Key areas of business

In addition to the key responsibilities described above, during the year the Board spent time discussing capital allocation policy (including in relation to share buy-backs), developments in corporate governance, principal risks and viability, the Modern Slavery Act, the National Minimum and Living Wage, the impact of Gender Pay Reporting and the Apprenticeship Levy.

### Division of responsibilities of the Chairman and Chief Executive

The Chairman and Chief Executive have clearly defined and separate roles divided between running the Board on the one hand, and the business on the other, whilst maintaining a close working relationship. They have an open dialogue and meet regularly between Board meetings to ensure a full understanding of business issues and facilitate efficient decision making. The document setting out this division of responsibilities is available on the website at [www.mitie.com/investors/shareholder-services/corporate-governance](http://www.mitie.com/investors/shareholder-services/corporate-governance).

### The Chairman

The Chairman is a Non-Executive Director and is responsible for:

- › chairing the Board and ensuring its effectiveness in all aspects of its role, including the regularity and frequency of meetings;
- › liaising with the Company Secretary to set Board agendas, taking into account the issues and concerns of all Board members;
- › ensuring there is an appropriate delegation of authority from the Board to the executive management;
- › managing the Board to ensure sufficient time is allocated to promote healthy discussion and open debate, supported by the right level and quality of information to assist the Board in reaching its decisions;
- › facilitating the effective contribution of Non-Executive Directors and encouraging active engagement by all members of the Board;
- › ensuring constructive relations between the Executive and Non-Executive Directors;
- › ensuring that new Directors participate in a full, formal and tailored induction programme;
- › ensuring that the performance of the Board, its committees and individual directors is evaluated at least once a year and acting on the results of such evaluation; and
- › maintaining sufficient contact with major shareholders in order to understand their issues and concerns, in particular in relation to governance, strategy and remuneration, and ensuring that their views are communicated to the Board as a whole.

The Chairman holds meetings with the Non-Executive Directors, without the Executive Directors being present. He is available to consult with shareholders throughout the year and will be available at the AGM.

### The Chief Executive

The Chief Executive is responsible for all aspects of the operation and management of the group and its business within the authorities delegated to her by the Board.

She is specifically responsible for:

- › developing group objectives and proposing and implementing strategy, having regard to the group's responsibilities to its shareholders, customers, employees and other stakeholders;
- › recommending to the Board an annual budget and strategic and financial plan and ensuring their achievement following Board approval;
- › optimising the use and adequacy of the group's resources;
- › examining all investments and major capital expenditure proposed by subsidiary companies and recommending to the Board those which, in a group context, are material in either nature or cost;
- › evaluation, approval and execution of material contracts, investments including technology investments, acquisitions, disposals and new business opportunities;
- › ensuring at all times that the group's risk profile, including the health and safety performance of the business, is managed in line with the extent and categories of risk identified as acceptable by the Board;
- › making recommendations on remuneration policy, other remuneration related matters and in respect of the appointment of executive directors to the various Board committees (other than the Nomination, Audit and Remuneration Committees);
- › setting group HR policies, including management development and succession planning for senior management and approving the appointment and termination of employment of members of that team;
- › ensuring the effective implementation of Board decisions, and regularly reviewing the operational performance and strategic direction of the group's business; and
- › ensuring effective communications with shareholders.

### The Group Finance Director

The Group Finance Director is responsible for:

- › leading, directing and overseeing all aspects of the finance and accounting functions of the group, including financial reporting, tax, treasury, strategy, performance analysis and financial planning, financial systems and the development of the back office and management information of the group, and managing the processes for financial forecasting, budgets and consolidated reporting;
- › evaluating, approving and advising the Board and the Executive Committee on the financial, commercial and legal impact of material contracts and transactions (including mergers and acquisitions), technology investments in support of the development of the group, long range planning assumptions, investment return metrics, risks and opportunities and the impact of changes in accounting standards;

- overseeing and directing the group's risk, insurance, pensions, internal audit, legal, corporate governance and assurance functions and managing the relationships with the external auditor, key financial institutions and advisors to the group;
- ensuring that effective internal controls are in place and that the Company complies with appropriate accounting regulations for financial, regulatory and tax reporting; and
- providing an underpin to all aspects of the group's governance framework, the application of its delegated authorities, operation of its committees, its investment activities and chairing the Risk Committee.

### The Non-Executive Directors

The Non-Executive Directors review proposals for the strategic direction of the group, constructively challenging and probing proposals presented by the Executive Directors, based on their breadth of knowledge, experience and individual skills, and contributing to the formulation and development of strategy.

They are responsible for monitoring high level corporate reporting and satisfying themselves as to the integrity of financial information and the operation of key controls.

They are required to maintain an effective understanding and oversight of the group's principal risks and the assurance in place relating to those risks, including the results of the internal audit programme.

The Non-Executive Directors play a key role in determining the remuneration policy for the Chairman, the Executive Directors, the Company Secretary and members of the senior management and take a primary role in Board succession planning.

They have a responsibility to exercise their independent skill and judgement in carrying out their duties.

### The Senior Independent Director

The role of the Senior Independent Director includes acting as a sounding board for the Chairman, serving as an intermediary for the other directors when necessary, conducting the Chairman's annual performance evaluation and leading any new Chairman appointment process. He also acts as chairman of the Board, in absence of the Chairman, where necessary.

The Senior Independent Director is available as an alternative point of contact for shareholders should they have concerns which have not been resolved through the normal channels of Chairman, Chief Executive or Group Finance Director, or for which such contact is inappropriate in the circumstances.

The terms of appointment of the Non-Executive Directors and the Executive Directors' service contracts are available for inspection at Mitie's registered office, Mitie's head office in Bristol and at the AGM.

### Evaluation of the performance of the Board and the committees

A performance evaluation of the Board and its committees is carried out annually to ensure they continue to be effective and that each of the directors demonstrates commitment to their respective roles and has sufficient time to meet their commitment to the Company.

During the 2013/14 financial year the Board was assisted in its evaluation by independent consultants, Condign Board Consulting. During the 2015/16 financial year the Board internally reviewed its performance and that of its committees and individual Directors. The process was based upon the completion of an appropriately designed questionnaire and/or one-to-one meetings between the Chairman and/or the Senior Independent Director and individual Directors. Key areas addressed were the Board's composition (balance of skills, experience, independence, knowledge of the Company, and diversity, including gender), Board governance and processes, group strategy, contribution by the Board, adequacy of resources, knowledge and training needs, and follow-through on the prior Board evaluation.

Evaluation of the Chairman was led by the Senior Independent Director.

The conclusions and recommendations of the review were shared with the Board at the meeting in May 2016. Following the completion of the Board evaluation process, the Board was satisfied as to its effectiveness, and that of its committees, and that each Director had dedicated sufficient time to the Company in order to discharge their responsibilities effectively.

The Board will continue to focus on its composition and balance of skills and experience. The Board will receive regular updates on the development of the customer proposition and presentations from divisional management on the strategic development and performance of their businesses.

An externally facilitated performance evaluation of the Board will be conducted during the 2016/17 financial year, in line with the requirements of the Code.

### Director re-election

The performance of each Director has been reviewed as part of the annual board evaluation process and the Board is satisfied that they continue to operate effectively and demonstrate clear commitment to their roles. All Directors will submit themselves for re-election at the 2016 AGM.

### Director induction process and training

In order to ensure that Directors' skills and knowledge are regularly updated briefing notes are circulated on matters such as changes in the regulatory and governance environment. Visits to different business sites and offices are arranged in order to help all Board members gain a deeper understanding of the business. The Board also receives regular updates and management presentations on the strategic development, operational and financial performance of the group.

All Directors receive a personally tailored induction to Mitie which includes:

- meetings with the Executive Directors and other key members of the senior management team;
- a review of the group's governance policies, structure and business, including details of the risks and operating issues facing the group;
- visits to divisional offices and key client sites; and
- a briefing on key contracts.

## The Board continued

Following his appointment in July 2015, Mark Reckitt received training and induction sessions with the Chairman, the Executive Directors, the Company Secretary, the Group Enterprise Risk Director, the divisional managing directors, the Head of Internal Audit, Deloitte LLP and other key individuals.

Members of the Board are given access to an online board portal which, as well as holding copies of all recent Board and committee reports and minutes, has a reading room where the Directors can access a Board Handbook containing essential information about the group, including: copies of Mitie's current Articles of Association; the latest Annual Report and Accounts; Board and committee terms of reference; guidance on directors' statutory duties; governance and regulatory guidelines; the group's approved delegated authorities; and an overview of the group's directors' and officers' liability insurance arrangements. The Handbook is reviewed and updated regularly.

### Board accountability and assurance explained

#### Risk management approach

The Board understands that effective risk management and a sound system of internal control underpin the achievement of the group's strategy and supporting objectives. The Audit Committee recognises the enhanced risk management requirements of the Code and has continued to focus on its review of the risk management framework to better understand and address the nature of the risks faced by the group.

To ensure the continued identification of risks and opportunities to the delivery of its strategic objectives, the group maintains a strong focus on embedding risk management across all areas of the business.

#### Risk management processes

The group's risk management framework provides a flexible and adaptable approach to the identification of risk across all areas of the business, to meet the demands of the dynamic and quickly evolving environment in which the group continues to operate. The Risk Management Policy establishes the requirements for all areas of the group to implement – requiring a consistent process for the identification and assessment of risks, the associated mitigation measures and the potential impact of such events occurring. The policy was reviewed during the year and determined to be effective. Ultimate responsibility for risk management lies with the Chief Executive, delegated through the executive management team, with accountability and responsibility assigned to specific risk owners. The group risk profile is reviewed by the Chief Executive and Group Finance Director in advance of formal review and approval by the Board. This information is captured in risk registers at business, divisional and functional level, which are subsequently consolidated into strategic, operational, financial and regulatory risk categories within the overall Group risk register maintained by the Enterprise Risk function.

#### Risk identification and assessment

When considering the risks that pose a threat to the achievement of the group's strategy, the Board takes both internal and external perspectives into account to ensure a thorough identification process occurs. The internal view takes into account factors such as the changing and developing business profile, operational processes, technology and people,

while the external view will include the economic position, political factors, and sector and geographical risks. A top down and bottom up approach ensures the systematic identification of significant risks to the business.

Once identified, risks are assessed using standard impact and likelihood ratings to quantify the risk to the achievement of business objectives. Independent challenge and oversight of the risks identified within the divisional and functional risk registers are provided by the Enterprise Risk function and divisional managers, to ensure meaningful and consistent results are achieved via the process. During the year a dedicated risk management software system was introduced across all parts of the group to assist the risk assessment and risk reporting requirements. The new system has significantly enhanced the group's risk oversight processes, providing improved visibility in real time of risk assessment, risk interdependency and controls effectiveness, and enhanced executive management reporting capabilities.

#### Risk mitigation

To provide more robust information on the effectiveness of the identified risk mitigation controls, the control and mitigation element of the group's risk management process was reviewed and enhanced over the course of the year. Each identified risk has a defined control owner who is responsible for developing a plan to mitigate the risk. Assessment of the effectiveness of this control environment is undertaken at divisional and group level, with the Audit Committee formally reviewing performance throughout the year and advising on the effectiveness of the risk management system in place.

#### Risk culture

While it is understood that an effective risk management framework is essential for the achievement of the group's strategic objectives, values and risk management culture underpin how the group operates. The focus, during the year, has therefore been on providing a strong and consistent message from senior management (or 'tone from the top') on the importance of embedding risk management into all key decisions such that opportunities to grow the group are effectively balanced with effective risk management decision making. This means that opportunities may be exploited, provided risks have been properly identified and the right controls established or, in some cases, potential opportunities may be declined as they sit outside of the group's risk appetite.

Aligned with the group's values, the code of conduct (One Code) continues to provide the framework upon which Mitie's risk culture is built. The code sets out expected behaviours, linked to the group's values, for all employees and establishes zero tolerance in specific areas – as part of an established ethical business framework. The code was developed in alignment with the public sector's 'seven principles of public life' thus ensuring that, wherever Mitie operates, organisational values and behaviours are aligned with those of the client. The Board received regular reports on the development of this framework during the year.

### Risk monitoring and review

Principal risks to the business are monitored throughout the year, as the business's profile continues to change, to ensure the risk profile is accurate and the control environment remains effective. The overall risk profile for the year remained in line with that reported in 2015, although the definition of a number of risk events has been refined in order to more accurately reflect the evolving business and the potential challenges to achieving the group's strategic objectives. It should be noted that other risks are identified as part of the risk management process, but these do not have a material impact on the group's overall ability to achieve business objectives. These risks are managed via the existing risk management process. During the year a formal and detailed review of the risk management and internal control requirements of the Code was undertaken across all operating divisions, against the requirements provided in the FRC's guidance, with the results reported to the Audit Committee and the Board. As a result of this review, risk management and internal control practices and reporting requirements were refined, and will continue to be further refined during 2016/17.

The Audit Committee, on behalf of the Board, regularly reviews the programme of risk management undertaken across the group to demonstrate the importance of the management and assessment of risk at a senior level, to take ownership of mitigation improvements where required and to receive reports on the assurance activity undertaken. In addition, during the year a Risk Committee was constituted (as a sub-committee of the Executive Board) with responsibility for ensuring robust risk identification, assessment, control and monitoring occurs, with deep dive reviews of specific identified risks. The Risk Committee provides reports of its findings both to the Executive Board and Audit Committee. The Committee is chaired by the Group Finance Director with divisional Managing Directors, the Enterprise Risk Director, Group General Counsel and Head of Internal Audit as nominated members. In addition, external subject matter experts attend to provide specific technical risk management input where identified as necessary. Although significant effort has been put into developing the group's risk management programme over recent years, management is not complacent in this area. During 2016 the risk management programme was subject to external review and evaluation by risk management experts from Grant Thornton.

Ultimately the risk management framework is designed to manage rather than eliminate the risk of failing to achieve the objectives and strategies of the group and can therefore only provide reasonable, and not absolute, assurance against material risk and loss. The Board, through the Audit Committee, considers the nature and extent of significant risks in setting the group's strategy. Details of the principal risks of the group are set out on pages 57 to 60. The Audit Committee confirms that this risk management process has been in place throughout the reporting year and up to the date of approval of the Annual Report and Accounts.

### Internal control and assurance

Mitie operates a '3 lines of defence' model incorporating internal controls, risk management and functional oversight, and Internal Audit. The implementation of the system of internal control is managed by the leadership of each division. Group functions (such as Finance, Legal, Human Resources and Risk) collaborate with divisional teams to promote continuous improvement and ensure that controls are operating effectively. A formal review of the internal control environment, led by the Group Finance Director and Head of Risk with engagement from Divisional Directors and boards, is undertaken annually in each division through the Internal Control Questionnaire, which evaluates controls in all key business processes. The Audit Committee receives assurance over the effectiveness of divisional controls through this process, updates from specific functions, and the independent testing undertaken by Internal Audit as part of their work.

The Audit Committee also receives regular reports from the external auditor Deloitte LLP, who contribute a further independent perspective on the internal financial control systems arising from their audit work, and updates from the Head of Internal Audit and the Executive Directors on the operation of controls within the business.

### Internal Audit

The Internal Audit function provides objective assurance over the design and operation of risk management and governance processes and controls operated across the group. The Head of Internal Audit is responsible for development of a risk based internal audit plan that is aligned with the overall business strategy and provides assurance over the principal risks faced by the Group. On an annual basis the Audit Committee reviews and approves both the audit plan for the year and the resources required to deliver the agreed work programme. The Internal Audit plan is delivered through a co-sourced model, through a mix of internal resources and external resources from the group's Internal Audit partner, Grant Thornton.

The purpose, authority and responsibility of Internal Audit are defined in the Internal Audit Charter.

The Audit Committee regularly reviews the progress of the internal audit plan, together with reports received on findings of audits and management's progress on implementation of agreed recommendations. The Head of Internal Audit has direct access to the Audit Chairman and members of the Audit Committee. The Head of Internal Audit also reports regularly to the Executive Board.

### Committees of the Board

The Board has five formally constituted committees: the Audit Committee, the Nomination Committee, the Remuneration Committee, the Investment Committee and the Results Committee, the scope of which are set out on the following pages.

## Audit Committee



### Mark Reckitt

#### Chairman's introduction

The primary role of the Audit Committee is to oversee and assist the Board in its responsibility to approve a set of fair, balanced and understandable group Annual Report and Accounts. The accounts should provide the information necessary for shareholders to assess the Company's strategy, business model and financial performance throughout the year.

The Committee ensures that the group has in place effective financial governance in respect of the group's financial results, the performance of both the Internal Audit function and the external auditor, and the management of the group's systems of internal control, business risks management and related compliance activities.

#### Audit Committee members

Mark Reckitt succeeded David Jenkins as Chairman of the Committee on 14 July 2015. Mark continues to be deemed by the Board, as at the date of this report, to have significant, recent and relevant financial experience through his qualifications and ongoing positions. Mark's biography is included on page 63 and in the Notice of AGM. Crawford Gillies was also a member of the Committee during the year until his retirement from the Board in July.

At the date of this report, the Audit Committee comprises independent Non-Executive Directors who are all considered appropriately experienced to fulfil their duties.

<b>Chairman</b>	Mark Reckitt
<b>Committee members</b>	Jack Boyer Larry Hirst

#### Key purpose of the Audit Committee

The Audit Committee provides effective governance over the appropriateness of the group's financial reporting, and the performance of both the Internal and External Audit functions. The Committee also oversees the group's internal control systems, business risks management and related compliance activities.

The Committee meets with the external auditor and the Head of Internal Audit without the Executive Directors present. As Chairman of the Committee, Mark Reckitt will be available at the AGM to answer any questions about the work of the Committee.

#### Key responsibilities of the Audit Committee

The key responsibilities of the Audit Committee include:

- monitoring the integrity of the financial statements of the Company, including its Half-Year Report and the Annual Report and Accounts, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and estimates and judgements having regard to matters communicated to it by the external auditor;
- reviewing summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature;
- reviewing the Half-Year Report and Annual Report and Accounts, including the fair, balanced and understandable statement, statements concerning internal controls and risk management, all other material information presented with the financial statements including the strategic report, the annual viability statement, the corporate governance statements (insofar as they relate to the audit and risk management), and recommending the same for Board approval;
- keeping under review the adequacy and effectiveness of the group's internal financial controls and internal control and risk management systems (being the systems established to identify, assess, manage and monitor financial and other risks);
- providing advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period, why the period is regarded as appropriate and whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary, reviewing, and challenging where necessary accounting policies and key areas of accounting judgement;
- reviewing the external auditor's audit plan, nature and scope of work and overall summary of key issues and judgements;
- assessing the effectiveness of the external auditor including the appropriateness and skills of its audit team and the quality of its services;
- agreeing the audit fee for the year;
- considering and making recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the group's external auditor;
- ensuring the group's compliance with the Competition and Markets Authorities Statutory Audit Services Order, in particular with regard to audit tender;
- reviewing and monitoring compliance with the Non-Audit Services Policy and maintenance of auditor independence;
- reviewing the group's consolidated risk register prior to its approval by the Board;



- › monitoring and reviewing the role and effectiveness of the group's internal audit function, reviewing the internal audit plan and ensuring the internal audit function has adequate resources and appropriate access to information to enable it to perform its function effectively;
- › reviewing key internal audit reports and findings;
- › reviewing the adequacy and security of the group's arrangements for its employees and business partners to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters (ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action);
- › reviewing the group's procedures for detecting fraud;
- › reviewing the group's systems and controls for the prevention of bribery;
- › considering management's response to any major internal or external audit recommendations; and
- › monitoring the effectiveness of the external audit and risk management systems and functions.

The Audit Committee's terms of reference are available at [www.mitie.com/investors/shareholder-services/corporate-governance](http://www.mitie.com/investors/shareholder-services/corporate-governance).

### Frequency of Audit Committee meetings

During the financial year, the Audit Committee met three times. Meetings may, by invitation, be attended by the group's external auditor, the Chairman, the Chief Executive, the Group Finance Director and the Head of Internal Audit.

	Attendance
Number of meetings held in year:	3
Mark Reckitt <sup>1</sup>	2 of 2
Jack Boyer	3
Larry Hirst	3
Crawford Gillies <sup>3</sup>	0 of 1
David Jenkins <sup>2</sup>	2 of 2

Notes:

1. Mark Reckitt was appointed to the Board on 1 July 2015.
2. David Jenkins retired from the Board on 31 December 2015.
3. Crawford Gillies retired from the Board on 13 July 2015.

### The role of the Committee – financial reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditor the appropriateness of the Half-Year and Annual Report and Accounts concentrating on, amongst other matters:

- › the consistency of, and any changes to, significant accounting policies and practices both on a year-on-year basis and across the group;
- › the clarity and completeness of disclosure in the group's financial statements and the context in which statements are made;
- › the methods used to account for significant or unusual transactions where different approaches are possible; and

- › whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

To aid the review, the Committee considers reports from the Group Finance Director and also reports from the external auditor on the outcomes of the Half-Year review and independent audit.

### Going concern and viability statement

The Audit Committee considered the evidence that supports the ability of the Directors to conclude that Mitie has adequate financial resources to continue in operation for the foreseeable future and can prepare its accounts on a going concern basis. The Committee considered the future prospects and performance of the group including: the future business plans of the group; the potential impact of acquisition activity; the projected future cash flows of the group; the availability of core and ancillary financing facilities and compliance with related covenants; the projected drawn positions and headroom available on the core committed financing facilities; and those matters reviewed in connection with the viability statement. It also reviewed and considered the disclosures on the matter of going concern and viability in the Annual Report and Accounts and considered them to be appropriate.

Details of the conclusions arrived at by the Directors in preparing the financial statements on a going concern basis can be found in the Directors' report: other disclosures on page 99, as can the details of the conclusions arrived at by the directors in assessing the viability of the group. The more detailed assessment of the group's long-term viability is set out in the viability statement on page 61.

### Significant issues considered by the Committee during the year

The Audit Committee considered the following significant matters of judgement in relation to the accounting judgements contained in the Annual Report and Accounts. In all cases, papers were presented to the Audit Committee by management, setting out the material matters of accounting estimates and the judgements associated with each item. A separate paper was presented to the Audit Committee by the external auditor that set out views on each area of judgement. The Audit Committee discussed the papers with management and sought the views of the external auditor on each matter, and for each area of judgement concurred with the treatment presented by management and in the Annual Report and Accounts.

## Audit Committee continued

### Accounting for material contracts

The group operates a broad portfolio of contracts and discloses revenue recognition as a critical judgement in the Annual Report and Accounts. The methodology used for the recognition of contract revenue influences the amount of profit recognised on a contract as well as the inclusion and valuation of contract related assets and liabilities on the balance sheet.

The Audit Committee considered papers prepared by management on: revenue and profit recognition on contracts; on the accounting treatment applied to all the group's larger integrated facilities management contracts, where judgement is required in respect of the percentage of completion of contracted work when recognising revenue and profit; contract performance; forecast levels of contract profit and the recognition and valuation of contract related assets and liabilities; and on the recoverability of certain specific contract receivables and the risk associated with their collection.

The Committee concurred that the judgements made in respect of accounting for material contracts were appropriate.

### The valuation of goodwill

The group has undertaken a number of acquisitions in the past and carries goodwill as an intangible asset on its balance sheet in respect of the businesses acquired (see Note 13).

The Group considers the carrying value of all goodwill on at least an annual basis. The valuation and impairment review of goodwill is assessed for each individual cash-generating unit (CGU) and considers the balance sheet value of the goodwill compared to the net present value of the post-tax cash flows that are expected to be generated by that CGU. This involves an estimation of the future cash flows deriving from each CGU and also the selection of appropriate discount rates, which are then applied to the cash flows to calculate a net present value.

The assumptions underpinning the reviews were considered by the Audit Committee. The cash flow forecasts used in the review were derived from the most recent CGU budgets which have been reviewed and approved by the Board and the long-term business plans of the group. The assumptions underpinning the review, and also the sensitivity of the decision on goodwill impairment to changes in key assumptions including the discount factor were considered by management and presented to the Audit Committee. During the year management formally considered the carrying value of goodwill in respect of the Healthcare CGU at both the half year and at the year end given the performance of the healthcare business. The Committee considered a detailed paper from management and a paper from the external auditor on the key assumptions underpinning the carrying value of goodwill. This included consideration of the business plan for the Healthcare CGU including the areas of activity to be undertaken following the acquisition of Tascor Medical Services, the conditions in the healthcare market, the calculation of the discount rate applied, the sensitivity of the impairment testing to potential changes to both the key assumptions and the discount rate applied therein, and the disclosures to be made in the accounts. On the basis of this review, the Audit Committee agreed with management that no impairment to goodwill was necessary.

### Financial Reporting Council (FRC) comment letter

The group received requests for further information and explanation from the FRC in relation to the group's 2014 and 2015 Annual Reports and Accounts. After due consideration and approval by the Audit Committee, the group responded to the FRC's requests. The correspondence with the FRC in relation to the Group's Annual Reports and Accounts closed satisfactorily with no changes to reported results. As a result of the correspondence, the group refined the wording of certain of its significant accounting policies and extended certain disclosures in its 2015 and 2016 Annual Reports and Accounts.

### The role of the Committee – external audit

Each year the Audit Committee reviews the performance of the external auditor in respect of audit related services and non-audit related services and is committed to ensuring the independence, effectiveness and objectivity of the external auditor.

### Appointment and tendering of external audit services

The Audit Committee will continue to give consideration to the timing of the next formal tender following the introduction of the audit tendering provisions in the Code. There are no contractual obligations restricting the Company's choice of external auditor. The Audit Committee approved the appointment of John Charlton as the audit partner, following the retirement of Colin Hudson from the audit during the year.

The Audit Committee confirms that the group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

Deloitte LLP has been the Company's external auditor since its market listing in 1987. Mitie tendered its full external audit services in 2012 and concluded that Deloitte LLP should be re-appointed as external auditor given its relevant experience in both the listed company environment and the support services sector.

### External auditor effectiveness

The Audit Committee monitored the conduct and effectiveness of the external auditor through its assessment of:

- ▶ the experience, expertise and perceptiveness of the auditor;
- ▶ the planning and execution of the agreed audit plan and quality of audit reports; and
- ▶ the conduct of the auditor including the Audit Committee's experience of interaction with the auditor, which included meetings held in the absence of management.

The Audit Committee is satisfied with the independence and effectiveness of the external auditor and, in light of the audit tender conducted in 2012, has assessed and recommended to the Board the continued engagement of Deloitte LLP as the Company's external auditor. The Board is therefore recommending that Deloitte LLP be proposed for re-appointment at the forthcoming AGM.

### Non-audit services provided by the external auditor

The Audit Committee has approved a Non-Audit Services Policy that ensures the external auditor remains independent and objective throughout the provision of their independent audit services and when formulating their audit opinion. In order to retain the flexibility of utilising the external auditor to provide non-audit services, the following criteria must also be met. These are such that the external auditor does not:

- › audit their own work;
- › make management decisions for the group;
- › create a conflict of interest; or
- › find themselves in the role of advocate for the group.

The Non-Audit Services Policy identifies the various types of non-audit services and determines the analysis to be undertaken along with the level of authority required before the external auditor can be considered to undertake such services. Further, the policy is consistent with the Financial Reporting Council's ethical standards policy.

When considering the appointment of the external auditor for non-audit services, the following factors are taken into account:

- › the quality of work provided by the external auditor;
- › representations provided by the external auditor regarding independence and objectivity, along with internal controls implemented by them when providing non-audit services;
- › the level of the external auditor's understanding of the group;
- › the nature of the work being performed; and
- › the commercial and practical circumstances of particular types of work required.

Non-audit services provided to the group during the year included tax and corporate finance services. Further details can be found in Note 6 to the financial statements. The Audit Committee considered reports from both management and the external auditor, none of which raised concerns about auditor independence. This included consideration of the impact of the integrated facilities management contract with Deloitte LLP that was awarded to the group during the year. This contract award was made following a competitive tender process and in compliance with Deloitte's internal independence and ethical standards.

A summary of the fees paid to the external auditor is given in Note 6 to the financial statements. The Audit Committee confirms that the requirements of the Non-Audit Services Policy have been met throughout the year.

### Assurance

In accordance with 'Internal Control: Guidance for Directors' and section C.2.3 of the Code, the Board performs a formal annual assessment of the operation and effectiveness of the system of internal control, covering all material controls including financial, operational and compliance controls, and updates this assessment prior to the signing of the Annual Report and Accounts.

These activities are monitored at executive level to ensure that control changes are implemented appropriately and that they are effective. The Head of Internal Audit oversees the application of control environment improvements and attends Audit Committee meetings to provide regular updates on the effectiveness of the group's internal controls and the results of the internal audit process.

Features of the internal control and risk management systems that ensure accuracy and reliability of financial reporting include: a culture of good governance, integrity, competence, fairness and responsibility; group level policies and procedures to support the business by providing an operational internal control framework; clearly defined responsibilities, delegated in accordance with the group's delegated authorities and authorisation registers; and a group function with a team of specialist resources.

**Mark Reckitt**  
Chairman of the Audit Committee

## Nomination Committee



### Roger Matthews

#### Chairman's introduction

The role of the Nomination Committee Chairman is to ensure the Board is appropriately balanced in terms of its composition, considering matters of diversity, skills and experience. The Committee is comprised of the Chairman of the Board and independent Non-Executive Directors who are all considered to be appropriately experienced to fulfil their duties.

#### Nomination Committee members

During the year Crawford Gillies and David Jenkins were also members of the Committee until their retirement from the Board, on 13 July 2015 and 31 December 2015 respectively. Mark Reckitt became a member of the Committee upon his appointment to the Board on 1 July 2015.

At the date of this report the Committee comprises:

<b>Chairman</b>	Roger Matthews
<b>Committee members</b>	Jack Boyer
	Larry Hirst
	Mark Reckitt

#### Key purpose of the Nomination Committee

The Nomination Committee evaluates the composition, diversity, experience, knowledge, skills and independence of the Board and its committees. This allows the appropriate balance to be maintained and ensures the continued effectiveness of the Board.

The Committee also ensures that appropriate succession plans for the Non-Executive Directors, Executive Directors and the group's senior management are also kept under review, taking into account the challenges and opportunities facing the group, and the diversity, skills and expertise that are therefore required in the future.

#### Key responsibilities of the Nomination Committee

The key responsibilities of the Nomination Committee include:

- ▶ making recommendations to the Board regarding succession planning for Directors and other senior executives, and in particular for the key roles of Chairman and Chief Executive;
- ▶ reviewing the structure, size and composition of the Board (including its skills, knowledge, experience and diversity), making recommendations to the Board with regard to any changes and setting targets for diversity;
- ▶ keeping under review the leadership needs of the group in order to ensure it continues to compete effectively in the marketplace;
- ▶ making recommendations to the Board concerning the following:
  - potential candidates to fill Board vacancies when they arise;
  - the appointment of any director to executive or other office;
  - suitable candidates for the role of Senior Independent Director;
  - re-appointment of any Non-Executive Director at the conclusion of their specified term of office (particularly in relation to directors being re-elected for a term beyond six years);
  - the appointment of the Company Secretary;
  - membership of the Board committees; and
  - any matters relating to the continuation in office of any Director.
- ▶ keeping up to date and fully informed about strategic issues and commercial changes affecting the group and the market in which it operates; and
- ▶ reviewing the results of the Board performance evaluation process that relate to the composition of the Board.

The Nomination Committee's terms of reference are available at [www.mitie.com/investors/shareholder-services/corporate-governance](http://www.mitie.com/investors/shareholder-services/corporate-governance).

### Key activities during the year

The Committee reviewed the composition and chairmanship of the Board and each of its committees. The Committee is satisfied that the Board's composition has been appropriate throughout the year, having regard in particular to the integrity, skills, knowledge and experience of its Directors and the size and nature of the business.

The Committee recognises the importance of planning for the future and the succession planning process. During the year, the Committee considered the succession plan for key members of the executive management team.

The Committee also worked with executive search firm Norman Broadbent during the financial year. The firm supported the Committee in its search for David Jenkins' successor as Non-Executive Director and Chairman of the Audit Committee. There is no other connection between Norman Broadbent and the Company.

### Frequency of Nomination Committee meetings

During the financial year, the Committee met four times.

	Attendance
Number of meetings held in year:	4
Roger Matthews	4
Jack Boyer	4
Larry Hirst	4
Mark Reckitt <sup>3</sup>	3 of 3
Crawford Gillies <sup>2</sup>	1 of 1
David Jenkins <sup>1</sup>	1 of 2

Notes:

1. David Jenkins retired from the Board on 31 December 2015.
2. Crawford Gillies retired from the Board on 13 July 2015.
3. Mark Reckitt was appointed to the Board on 1 July 2015.

### Employee diversity and inclusion

Mitie has a company-wide Equality, Diversity and Inclusion Policy that clearly states its commitment to the inclusion and diversity of all employees at all levels, up to and including Board level.

The Board retains a key focus on diversity of skills, gender and experience in its membership with a view to setting appropriate aspirational targets designed to reflect the diverse demographic of the Group's employee population. The Board ensures the group's employment practices and policies are designed to recruit, motivate, retain, train and develop the very best people, recognising that this can be achieved only through offering equal opportunities regardless of gender, race, religion, age, disability, sexual orientation or any other aspect of diversity.

Further details of the group's commitment to diversity, together with a breakdown of employee diversity as required by the Companies Act 2006 can be found in the Strategic report on pages 12, 18 and 19.

Further details of the diversity of Mitie's people can be found in the group's Sustainability Report which is available on the Company's website at [www.mitie.com](http://www.mitie.com).

### Roger Matthews

Chairman of the Nomination Committee

### Investment Committee

#### Overview and purpose

The Investment Committee strengthens the group's governance framework and facilitates the internal approvals process by approving matters as delegated by the Board and referring recommendations for Board approval. The Committee, which comprises the Chief Executive, as Chair, and Group Finance Director, met four times during the year and considered matters such as major bids and contracts, acquisitions, disposals, large capital expenditure and Mitie Model investments.

### Results Committee

#### Overview and purpose

The Results Committee assists the Board in approving matters such as half-year and preliminary results announcements, other routine, non-material announcements and shareholder communications. The Results Committee, which comprises the Chief Executive, as Chair, and Group Finance Director, met twice during the year.

## Remuneration Committee



**Jack Boyer, OBE**

### Chairman's Introduction

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 March 2016.

### Context to the Committee's decisions

Prior to the 2015 AGM, we consulted with key shareholders regarding a revised Executive Remuneration Policy and this received strong support at the AGM. The approved policy will therefore remain in place until July 2018 unless it is necessary to consult with shareholders on any further changes.

When making decisions on remuneration the Committee takes account of business performance within the context of the sector along with broader economic factors that will have an influence on past and future performance. As set out in the Chairman's statement and financial review, Mitie has delivered a good set of results during the year:

	Before other items	Reported
Revenue	£2,231.9m	£2,231.9m
Operating profit	£128.9m	£112.5m
Basic EPS growth	0.8%	119.6%
Dividend per share growth	3.4%	3.4%

### Who is on the Remuneration Committee?

The members of the Remuneration Committee are Non-Executive Directors.

<b>Chairman:</b>	Jack Boyer, OBE
<b>Committee Members:</b>	Crawford Gillies (until 13 July 2015)
	Larry Hirst, CBE
	David Jenkins (until 31 December 2015)
	Roger Matthews
	Mark Reckitt (from 1 July 2015)

### What is the Committee's key purpose?

We have responsibility for determining the remuneration of Mitie's Executive Directors and the Chairman, taking into account the need to ensure Executives are properly incentivised to perform in the interests of the Company, our people and our shareholders.

### What are the Committee's key responsibilities?

Our key responsibilities are:

- shaping and agreeing with the Board the policy framework for the remuneration of Executive Directors and certain aspects of the remuneration of senior management;
- determining the total individual remuneration package of each Executive Director with due regard to the performance of the individual in line with the agreed remuneration policy;
- agreeing Executive Directors' contractual terms;
- acting on behalf of the Board in connection with the establishment and administration of the group's current and/or future share plans, including the selection of participants, determining the structure of awards and the setting of performance targets;
- overseeing the remuneration policy for the group as a whole; and
- drafting and approving the Directors' remuneration report and any remuneration related resolutions to be put to the shareholders at the group's AGM.

### Who attends Committee meetings?

The Committee regularly consults with Ruby McGregor-Smith, CBE, Chief Executive and the Group Reward Director on various matters relating to the appropriateness of rewards for the Executive Directors. However, the Chief Executive is not present when matters relating directly to her own remuneration are discussed. This is also the case for other Executives attending Committee meetings.

The Company Secretary attended the meetings as Secretary to the Committee. The Chief Executive and Group Reward Director attended the meetings by invitation only.

### How many times did the Committee meet?

During the financial year, the Committee met four times.

	Attendance
Jack Boyer, OBE	4
Crawford Gillies <sup>1</sup>	1
Larry Hirst, CBE	4
David Jenkins <sup>2</sup>	3
Roger Matthews	4
Mark Reckitt <sup>3</sup>	3

Notes:

1. Crawford Gillies stepped down from the Board at the AGM on 13 July 2015.
2. David Jenkins retired from the Board on 31 December 2015.
3. Mark Reckitt joined the Board on 1 July 2015.

## What were the key activities of the Committee during the year?

During the year and immediately following the year end, we addressed a number of key issues, such as:

- › setting base salaries for the Executive Directors;
- › assessing the performance of the Executive Directors and determining annual bonuses;
- › setting bonus targets for the Executive Directors;
- › approving share awards and the vesting of legacy share awards;
- › reviewing the application of the remuneration policy in response to market changes; and
- › preparing the Directors' remuneration report.

## Alignment between strategy and pay at Mitie

Our pay policy supports and rewards the achievement of our strategy to deliver sustainable and profitable growth. This is driven and measured by how we perform against a number of KPIs, both financial and non-financial, further details of which can be found on pages 16 and 17 and pages 52 to 56 respectively.

We align our pay policy to our strategy and performance in a number of ways, including:

Annual Bonus – awarded based on a combination of profit and strategic measures set by the Board at the beginning of the financial year; and

Long Term Incentive Plan (LTIP) – based on a basket of measures tailored to our business. Page 81 gives you more information on bonus and LTIP targets.

## Remuneration decisions

Delivering our strategic goals for the future development of the group as a streamlined business has been the key focus for Mitie this year and the Committee has approached the key decisions regarding the remuneration of our Executive Directors with this future direction in mind. With regard to fixed pay, it has been agreed that the Executive Directors' base salaries should be increased by 2.5% from 1 April 2016. This is in line with average salary increases awarded to Mitie's salaried non-contract UK employees.

For the Executive Directors, we introduced revisions to the annual bonus plan in 2015/16 that strengthen the link between performance and reward outcomes. In summary these included a lower bonus earned at "threshold" and "target" levels of performance, a wider pay-out range between "threshold" and "maximum" performance and a greater level of outperformance against "target" required to receive a maximum pay-out. The bonus remains based on the achievement of financial targets (110% of salary for both Executive Directors) and performance against strategic objectives relating to organic revenue growth, people management and strategy (50% of salary for the Chief Executive and 25% of salary for the Group Finance Director). Overall, annual bonus outcomes for 2015/16 are 73% of maximum for the Chief Executive and 70% of maximum for

the Group Finance Director. Under the financial element, a level above the threshold position was achieved which produced an entitlement of 71.5% of salary. Against the strategic elements, the Committee has awarded 45% of salary for the Chief Executive and 22.5% of salary for the Group Finance Director, reflecting good progress on all metrics; this brings the total bonus award to 116.5% of base salary for the Chief Executive and 94% of base salary for the Group Finance Director. With regard to long-term incentives, last year we granted the first awards under our new LTIP which shareholders approved at the 2015 AGM. As has been the case with LTIP awards granted since 2013, these awards were granted subject to a basket of four measures, namely EPS, relative Total Shareholder Return (TSR), organic revenue growth and cash conversion. The Committee has recently reviewed the continued appropriateness of this blend of targets and believes that some changes should be made to the targets that are applied to the LTIP awards that are to be made in 2016. Reflecting best practice, the Committee is currently consulting major shareholders in connection with these changes. Once these awards are made, details of the performance conditions to which they are subject will be set out in the relevant RNS announcement and will be fully disclosed in next year's report.

Also, the LTIP awards granted under the previous plan in 2013 will vest at a level of 69.5% based on performance over the last three years. Further details of performance against the annual bonus and LTIP targets can be found on pages 88 and 89 respectively.

## Remuneration policy for 2016/17 and onwards

In response to the feedback received from our consultation with shareholders before the 2015 AGM we made a number of changes to ensure our Policy remained aligned to the delivery of our strategy and shareholder priorities. At the 2015 AGM, shareholders provided their strong support with 93.6% of shareholders voting for the new approach. The Directors' remuneration report resolution achieved 99.7% level of support of the votes cast. For completeness, a summary of the approved policy, which remains in force, is noted on pages 79 to 82. No further changes are proposed to the policy this year, although page 88 explains a change in the method for the payment of the pension benefit to reflect the legislative changes which have impacted the tax efficiency of this benefit for high earners. In summary, going forward (and reflecting market practice) the Executive Directors will cease to accrue benefits in the group's defined benefit scheme and will instead receive an additional cash supplement of an equivalent value.

## Conclusion

The Executive Remuneration Policy is aligned with the expectations of our shareholders and with broadly accepted practices in the market place. We will be seeking approval for the Report from shareholders at the AGM. I would welcome your views and feedback regarding this year's report, which can be emailed to me at [jack.boyer@mitie.com](mailto:jack.boyer@mitie.com).

**Jack Boyer, OBE**  
Chairman of the Remuneration Committee

## The Company's remuneration policy

### This report

We have presented this report in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report also describes how the Board has complied with the provisions set out in the September 2014 edition of the UK Corporate Governance Code relating to remuneration matters.

At our 2016 AGM we will be holding an advisory vote on the implementation section of this report only, as no changes to the policy are proposed. However, a summary of our policy is provided below for convenience (the full policy is available in the 2014/15 Report & Accounts which can be found on the Company's website).

The Independent Auditor has reported on certain parts of this report and stated whether, in his opinion, those parts of the report have been properly prepared in accordance with the Companies Act 2006. Those sections of the report that have been subject to audit are clearly indicated.

### The key principles of the policy

The remuneration policy promotes and embeds the Company's remuneration principles. The key principles of this policy are:

Performance-related	At the Executive Director and senior management levels, the majority of reward opportunity is provided through performance-related incentives linked to the Company's strategic goals and taking account of the Company's attitude to risk Reward under these incentives is linked to both individual and group performance
Shareholder aligned	The performance-related incentive arrangements are designed to align the interests of the executives with those of shareholders and to promote the Company's long-term success
Comprehensive and simple	The overall remuneration policy is comprehensive without becoming overcomplicated and encourages executives to concentrate on profitable growth



## The policy

The key elements of the policy, approved at the 2015 AGM, are summarised below.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<p><b>Base Salary</b> Set at levels to attract and retain individuals of the calibre required to drive the vision and direction of Mitie.</p>	<p>Salaries are generally reviewed annually and effective from 1 April. The review is influenced by:</p> <ul style="list-style-type: none"> <li>- the individual's role, experience and performance;</li> <li>- business performance and the wider market and economic conditions;</li> <li>- the range of increases across the group; and</li> <li>- an external comparator group comprised of sector comparators and size adjusted FTSE 250 comparator organisations.</li> </ul>	<p>Base salary increases will be broadly in line with the average increase for the salaried non-contract UK employees whose salaries Mitie determines, although on occasion other specific circumstances such as changes of responsibilities, progression in role, experience, or a significant increase in the scale of the role and/or size, value and/or complexity of the group may also be taken into consideration.</p>	N/A
<p><b>Benefits</b> To aid retention and be competitive within the marketplace.</p>	<p>The group provides a range of benefits which may include a company car/car allowance, private fuel, private health insurance, life assurance and annual leave.</p> <p>Benefits are reviewed periodically against market and new benefits may be added and/or amended as required to support the attraction and retention of key talent.</p> <p>Additional benefits may be awarded in certain recruitment circumstances which may include relocation expenses, housing allowance and school fees.</p> <p>Other benefits may be offered if considered appropriate and reasonable by the Committee.</p>	<p>Benefits are set at a level which the Committee considers:</p> <ul style="list-style-type: none"> <li>- is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market;</li> <li>- provides a sufficient level of benefit based on the role and individual circumstances (for example, relocation).</li> </ul> <p>The Committee retains discretion to approve a higher cost than currently incurred where factors outside the Company's control have changed materially (e.g. medical inflation) or in exceptional circumstances (e.g. relocation).</p>	N/A

## The Company's remuneration policy continued

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<p><b>All Employee Share Schemes</b></p> <p>To provide opportunities for the Directors to voluntarily invest in the Company on the same terms as other employees.</p>	<p>Executive Directors are eligible to participate in any all-employee share plan operated by the Company, in line with HMRC guidelines currently prevailing (where relevant), on the same basis as other eligible employees.</p>	N/A	N/A
<p><b>Pension*</b></p> <p>To aid retention and provide competitive retirement benefits.</p>	<p>Executive Directors currently participate in the group's defined benefit scheme which is now closed to new entrants. The plan has a cap on pensionable salary. A cash supplement is payable in respect of full salary. The Directors are subject to the same scheme rules as other members of the Final Salary scheme. The rules detail the pension benefits which members receive on retirement, death or leaving service. New Executive Directors will be eligible to participate in the defined contribution pension scheme or to receive a cash allowance in lieu of a pension contribution.</p>	<p>All Directors accrue pension at a rate of 1/70th of pensionable salary. Pension salary supplement for each of the Directors is 20% of salary. The pension salary supplement for new Directors will be determined based on the Committee's assessment of competitive levels needed to attract and retain such individuals, but will be capped at 20% of salary.</p>	N/A

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<p><b>Annual Bonus Plan</b></p> <p>To incentivise and recognise execution of the Company's strategy on an annual basis.</p> <p>Rewards the achievement of annual financial and strategic goals.</p> <p>Deferral provides alignment with shareholders.</p>	<p>Measures and targets are set annually and pay-out levels are determined by the Committee after the year end based on performance against those targets.</p> <p>The Committee may, in exceptional circumstances, amend the bonus pay-out should this not, in the view of the Committee, reflect overall business performance or individual contribution.</p> <p>Up to 100% of base salary is paid in cash with anything over 100% being deferred in shares which vest in two years (normally subject to continued employment). Dividends are accrued on deferred shares and paid in cash.</p> <p>Malus provisions apply to deferred share awards made after the 2015 AGM.</p>	<p>Maximum bonus opportunity is 160% of salary for the Chief Executive and 135% of salary for the Group Finance Director or any other Executive Director.</p>	<p>Bonuses are based on stretching financial and strategic objectives as set at the beginning of the year and assessed by the Committee at the end of the year, with the underlying aim of encouraging and rewarding the generation of sustainable returns to shareholders.</p> <p>The Committee has discretion to determine the appropriate weightings each year depending on business priorities. The financial measures will represent the majority of the bonus, with the strategic objectives representing the balance. These elements are additive.</p> <p>For the strategic element of the award, payment at threshold performance is zero. At the start-to-earn performance level under the financial element, a bonus of no more than 60% of salary is payable.</p>
<p><b>Long Term Incentive Plan</b></p> <p>To motivate and incentivise delivery of sustained performance and alignment with shareholder interests.</p>	<p>Annual awards (in the form of nil-cost options, conditional share awards or cash settlements) are made with vesting dependent upon the achievement of performance conditions over three years.</p> <p>Award levels and the framework for determining vesting are reviewed annually to ensure they continue to support the group's strategy.</p> <p>The Committee has the discretion to decide whether, and to what extent, targets have been met, and, if an exceptional event occurs that causes the Committee to consider that the targets are no longer appropriate, the Committee may adjust them.</p> <p>Dividend equivalents are paid in cash on or after the date shares are received.</p> <p>Vested shares will be subject to an additional holding period and malus provisions will apply for awards made after the 2015 AGM.</p>	<p>Awards may be made up to a maximum level of 200% of salary for any Executive Director.</p>	<p>Performance over three financial years is measured against stretching objectives set at the beginning of the performance period which again have the underlying aim of encouraging and rewarding the generation of sustainable returns to shareholders.</p> <p>Vesting under the LTIP depends on the achievement of performance conditions, for which a minimum performance threshold has been set. Awards attributable to each performance condition vest at 25% on achievement of the minimum performance threshold rising to 100% for the achievement of a defined upper performance threshold.</p>

## The Company's remuneration policy continued

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<p><b>Share Ownership</b></p> <p>To ensure alignment between Executive Directors and shareholders.</p>	<p>Executive Directors are required, over time, to build and maintain a minimum shareholding in the Company worth 200% of salary. They are required to retain half of the post-tax shares vesting under the LTIP and other share options until the guideline is met.</p>	N/A	N/A
<p><b>Chairman and Non-Executive Director fees</b></p> <p>To attract and retain high-calibre individuals. Non-Executive Directors do not participate in any incentive schemes.</p>	<p>Fees are normally reviewed every three years. The fee structure is as follows:</p> <ul style="list-style-type: none"> <li>- The Chairman is paid an all-inclusive single fee for all Board responsibilities.</li> <li>- The Non-Executive Directors are paid a basic fee, plus additional fees for Chairmanship of committees.</li> <li>- Fees are currently paid in cash but the Company may choose to provide some of the fees in share.</li> <li>- Benefits, including expenses, can be provided if considered necessary on a case-by-case basis.</li> </ul>	<p>Fees are set at a level which:</p> <ul style="list-style-type: none"> <li>- reflects the commitment and contribution that is expected from a Chairman and the Non-Executive Directors; and</li> <li>- is appropriately positioned against comparator roles in companies of a similar size and complexity in the relevant market.</li> </ul> <p>Actual fees are disclosed in the Directors' remuneration report for the relevant financial year. Aggregate fees/value of benefits are capped at the amount set out in the Company's Articles of Association.</p>	N/A

\* page 88 explains how the defined benefit portion of the Executive Directors' pension provision will be provided going forward to reflect changes in the pension taxation regime.

Notes:

2016/2017 salaries for the Executive Directors can be found on page 87.

The malus provision under the Annual Bonus Plan and LTIP may be operated if it comes to light within three years that information used to determine performance was materially inaccurate and resulted in a material overstatement of the award or in the event of any act/omission by an individual that would give grounds for summary dismissal (with no time limit).

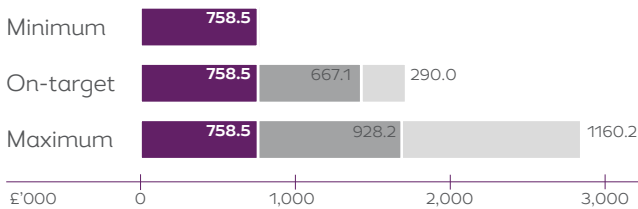
### How our policy actually influences levels of remuneration

Under our policy, a significant proportion of remuneration is linked to performance. The charts below show how much the Executive Directors could earn under Mitie's remuneration policy (as detailed above) under different performance scenarios. The following assumptions have been made:

- > Minimum performance (below threshold) – fixed pay only comprising salaries effective as of 1 April 2016, benefits received in the year ended March 2016 and pension received in 2016;
- > On-target performance – fixed pay plus an on-target bonus and 25% of the maximum possible LTIP award vesting. On-target bonus represents 90% of salary for financial targets and 50% of the maximum for strategic targets; and
- > Maximum performance – fixed pay plus maximum bonus and maximum LTIP awards.

The scenarios do not include share price growth or dividend assumptions.

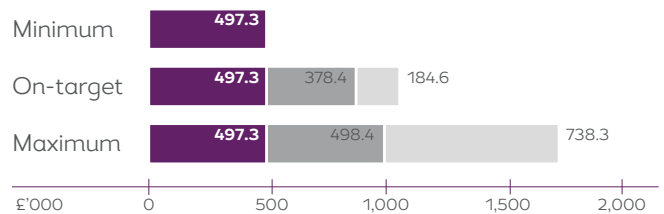
#### Ruby McGregor-Smith CBE



Composition of package (%)	Fixed	Bonus	LTIP
Minimum	100%		
On-target	44%	39%	17%
Maximum	27%	32%	41%

Value of package (£'000)	Fixed	Bonus	LTIP	Total
Minimum	758.5			<b>758.5</b>
On-target	758.5	667.1	290.0	<b>1,715.6</b>
Maximum	758.5	928.2	1,160.2	<b>2,846.9</b>

#### Suzanne Baxter



Composition of package (%)	Fixed	Bonus	LTIP
Minimum	100%		
On-target	47%	36%	17%
Maximum	29%	29%	42%

Value of package (£'000)	Fixed	Bonus	LTIP	Total
Minimum	497.3			<b>497.3</b>
On-target	497.3	378.4	184.6	<b>1,060.3</b>
Maximum	497.3	498.4	738.3	<b>1,734.0</b>

## The Company's remuneration policy continued

### Our policy on Executive Directors' service contracts

All Directors are appointed on rolling service contracts but are subject to annual re-election at the AGM in accordance with the Code.

Under the service contracts, the Company is required to give 12 months' notice of termination of employment; Executive Directors are required to give six months' notice.

For Executive Directors, if notice is served by either party, the Executive Director can continue to receive basic salary, benefits and pension for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave.

With respect to the current Group Finance Director's contract, the Company has the right to make a payment in lieu of notice equivalent in value up to 12 months' salary payable either in monthly instalments or as a lump sum. The Company will also pay for any benefit for which the individual would have been eligible until the date of cessation had full notice been given.

The Executive Directors' service contracts are available for inspection at Mitie's registered office, the head office and at the AGM. There are no other provisions for compensation on termination of employment set out within the contracts of the Executive Directors.

For future Directors, notice periods will not exceed 12 months, save in exceptional circumstances; and should a notice period longer than 12 months be necessary the Committee would expect this to reduce to a 12 months notice period over time.

The effective dates of the service contracts of the Executive Directors are set out below:

	Date of agreement
Ruby McGregor-Smith, CBE	01-Apr-03
Suzanne Baxter	10-Apr-06

### Our policy on external appointments

The Board recognises that the appointment of Executive Directors to non-executive positions at other companies can be beneficial for both the individual director and the group through the broadening of their experience and knowledge.

Ruby McGregor-Smith, CBE received fees of £58,000 pa in respect of her role as a Non-Executive Director of Michael Page International plc and £15,000 for her role as Non-Executive Director of the Department of Culture, Media and Sport. Suzanne Baxter received fees of £55,415 for her role as a Non-Executive Director of WH Smith plc. Both individuals are entitled to retain any fees earned.

### Our policy on Non-Executive Director remuneration and appointment terms

The Chairman and Non-Executive Directors receive an annual fee which is paid in monthly instalments. The Chairman's fee is set by the Remuneration Committee and the fees for the Non-Executive Directors are approved by the Board, on the recommendation of the Chairman and the Chief Executive. The Non-Executive Directors are paid a basic fee with an additional fee for chairing a Committee, together with expenses incurred in carrying out their duties on behalf of the Company. Non-Executive Directors are not eligible to participate in any of the Company's share schemes, Annual Bonus Plan, the pension scheme and nor do they receive any ancillary benefits.

The terms of appointment of the Non-Executive Directors are available for inspection at Mitie's registered office, the head office and at the AGM. The Non-Executive Directors are engaged for an initial term of three years which is terminable on either three or six months' notice and thereafter on a rolling term. They are also subject to annual re-election.

## Non-Executive Directors' engagement terms

	Additional duties	Date of engagement	Initial contract term	Notice period
Roger Matthews	Chairman; Chairman of Nomination Committee	04-Dec-06	3 years	6 months
David Jenkins <sup>1</sup>		31-Jan-06	3 years	6 months
Larry Hirst, CBE <sup>2</sup>	Senior Independent Director	01-Feb-10	3 years	3 months
Crawford Gillies <sup>3</sup>		12-Jul-12	3 years	3 months
Jack Boyer, OBE	Chairman of Remuneration Committee	01-Jun-13	3 years	3 months
Mark Reckitt <sup>4</sup>	Chairman of Audit Committee	01-Jul-15	3 years	3 months

### Notes:

1. David Jenkins stepped down as Senior Independent Director and as Chairman of the Audit Committee at the AGM on 13 July 2015 and retired from the Board on 31 December 2015.
2. Larry Hirst, CBE, was appointed as Senior Independent Director from 14 July 2015.
3. Crawford Gillies stepped down as a Director of the Board at the AGM on 13 July 2015.
4. Mark Reckitt was appointed to the Board on 1 July 2015 and assumed his responsibilities as Chairman of the Audit Committee on 14 July 2015.

### How does the executive pay policy differ from that for other Mitie employees?

The remuneration policy for the Executive Directors is more heavily weighted towards variable pay than for other employees, ensuring that the greater part of their pay is conditional on the successful delivery of business strategy. This helps create a clear link between the value created for shareholders and the remuneration received by the Directors. The LTIP is limited to the most senior employees. For employees below this level, variable pay may consist of share-based awards and annual bonus (both of which will be based on role) and the opportunity to participate in SAYE and SIP.

### How we take account of employment conditions elsewhere in the Company when setting our policy

The Remuneration Committee is responsible for overseeing the remuneration policy for the group as a whole and is mindful of pay and employment conditions in the wider workforce within the group and externally when determining executive remuneration. When considering base salary increases, benefits and pension provision, the Committee reviews overall levels and increases offered to employees across the group. The Committee also reviews information with regard to share awards made to other senior management of the group, noting that (i) all employees can participate in the SAYE and SIP, and (ii) participation in the LTIP is limited to a selection of senior executives. However, consistent with general practice, the Committee does not consult with employees in preparing the policy or its implementation.

### How we take account of shareholder views when setting our policy

The Committee is committed to a continuing discussion with major shareholders and obtains their views when any significant changes to remuneration arrangements are being proposed.

### Remuneration Committee and its advisors

The Remuneration Committee seeks and considers advice from independent remuneration advisers where appropriate. FIT Remuneration Consultants ('FIT') were appointed by the Committee in December 2013 to provide independent advice on executive remuneration. FIT attended Committee meetings and provided advice and analysis of executive remuneration. The advisors provide no other services to the Company (save in relation to services connected to executive remuneration and share plans) and also comply with the Code of Conduct for Remuneration Consultants. FIT's total cost of advice to the Committee for the year they advised was £95,317 (such fees being charged in accordance with FIT's standard terms of business).

The Committee specifically considered the position of FIT and was satisfied that the advice the Committee received was objective and independent, given that no other services were provided to the Company.

## Annual Report on Remuneration

### Executive Director remuneration (subject to audit)

The table below reports a single figure of total remuneration for each Executive Director for the financial years ending 31 March 2015 and 31 March 2016.

	Year	Salary	Benefits	Annual bonus	LTIP	Pension	Other	Total
Ruby McGregor-Smith, CBE	<b>2016</b>	<b>£565,950</b>	<b>£25,855</b>	<b>£659,332</b>	<b>£1,167,006</b>	<b>£152,577</b>	<b>£1,692</b>	<b>£2,572,412</b>
	2015	£550,000	£26,864	£440,000	£360,679	£145,851	£2,430	£1,525,824
Suzanne Baxter	<b>2016</b>	<b>£360,150</b>	<b>£23,537</b>	<b>£338,541</b>	<b>£594,596</b>	<b>£104,636</b>	<b>£1,692</b>	<b>£1,423,152</b>
	2015	£350,000	£23,450	£218,750	£229,707	£98,696	£2,430	£923,033
Total remuneration	<b>2016</b>							<b>£3,995,564</b>
	2015							£2,448,857

Notes:

Benefits relate to the cost to the Company of private medical cover, private fuel and the car allowance.

Bonus payable in respect of the financial year includes any deferred element at face value at the date of award. Further information about how the level of the award, for the year ending March 2016, was determined is provided on page 88.

The value of the 2016 LTIP is based on the 2013 LTIP award, which will vest in June 2016 at a rate of 69.5% (valuation based on the number of shares vesting at the share price calculated as an average over the period 1 January to 31 March 2016 of 277.9p and including the value of the Dividend Equivalent to date). The value of the 2015 LTIP has been restated from the figures disclosed in the 2015 report, to reflect the actual share price on vesting of 315.2p.

The Other column denotes the value of the 1 in 10 matching shares awarded under the Company Share Incentive Plan, of £180, following the investment by each individual of a lump sum of £1,800 at the beginning of the tax year. It also includes £1,512 in respect of the intrinsic gain on 2,381 SAYE options granted in the year being equal to the 20% discount from a share price of 317.5p to arrive at an exercise price of 254.0p.

The pension benefits of the Directors comprise a pension supplement paid in cash in the year of 20% of salary and a capped cash contribution to a defined benefit pension scheme of £22,200 (2015: £16,104) made by Mitie for each of the Directors.

The disclosures above in respect of pension benefits comprise the 20% pension supplement along with an actuarially derived value of the annually accrued pension benefits under the defined benefit pension scheme, net of personal contributions made by each Director. This calculation is known as the net pension input amount and is affected by the number of years of scheme membership, the value of annually accrued benefits at each year end, inflation and a prescribed multiplication factor of 20.

The net pension input amount for the Directors included in the pension benefits disclosed above was:

	Year	Years of scheme membership at 31 March	£
Ruby McGregor-Smith, CBE	<b>2016</b>	<b>13</b>	<b>39,387</b>
	2015	12	35,851
Suzanne Baxter	<b>2016</b>	<b>4</b>	<b>32,606</b>
	2015	3	28,696

### Non-Executive Directors' fees (subject to audit)

The fees for the Non-Executive Directors for the financial years ended 31 March 2016 and 31 March 2015 are set out below:

#### Non-Executive Directors' remuneration

	Base salary/fees £'000	
	2016 <sup>1</sup>	2015
Roger Matthews	<b>185</b>	185
David Jenkins <sup>2</sup>	<b>43</b>	67
Larry Hirst, CBE	<b>57</b>	52
Crawford Gillies <sup>3</sup>	<b>15</b>	56
Jack Boyer, OBE	<b>60</b>	56
Mark Reckitt <sup>4</sup>	<b>45</b>	N/A
<b>Total</b>	<b>405</b>	416

Notes:

- All amounts were paid in cash and no other benefits were received in the year.
- David Jenkins stepped down as Chairman of the Audit Committee at the AGM on 13 July 2015 and retired as a Non-Executive Director on 31 December 2015.
- Crawford Gillies stepped down as a Non-Executive Director at the AGM on 13 July 2015.
- Mark Reckitt joined as a Non-Executive Director on 1 July 2015 and was appointed as Chairman of the Audit Committee on 14 July 2015.



## What happened in 2015/2016 and changes for 2016/2017

### Base salary and benefits

Effective 1 April 2015, the Remuneration Committee awarded average salary increases of 2.9% for the two Executive Directors, resulting in the following base salaries being payable:

- › Ruby McGregor-Smith, CBE – £565,950
- › Suzanne Baxter – £360,150

Commencing 1 April 2016 and effective for the remainder of the financial year, the Committee awarded salary increases of 2.5% for the Executive Directors (which is in line with the average salary increases awarded to Mitie's salaried non-contract UK employees), resulting in the following base salaries being payable:

- › Ruby McGregor-Smith CBE – £580,099
- › Suzanne Baxter – £369,154

A review of Non-Executive Director fees was undertaken in March 2014. The broad policy is for the fees to be reviewed every three years. The fees for the year ending March 2016 remain unchanged and are as follows:

	Base salary/fees £'000	
	2016 <sup>1</sup>	2015
Chairman fees <sup>2</sup>	185	185
Non-Executive Director core fees <sup>3</sup>	52	52
Additional fees		
Senior Independent Director	7	7
Chairman of a Committee	8	8

Notes:

1. The core fees of £52,000 paid to each Non-Executive Director (including the Chairman) will total £260,000 for the year ending March 2017. Total fees including additional duties are expected to amount to £416,000 for the year ending March 2017 (£405,000 actual for the year ended March 2016).
2. The Chairman's fee is inclusive of the Non-Executive Director core fee and no additional fees are paid to the Chairman where he is a Chairman, or is a member of other committees.
3. For Non-Executive Directors, individual fees comprise the core fee and additional supplemental fees for chairing committees where a greater responsibility and time commitment are required.

Benefits are as described in the Remuneration Policy table. No changes are planned for the year ending March 2017 (save where required to take account of legislative changes to the pensions regime).

### Pension (subject to audit)

Pension provision for 2015/16 is as described in the Remuneration Policy table. The pension entitlement for each Director was as follows:

Defined benefit pension scheme transfer values

	Normal retirement date	Transfer value 31 March 2015 £'000	Contributions made by the Director £'000	Increase in accrued pension over the year £'000	Transfer value of pension increase (after inflation, net of contributions) £'000	Transfer value 31 March 2016 £'000
Ruby McGregor-Smith, CBE	22/02/2028	307	0	3	36	361
Suzanne Baxter	16/04/2033	59	0	2	25	92

The pension benefits of the Executive Directors were based on a pensionable salary capped at £150,000. The Company made contributions to the group's defined benefit scheme on behalf of the two Directors who are members of the scheme at a rate of 10.3% (previously 9%) of the value of the capped salary – this increase followed the triennial valuation of the pension scheme in 2014. The Company also contributes to the administrative costs of the pension scheme based on a percentage of salary which, due to the declining active membership, has risen to 4.5% (previously 2%) of the capped salary. In addition, the Directors received a salary supplement as described in the policy table. The normal retirement age for the two Directors is 65 and no additional benefits are available to the Directors upon early retirement.

The transfer value is an actuarially determined capital value of the pension benefits, based on prevailing market conditions at the time. It is possible for transfer values to go down as well as up.

## What happened in 2015/2016 and changes for 2016/2017 continued

A review has been undertaken this year to assess the implications of recent changes in legislation relating to the impact of the cessation of contracting out, and regarding the tax efficiency of pension savings for higher earners. From the new financial year the Committee intends to change the method of delivering the defined benefit pension value to the Executive Directors. This does not increase the costs of this benefit to the business. Going forward and reflecting market practice, the Executive Directors will cease to accrue benefits in the group's defined benefit scheme and will instead receive an additional cash supplement of an equivalent value.

### Annual Bonus Plan

Awards in respect of the year ended March 2016 were made under the Group Annual Bonus Plan. The outcomes were determined as set out below.

At the beginning of the year the Committee set a range for performance on operating profit before other items for threshold, target and maximum levels of performance as follows: a threshold of £126.3m, a target of £133.0m and a maximum of £139.6m. The achievement was £128.9m. This generated a pay-out of 71.5% of salary which was 65.0% of the maximum award under this element of the Plan.

The Committee also set objectives relating to: organic revenue growth; people management; back office and operational efficiencies; healthcare; and customer proposition and strategic development. Key deliverables for the year included:

- ▶ to deliver organic revenue growth at a level that outperforms sector comparatives for UK businesses with clear strategic plans for continued development of key accounts;
- ▶ to strengthen the talent pipeline;
- ▶ streamline procurement processes and back office services across the business;
- ▶ implementation of the MiHomecare business plan; and
- ▶ review of the FM customer proposition over the next five years.

Having evaluated a range of outcomes and indicators of performance, the Committee determined that overall progress was good and warranted a pay-out of 45.0% of salary for the Chief Executive and 22.5% of salary for the Group Finance Director. The Committee believes that these objectives are commercially sensitive and so does not believe it is in shareholders' interests to make any further disclosure.

Therefore, based on the Committee's assessment of achievement of both the financial and the strategic objectives, the bonus was calculated as follows:

	Financial performance				Strategic performance			Total bonus payable		
	% of salary payable at threshold	% of salary payable at on-target	% of salary payable at maximum	% of salary payable	% of salary payable at threshold	% of salary payable at maximum	% of salary payable	Total bonus £'000	Cash £'000	Deferred shares £'000
Ruby McGregor-Smith, CBE	60	90	110	71.5	0	50	45.0	659.3	565.9	93.4
Suzanne Baxter	60	90	110	71.5	0	25	22.5	338.5	338.5	0.0

The Annual Bonus Plan will be operated on similar terms for the year ended March 2017. The targets are at present commercially sensitive and so are not disclosed in this report. However, as above, details of the targets will be disclosed in next year's report.

### Details of LTIP vesting in June 2016 (2013 award)

The Committee assessed the outcome of the 2013 LTIP awards granted under the plan in operation at the time against a basket of performance measures:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2016)
Earnings Per Share (EPS) growth	20% of the award	3% – 8% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 3% pa. If performance is equal to 3%, 25% of the award will vest. If Mitie achieves 8% EPS growth pa, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis.
Relative Total Shareholder Return (TSR)	20% of the award	Outperformance against FTSE 350 Support Services index	Zero vesting if Mitie's TSR performance is less than the median of the index. If Mitie's TSR performance is equal to the median of the index, 25% of the award will vest and if it exceeds the index median TSR by 10% pa or more, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis. An underpin condition for underlying financial performance also applies.
Organic revenue growth	30% of the award	3% – 6% pa with a financial underpin based on the achievement of target margin of 5.5% pa	Zero vesting if organic revenue growth is less than 3% pa. If performance is equal to 3% pa, 25% of the award will vest. If Mitie achieves 6% organic revenue growth pa, all the awards will vest. Between these two points, the proportion of awards vesting will be determined on a linear sliding scale basis. Entire portion of award is subject to Mitie achieving an average 5.5% margin in the performance period.
Cash conversion	30% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At 75%, 25% of the award will vest. 70% of the award will vest if Mitie achieves 80%. Full vesting for this portion will occur if 85% pa is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.

For the performance period it was assessed that the overall level of vesting against the four performance criteria was 69.5%. This was calculated on the following basis:

	Proportion	Achievement	Vesting proportion	Proportion of total
EPS	20%	7.7%	95.5%	19.1%
TSR	20%	0.0%	0.0%	0.0%
Organic revenue growth	30%	4.7%	68.0%	20.4%
Cash conversion	30%	>85%	100.0%	30.0%
<b>Total vesting</b>				<b>69.5%</b>

In relation to the EPS and organic revenue growth performance conditions, the performance in each of the 2013 and 2016 financial years was assessed on a like-for-like basis.

The 2014 award was granted subject to the same performance conditions.

## What happened in 2015/2016 and changes for 2016/2017 continued

### LTIP awards granted in July 2015

Awards granted in July 2015 under the new LTIP were subject to the same performance measures as the 2013 and 2014 awards. The awards will vest in 2018 depending on performance.

Details of the awards made to the Executive Directors under the LTIP (granted as nil cost options) are summarised below, with further details given in the table of outstanding share interests on page 93.

More particularly, the performance conditions applicable to the 2015 award are as follows:

Performance measure	Weighting	Performance range	Vesting of portion of the award (performance period three years ending 31 March 2018)
Earnings Per Share (EPS) growth	20% of the award	3% – 8% pa	Zero vesting if EPS growth, as adjusted by the Committee as appropriate, is less than 3% pa. If performance is equal to 3%, 25% of the award will vest. If Mitie achieves 8% EPS growth pa, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis.
Relative Total Shareholder Return (TSR)	20% of the award	Outperformance against FTSE 350 Support Services index	Zero vesting if Mitie's TSR performance is less than the median of the index. If Mitie's TSR performance is equal to the median of the index, 25% of the award will vest and if it exceeds the index median TSR by 10% pa or more, all the awards will vest. Between these two points the proportion of awards vesting will be determined on a linear sliding scale basis. An underpin condition for underlying financial performance also applies.
Organic revenue growth	30% of the award	3% – 6% pa with a financial underpin based on the achievement of target margin of 5.5% pa	Zero vesting if organic revenue growth is less than 3% pa. If performance is equal to 3% pa, 25% of the award will vest. If Mitie achieves 6% organic revenue growth pa, all the awards will vest. Between these two points, the proportion of awards vesting will be determined on a linear sliding scale basis. Entire portion of award is subject to Mitie achieving an average 5.5% margin in the performance period.
Cash conversion	30% of the award	75% – 85% pa	Zero vesting if cash conversion is less than 75% pa. At 75%, 25% of the award will vest. 70% of the award will vest if Mitie achieves 80%. Full vesting for this portion will occur if 85% pa is achieved. Between 75% and 80% and 80% and 85%, the proportion of awards vesting will be determined on a linear sliding scale basis.

Awards made under the 2015 LTIP are, for continuing Executive Directors, subject to a holding period, post vesting, with 50% of the shares being released immediately after the end of the performance period, 25% being released a year later and 25% two years later.

### What was granted in July 2015 (subject to audit)

	Award	Type	Number of shares	Face value <sup>1</sup> (£000's)	% of salary	Performance conditions	Performance period	% vesting at threshold
Ruby McGregor-Smith CBE	Performance	Nil-cost option	356,526	£1,132	200%	Performance conditions are set out in the table above	Three financial years ending 31 March 2018	25%
Suzanne Baxter	Performance		226,880	£720	200%			

Notes:

1. Face value was calculated based on the average of the five business days preceding the date of grant giving a share price of 317.5p.

The Directors were also granted 2,381 options under the Mitie Group plc 2011 SAYE scheme, details of which can be found on page 92.

The performance conditions that are to apply to awards made in 2016 are yet to be determined and are the subject of a shareholder consultation exercise. Once the awards are made, the conditions will be described in the relevant RNS announcement and will be fully disclosed in next year's report.

### Loss of office payments (subject to audit)

No payments for loss of office were made to past Directors during the year.

### Payments to past Directors (subject to audit)

No payments have been made to past Directors.

### Change in CEO pay for the year compared to UK salaried employees

The table below sets out the change in remuneration of the Chief Executive and Mitie's UK salaried non-contract population, which is considered the most appropriate group for comparison purposes.

%	Salary	Benefits <sup>1</sup>	Bonus
Chief Executive	2.9%	-3.8%	49.8%
Average pay based on Mitie's UK salaried non-contract employees <sup>2</sup>	4.9%	10.2%	3.2%

Notes:

- Includes car/car allowance, private medical benefit and private fuel.
- Reflects the change in average pay for salaried non-contract UK employees employed at both 31 March 2015 and 31 March 2016. Salaried non-contract employees are those who are employed directly by Mitie Group and whose roles are not dedicated to the provision of client services.

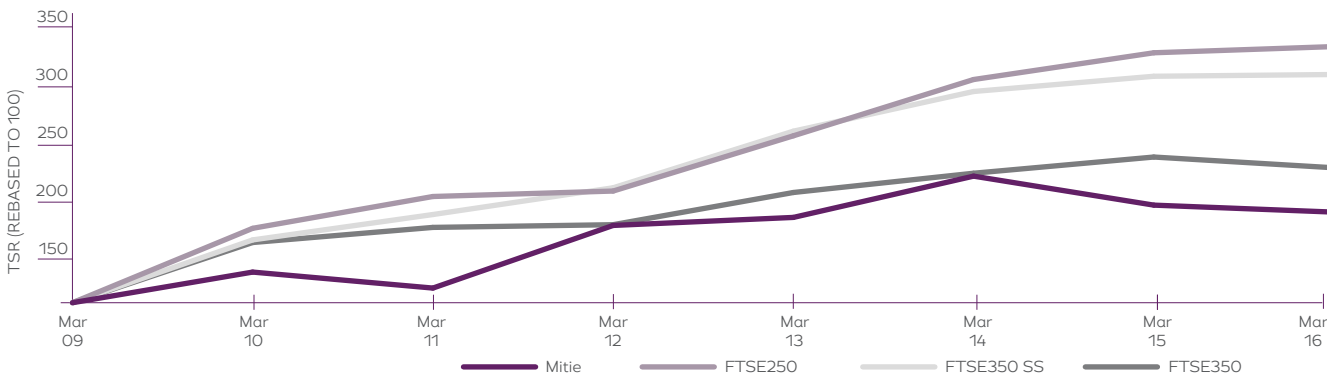
### Relative spend on pay

The table below shows the total cost of remuneration in the group compared with the dividends distributed and share buybacks.

%	Year ended 31 March 2016 £m	Year ended 31 March 2015 £m	Change
Aggregate employee remuneration	1,132	1,150	-1.6%
Equity dividends and share buybacks	57	41	39.0%

### Assessing pay and performance

In the table below we provide a summary of the Chief Executive's single figure remuneration over the past seven years, as well as the pay-out and vesting levels of our variable pay plans in relation to the maximum opportunity. This is compared with historical TSR performance over the same period. We have chosen these indices (FTSE 250 Support Services, FTSE 350 Support Services and FTSE 350) as they are widely recognised and we have been members of these indices during the period:



	2010	2011	2012	2013	2014	2015	2016
Single figure remuneration	£1,703,031	£2,324,443	£2,431,773	£2,105,131	£1,447,266	£1,525,824 <sup>1</sup>	<b>£2,572,412</b>
Annual bonus element (actual as a % of max)	100%	100%	100%	85%	90%	50%	<b>73%</b>
LTIP element (actual vesting as a % of max)	100%	100%	87.2%	57.2%	0%	25%	<b>69.5%</b>

1. The Single Figure has been restated from the figure disclosed in the report last year, to reflect the actual share price on vesting of the 2015 LTIP of 315.2p.

The reporting requirements state that the time period for the above TSR chart should be lengthened to ten years over time and we have therefore included a ten year chart below:



## What happened in 2015/2016 and changes for 2016/2017 continued

### Share ownership (subject to audit)

	Number of shares owned as at 31 March 2016	Value of target holding <sup>1</sup>	Target shareholding <sup>2</sup>	Percentage of salary held as at 31 March 2016	Percentage of target achieved as at 31 March 2016	Compliance with share ownership guidelines
Ruby McGregor-Smith, CBE	567,090	£1,131,900	387,664	293%	146%	Achieved
Suzanne Baxter	256,126	£720,300	246,695	208%	104%	Achieved

Notes:

1. Calculated as 200% of salary for the year ended 31 March 2016.
2. Calculated as value of target holding divided by the average share price of 292.0p for the five business days prior to the start of the financial year ended 31 March 2016

### Directors' outstanding share interests (subject to audit)

The following tables provide the outstanding share interests for the Executive Directors:

#### Directors' interests in options granted under the Mitie Group plc 2011 Save As You Earn Scheme

	Year of Grant	Options as at 31 March 2015	Exercised in year	Granted in year	Lapsed in year	Options as at 31 March 2016	Exercise price p	Earliest normal exercise date
Ruby McGregor-Smith, CBE	2012 <sup>1</sup>	4,035	4,035	-	-	-	223.0	-
	2014 <sup>2</sup>	3,459	-	-	-	<b>3,459</b>	260.2	Sep-17
	2015 <sup>3</sup>	-	-	2,381	-	<b>2,381</b>	254.0	Dec -18
Suzanne Baxter	2012 <sup>1</sup>	4,035	4,035	-	-	-	223.0	-
	2014 <sup>2</sup>	3,459	-	-	-	<b>3,459</b>	260.2	Sep-17
	2015 <sup>3</sup>	-	-	2,381	-	<b>2,381</b>	254.0	Dec-18

Notes:

1. Executive Directors contributed £250 per month into the 2012 scheme which vested in December 2015.
2. Throughout the year the Executive Directors contributed £250 per month into the 2014 scheme.
3. Executive Directors contributed £168 per month into the 2015 scheme which started in December 2015.

#### Directors' interests in shares purchased under the Mitie Group plc Share Incentive Plan 2011

	Shares outstanding as at 31 March 2015 <sup>1</sup>	Number of partnership shares acquired in year <sup>2</sup>	Number of matching shares awarded in year <sup>3</sup>	Total number of shares outstanding at 31 March 2016 <sup>4</sup>
Ruby McGregor-Smith, CBE	2,594	<b>746</b>	61	3,401
Suzanne Baxter	2,594	<b>746</b>	61	3,401

Notes:

1. Figure comprises 2377 purchased shares plus 217 matching shares.
2. Shares were acquired at a market price of 292.0p on 13 May 2015. Executive Directors contributed the full annual amount of £1,800 permitted under the Plan. Shares acquired through dividend reinvestment (4 August 2015 and 1 February 2016) have also been included.
3. Matching shares were purchased in the market at a price of 292.0p on 13 May 2015. Awards of Matching Shares must in normal circumstances be held for at least three years from the date of award and are subject to forfeiture if corresponding Partnership Shares are withdrawn during that period.
4. The market price of the Company's shares as at 31 March 2016 was 257.0p. The highest and lowest prices during the year were 335.6p and 245.7p respectively.

#### Directors' interests in options granted under the Mitie Group plc 2001 Executive Share Option Scheme

	ESOS options outstanding as at 31 March 2015	Granted during the year	Lapsed during the year	Exercised during the year	ESOS options outstanding as at 31 March 2016 <sup>1</sup>	Exercise price	Exercisable between
<b>Ruby McGregor-Smith, CBE</b>							
Unapproved scheme	100,000	-	-	100,000	-	162	- -
Unapproved scheme	100,000	-	-	100,000	-	191	- -
<b>Suzanne Baxter</b>							
Unapproved scheme	35,000	-	-	35,000	-	191	- -
Approved scheme	15,000	-	-	15,000	-	191	- -

Note:

1. The market price of the Company's shares as at 31 March 2016 was 257.0p. The highest and lowest prices during the year were 335.6p and 245.7p respectively.

## Directors' interests in shares granted under the Mitie Group plc 2010 Deferred Bonus Plan

	Year of grant <sup>1</sup>	Shares outstanding as at 31 March 2015	Granted during the year	Lapsed during the year	Vested during the year <sup>2,3</sup>	Shares outstanding as at 31 March 2016 <sup>4</sup>	Earliest exercise date
<b>Ruby McGregor-Smith, CBE</b>							
	2013	71,616	-	-	71,616	-	-
	2014	71,670	-	-	-	<b>71,670</b>	May-16
	2015	-	-	-	-	-	-
<b>Suzanne Baxter</b>							
	2013	19,842	-	-	19,842	-	-
	2014	23,651	-	-	-	<b>23,651</b>	May-16
	2015	-	-	-	-	-	-

### Notes:

- The 2013 award was granted on 28 May 2013 at a grant price of 260.0p.  
The 2014 award was granted on 28 May 2014 at a grant price of 323.7p.  
No award of shares was made under the Deferred Bonus Plan in 2015.
- Awards vested on 28 May 2015 and were transferred to the participant. At the date these awards vested the market price of the Company's shares was 310.2p.
- The awards attract dividend equivalents which are accrued from grant date and paid out on vesting.
- The market price of the Company's shares as at 31 March 2016 was 257.0p. The highest and lowest prices during the year were 335.6p and 245.7p respectively.

## Directors' interests in nil-cost options granted under the Mitie Group plc 2007 and the 2015 Long Term Incentive Plans

	Year of grant <sup>1</sup>	LTIP options outstanding at 31 March 2015	Granted during the year at 317.5p/ share	Lapsed during the year	Exercised during the year <sup>2</sup>	LTIP options outstanding at 31 March 2016 <sup>3</sup>	Exercise price	Exercisable between	
<b>Ruby McGregor-Smith, CBE</b>									
	2012	414,336	-	310,752	103,584	-	Nil-cost	-	-
	2013	527,371	-	-	-	<b>527,371</b>	Nil-cost	Jun-16	Jun-17
	2014	345,261	-	-	-	<b>345,261</b>	Nil-cost	Jun-17	Jun-18
	2015	-	356,526	-	-	<b>356,526</b>	Nil-cost	Jul-18	Jul-19
<b>Suzanne Baxter</b>									
	2012	263,883	-	197,913	65,970	-	Nil-cost	-	-
	2013	268,698	-	-	-	<b>268,698</b>	Nil-cost	Jun-16	Jun-17
	2014	219,711	-	-	-	<b>219,711</b>	Nil-cost	Jun-17	Jun-18
	2015	-	226,880	-	-	<b>226,880</b>	Nil-cost	Jul-18	Jul-19

### Notes:

- The performance criteria applicable to the 2012 award: lower and upper performance thresholds of 5% pa and 10% pa respectively.  
The performance criteria applicable to the 2013 award reflect the basket of measures relating to TSR, EPS, organic revenue growth and cash conversion set out on page 89.  
The performance criteria applicable to the 2014 and 2015 awards are the same as those for the 2013 award and are provided on page 90.
- The Committee assessed the extent to which the performance conditions applicable to the 2012 awards were met and determined that they should vest at 25% of the original award granted. The Committee also assessed the extent to which the performance conditions applicable to the 2013 awards were met and determined that the scheme should vest at 69.5% of the original award granted.
- The market price of the Company's shares as at 31 March 2016 was 257.0p. The highest and lowest prices during the year were 335.6p and 245.7p respectively.

## What happened in 2015/2016 and changes for 2016/2017 continued

### Director share ownership

	Number of Ordinary Mitie shares beneficially owned as at 31 March 2016 (or date of resignation if earlier)	Number of Ordinary Mitie shares beneficially owned as at 31 March 2015 (or date of appointment if later)
<b>Executive Directors</b>		
Ruby McGregor-Smith, CBE	567,090	566,283
Suzanne Baxter	256,126	214,553
<b>Non-Executive Directors</b>		
Roger Matthews	100,000	100,000
David Jenkins <sup>1</sup>	50,000	50,000
Larry Hirst, CBE	25,000	25,000
Crawford Gillies <sup>2</sup>	10,000	10,000
Jack Boyer, OBE	5,000	5,000
Mark Reckitt <sup>3</sup>	4,000	0

Notes:

1. David Jenkins retired as a Director of Mitie Group plc on 31 December 2015.
2. Crawford Gillies stepped down as a Director of Mitie Group plc on 13 July 2015.
3. Mark Reckitt joined the Board as a Non-Executive Director on 1 July 2015.

### Share dilution

The Company manages dilution rates within the standard guidelines of 10% of issued Ordinary share capital in respect of all employee schemes and 5% in respect of discretionary schemes. In calculating compliance with these guidelines the Company allocates available 'headroom' on a ten-year flat-line basis, making adjustments for projected lapse rates and projected increases in issued share capital.

LTIP and deferred bonus awards are satisfied through the market purchase of shares held by the Mitie Group plc Employee Benefit Trust 2008. The potential dilution of the Company's issued share capital is set out below in respect of all outstanding awards granted under the Company's equity-based incentive schemes which are to be satisfied through the allotment of new shares or Treasury shares.

### Share dilution at 31 March 2016

	Dilution %
All share plan (maximum 10%)	8.2%
Discretionary share plans (maximum 5%)	4.6%

### Shareholder voting

Mitie remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Executive Directors' remuneration, the group seeks to understand the reasons for any such vote, and will detail here any actions in response to it.

Number of Votes	Votes in favour	Votes against	Votes withheld <sup>1</sup>
2015 Directors' Remuneration policy	205.1m	14.0m	21.4m
2015 AGM	93.6%	6.4%	–
2015 Directors' Remuneration report	239.0m	0.7m	0.7m
2015 AGM	99.7%	0.3%	–

Note:

1. Votes withheld are not counted in the calculation of the proportion of votes for or against a resolution.



## Directors' report: other disclosures

The Directors present their annual report, together with the audited financial statements of the group and the Company, for the year ended 31 March 2016.

The following information is incorporated into the Directors' report: other disclosures by reference:

- › Strategic report on pages 1 to 61;
- › The Chairman's introduction to corporate governance on page 64;
- › The Board report on pages 65 to 69;
- › Audit Committee report on pages 70 to 73;
- › Nomination Committee report on pages 74 to 75;
- › Directors' remuneration report on pages 76 to 94;
- › Directors' responsibilities statement on page 100; and
- › Notes to the financial statements as detailed in this section.

For the purposes of compliance with paragraphs 4.1.5R(2) and 4.1.8R of the Disclosure and Transparency Rules of the Financial Conduct Authority, the Strategic report and this Directors' report: other disclosures (including the sections of the Annual Report and Accounts incorporated by reference) comprise the management report.

### Principal group activities

The Company is the holding company of the group. The principal activity of the Company is to provide management services to the group. The group's activities are focused on the provision of strategic outsourcing services. The detailed strategy for the group can be found on pages 8 to 15 and pages 20 to 33 of the Strategic report. Further details of the subsidiary undertakings of the Company are listed in Note 40 to the financial statements.

The group operates in the UK, the Republic of Ireland, Guernsey, Jersey, Germany, France, Finland, Norway, Sweden, the Netherlands, Spain, Poland, Switzerland, Belgium, Nigeria, Kenya, Ghana and UAE.

### Shares and shareholders

#### Share capital and powers of shareholders

The group is financed through both equity share capital and debt instruments. Details of the Company's share capital are given in Note 31 to the financial statements and the detail of its debt instruments is set out in Note 30 to the financial statements.

The Company has a single class of shares being 2.5p ordinary shares (Ordinary shares). The Ordinary shares have no right to any fixed income and each Ordinary share has the right to one vote per share at general meetings of the Company. Under the Company's Articles of Association (the Articles), holders of Ordinary shares are entitled to participate in any dividends pro-rata to their holding.

In accordance with the Articles, the Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the Annual General Meeting (AGM). A final dividend may be declared by the shareholders in a general meeting by ordinary resolution, but such dividend cannot exceed the amount recommended by the Board.

The Articles can be amended in accordance with their provisions, the Companies Act and related legislation. A copy of the Articles is available at [www.mitie.com/investors/shareholder-services/corporate-governance](http://www.mitie.com/investors/shareholder-services/corporate-governance).

### Powers of the Company to issue or buy back its own shares

At the 2015 AGM shareholders authorised:

- › the Directors to allot Ordinary shares up to an aggregate nominal amount of £3,399,012 representing one-third of the issued share capital (excluding treasury shares) plus 14,088,001 Ordinary shares representing the outstanding commitment in respect of options granted under Mitie's share schemes (in aggregate equating to 37.2% of the issued share capital as at 31 March 2015 (excluding treasury shares));
- › the dis-application of pre-emption rights over allotted shares up to an aggregate nominal value equal to £457,022 or a maximum of 18,280,869 Ordinary shares (representing approximately 5% of the issued share capital as at 31 March 2015 (excluding treasury shares));
- › the dis-application of pre-emption rights over allotted shares up to an additional aggregate nominal value not exceeding in aggregate £457,022 or a maximum 18,280,869 Ordinary shares (representing approximately 5% of the issued share capital as at 31 March 2015 (excluding treasury shares)) in connection with an acquisition or specified capital investment; and
- › the Company to make market purchases of its own shares up to a total of 36,561,739 Ordinary shares (representing 10% of the issued share capital as at 31 March 2015 (excluding treasury shares)).

These standard authorities will expire on 13 October 2016 or at the conclusion of the AGM in 2016, whichever is the earlier. Further details of these authorisations are available in the notes to the 2015 Notice of AGM and shareholders are referred to the 2016 Notice, which contains similar provisions in respect of the Company's share capital (available at [www.mitie.com/investors/shareholder-services](http://www.mitie.com/investors/shareholder-services)).

During the year, the Directors utilised the above authorities to allot 2,158,224 Ordinary shares to an aggregate nominal amount of £53,956 to employees participating in Mitie's share schemes.

The Company undertook market purchases of 7,494,270 of its own shares during the year (representing 2.0% of the issued share capital of the Company as at 31 March 2016). The shares equated to an aggregate nominal value of £187,357 and the total aggregate amount paid was £21,742,343 (including expenses). 2,250,000 shares were purchased and held in treasury for re-issue at a later date and to be used to hedge future share scheme issues. 5,244,270 shares were purchased and subsequently cancelled from the register, in order to offset the increase in share numbers anticipated from the issue of Ordinary shares in connection with the Company's share schemes and the Mitie Model.

## Directors' report: other disclosures continued

On 31 March 2016 the Company announced that it had entered into an irrevocable and non-discretionary arrangement with its stockbroker, Canaccord Genuity Limited, to repurchase, on its behalf and within certain pre-set parameters, its own Ordinary shares. Between 1 April and 21 April 2016, 5,181,190 Ordinary shares were purchased and subsequently cancelled. The total aggregate amount paid for the Ordinary shares was £14,199,022 (including expenses). The Board approved the purchase of Ordinary shares to reduce the capital of the Company in order to offset the increase in share numbers anticipated from the issue of Ordinary shares in connection with the Company's Mitie Model and its share schemes.

In addition, 1,335,611 Ordinary shares were distributed following the exercise of awards under the Mitie Group plc 2011 Save As You Earn Scheme and the Mitie Group plc 2001 and 2011 Executive Share Option Scheme.

The total number of Ordinary shares held by the group in treasury as at 31 March 2016 was therefore 10,460,499 (representing 2.8% of the issued share capital of the Company at 31 March 2016).

### Significant interests in the Company's share capital

As at 23 May 2016, the Company has been notified of the following significant holdings of voting rights in its Ordinary shares under the Disclosure and Transparency Rules:

	Number of Ordinary shares	Percentage of share capital at the date of notification
FMR LLC	32,440,297	8.95
Invesco Limited	18,642,841	5.06
Massachusetts Financial Services Company	18,549,276	5.02
Heronbridge	18,366,728	5.00
Norges Bank	10,803,516	3.02
The Capital Group	9,009,000	2.49

It should be noted that these holdings may have changed since the Company was notified. However notification of any change is not required until the next notifiable threshold is crossed.

Details of the Directors' interests in the Company's share capital are set out in the Directors' remuneration report on pages 92 to 94.

### Restrictions on the trading of Mitie shares

Ordinary shares that are issued as consideration upon the acquisition by the Company of the shares of minority shareholders in subsidiaries of the group that participate in the Mitie Model generally have contractual restrictions placed upon them that both prevent the transfer of such shares and/or attach specific claw-back provisions for periods of up to two years following allotment. Recipients of Company shares received in this way are contractually restricted from selling the shares issued as consideration, generally for a maximum of two years. The Board believes that this is a unique business model that has aided Mitie's

past performance and continues to ensure a close alignment of interests between Company shareholders and the management and employees of the group.

There are no specific restrictions on the size of any shareholding or on the transfer of shares, which are both governed by the provisions of the Articles.

The Directors are not aware of any agreements entered into by Company shareholders that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital.

The group operates a Share Trading and Insider Dealing Procedure which provides a framework to identify persons who may have access to inside information relating to the Company and explains the rules applicable to them for dealing in Company shares. Individuals who may have access to such information are informed individually and required to read, understand and follow the procedures detailed in the policy.

### Employee share schemes and plans

Details of employee share schemes and long term incentive plans are set out in Note 36 to the financial statements. Details of awards made during the year and held by Executive Directors are set out in the Directors' remuneration report on pages 92 to 94.

Under the terms of certain shareholders' agreements and articles of association relating to Mitie Model companies, minority shareholders in such companies may provide an option for the purchase by the Company of their minority shares. The mechanism for calculating the price to be paid in respect of such transfer is transparent, on an arm's-length basis, and in accordance with the pricing structure generally applicable for other transfers under the Mitie Model. In consideration for these purchases, the Company generally has the option to settle payment in cash or in Ordinary shares of the Company.

### Significant agreements – change of control

There are a number of agreements with provisions that take effect, alter or terminate upon a change of control of the Company such as bank facility agreements and other financial arrangements, employee share scheme rules and articles of association of certain Mitie Model companies. None of these are considered to be significant in terms of their likely impact on the normal course of business of the group. The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs solely because of a change of control.

### Shareholder engagement

The Board is committed to an ongoing, pro-active dialogue between the Company and its shareholders. A full programme, led by the Chief Executive and Group Finance Director, of formal and informal events, institutional investor meetings and presentations is also held throughout the year.

The Board receives an investor relations report at each Board meeting detailing corporate news, share price activity, investor relations activity and major movements in shareholdings. The Board is also regularly updated and is provided with investor feedback, stockbroker updates and detailed analyst reports following the half year and full year results presentations. The Chairman is responsible for ensuring that the Board is made aware of the issues and concerns of the major shareholders.

The Chairman and Senior Independent Director are available for additional meetings with shareholders upon request. The Board encourages an ongoing dialogue between the Directors and investors and all Directors were present at the 2015 AGM.

Latest group information, financial reports, corporate governance and sustainability matters, half-year and full year results presentations, major shareholder information and all announcements are made available to shareholders via the Mitie website ([www.mitie.com](http://www.mitie.com)) which has a specific area dedicated to investor relations.

#### Electronic communications

The Directors remain committed to improving and extending the electronic methods by which the Company communicates with its shareholders, not only allowing the latest information on the group to be provided more efficiently but recognising the environmental benefits. The Board encourages each shareholder to join the growing number of investors electing to receive their information electronically and further details on how to register are provided in the Shareholder information section.

#### Directors

##### Board of Directors

The members of the Board, and their biographical details (including details of committee chairmanships and other positions held), are set out on pages 62 and 63. To comply with the Code, all Directors will submit themselves for re-election at the forthcoming AGM and details are provided in the Notice of AGM which is available at [www.mitie.com/investors/shareholder-services](http://www.mitie.com/investors/shareholder-services).

During the year, Non-Executive Director independence was considered by the Board. The Board determined that, as at 31 March 2016, all Non-Executive Directors were independent in mind and judgement, and free from any material relationship that could interfere with their ability to discharge their duties effectively.

#### Director development

The Chairman regularly meets with both the Executive and Non-Executive Directors to discuss specific director development and training needs. The annual Board evaluation also addresses these requirements and ensures that the appropriate level of knowledge, understanding and expertise of the Board is sufficiently maintained.

#### Director appointments

With regard to the appointment and replacement of Directors, the Company is governed by the Articles, the Code, the Companies Act and related legislation.

#### Directors' conflicts of interest

The Board has a formal policy on the declaration and management of Directors' conflicts of interests, in accordance with the Articles, which has operated effectively during the year. Any potential situation or transactional conflict must be reported as soon as possible to the Chairman, the Chief Executive and the Company Secretary. Where a potential conflict is authorised (under the statutory powers and powers granted under the Articles to the Board), such conflict is kept under ongoing review.

#### Director indemnities

The group maintains directors' and officers' liability insurance, providing appropriate cover for any legal action brought against its Directors and/or officers. The Articles extend the protection provided to Directors in respect of any litigation against Directors relating to their position as a Director of the Company, and specifically provide that the Company may indemnify Directors against any liability incurred in connection with any negligence, default, breach of duty or breach of trust in relation to the Company and that the Company may fund defence costs. Individual Directors would still be liable to pay damages awarded to the Company in any action against them by the Company, to pay any criminal or regulatory fine against him or her and to repay their defence costs (to the extent funded by the Company) if their defence was unsuccessful.

#### Director commitments

Executive Directors are permitted to accept appointments outside the group provided permission is sought from the Chairman and the Chief Executive and that the additional appointments do not interfere with the Director's ability to discharge their duties effectively. The commitments outside the group of each Executive Director are detailed in the Directors' remuneration report on page 84 and in the Directors' biographical details on page 62. Executive Directors are entitled to retain any fees earned from these external appointments.

## Directors' report: other disclosures continued

### Statement of the Directors in respect of the Annual Report and Accounts

As required by the Code, the Directors confirm that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including the following:

- ▶ the Annual Report and Accounts is drafted by senior management with overall co-ordination by the Group General Counsel and Company Secretary to ensure consistency across the relevant sections;
- ▶ an internal verification process is undertaken to ensure factual accuracy;
- ▶ an independent review is undertaken by the Assurance team to assess whether the Annual Report and Accounts is fair, balanced and understandable using a set of pre-defined indicators (such as consistency with internally reported information, investor communications and relative performance in the industry);
- ▶ comprehensive reviews of drafts of the Annual Report and Accounts are undertaken by the Executive Directors and other senior management;
- ▶ an advanced draft is reviewed by the Company's Group General Counsel and Company Secretary and external legal advisors; and
- ▶ the final draft is reviewed by the Audit Committee prior to consideration by the Board.

### Employees and communications with employees

Details of Mitie's employment policies, consultation practices and how it communicates with its employees are set out in the Strategic report on pages 12, 18 and 19.

### Disabled persons

Details in respect of the group's approach to employing, training and developing the careers of disabled people can be found in the Strategic report on page 19.

### Finance

#### Financial results and dividends

A detailed commentary on the operational and financial results of the group for the year is contained within the Strategic report and the Financial review on pages 52 to 56. The profit before taxation for the financial year is £96.8m (2015: £41.5m).

- ▶ The Directors declared an interim dividend of 5.4p per Ordinary share with a total value of £19.2m (2015: £18.6m) which was paid to shareholders on 1 February 2016.

- ▶ The Directors recommend a final dividend of 6.7p per Ordinary share with a total value of £23.7m (2015: £22.9m) based upon the number of shares issued as at 13 May 2016. The final dividend for the year will be paid on 4 August 2016, subject to shareholder approval at the AGM, to ordinary shareholders on the register on 24 June 2016.
- ▶ The total dividend per Ordinary share for the year ended 31 March 2016 is 12.1p (2015: 11.7p).

The Company operates a Dividend Re-investment Plan (DRIP) which allows shareholders to build their holding by using the cash dividend to purchase additional shares in Mitie. Further details on the operation of the DRIP and how to apply can be found in the Shareholder information section and are available from Mitie's Registrar.

During the year, the trustees of the Company's Employee Benefit Trust waived dividends on shares held.

### Financing liabilities

The group's financial instruments include bank borrowing facilities, finance leases, overdrafts, US private placement loan notes and performance guarantees. Various derivatives are used to manage interest, currency and other risks when necessary or material.

The principal objective of these instruments is to raise funds for general corporate purposes and to manage financial risk. Further details of these instruments are given in Note 26 to the financial statements.

### Events after the balance sheet date

There have not been any significant events after 31 March 2016 (the balance sheet date).

### Future developments

The Strategic report sets out the Board's view on the future development of the group.

### Research and development

Given the nature of the group's activities, it does not carry out any material research and development work.

### Political donations

The Company included a resolution in its 2015 AGM notice to shareholders in relation to the ability to make political donations. Although Mitie's long standing policy of not making any political donations will continue, it is possible that certain routine activities (including charitable donations) undertaken by Mitie might unintentionally fall within the wide definition of payments constituting political donations and expenditure as set out in the Companies Act 2006. The resolution, which was duly passed, granted the Company the relevant statutory authority until the 2016 AGM subject to a total aggregate cap for Mitie and its subsidiary companies of £50,000.

### Disclosure of information under Listing Rule 9.8.4

The annual report is required to contain certain information under Listing Rule 9.8.4. Where this information has not been cross referenced within the group financial statements, it can be found in the following sections:

Details of long-term incentive schemes	- Directors' remuneration report pages 76 to 94; and Note 36 to the accounts
Shareholder waivers of dividends and future dividends	- Directors' report: other disclosures page 98 and below

In respect of shareholder waivers of dividends and future dividends, in addition to the agreement by the trustees of the Mitie Group plc Employee Benefit Trust to waive dividends payable on the group's shares it holds for satisfying awards under various Mitie Group plc share plans, in accordance with Section 726 of the Companies Act 2006 no dividends can be paid to the Company in respect of the shares it holds in treasury.

There are no other disclosures to be made under Listing Rule 9.8.4.

None of the shareholders is considered to be a Controlling Shareholder (as defined in Listing Rule 6.1.2.A).

### Carbon reporting and the environment

The Company is required to state the annual quantity of emissions in tonnes of carbon dioxide equivalent from activities for which the group is responsible, including combustion of fuel and the operation of facilities. Details of the group's emissions during the year ended 31 March 2016 are set out in the Strategic report on page 19.

### Going concern

The Directors acknowledge the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' issued in September 2014.

The group's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic report on pages 37 to 51. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the financial review, as part of the Strategic report, on pages 52 to 56. In addition, Note 27 to the financial statements includes details of the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

The group benefits from a large number of long-term contracts with a broad range of public and private customers which provide a strong forward order book of £8.5bn and high visibility of secured work (81% of budgeted revenue) for the financial year ending 31 March 2017. These support the Directors' belief that the group is well-placed to manage its business risks successfully.

In assessing the group's ability to continue as a going concern, the Board reviews and approves the annual budget including 12 month forecasts of cash flows and borrowing requirements. The Board reviews the group's sources of available funds and the level of headroom available against its committed borrowing facilities. The group's financial forecasts, taking into account possible sensitivities in trading performance, indicate that the group will be able to operate within the level of its committed borrowing facilities. The Board also assesses the principal risks and other matters disclosed in relation to the viability statement on page 61.

On 23 July 2014, the group announced the extension of its multi-currency revolving credit facility. The group now benefits from a committed facility of £275m, which will mature in July 2019. Together with the £252m PP notes in the United States, this gives the group total committed funding of £527m, of which £511.2m was undrawn at 31 March 2016.

The Directors have a reasonable expectation that the group has adequate resources to continue its operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Accounts. There are no material uncertainties to the group's ability to continue to do so over a period of at least 12 months from the date of the approval of the Annual Report and Accounts.

### Viability statement

This statement is detailed in full on page 61.

In accordance with provision C2.2 of the 2014 edition of the Code, the Directors have assessed the viability of the group over a three year period to 31 March 2019 taking into account the group's current position and the potential impact of the principal risks set out in the Strategic report. Based on this assessment the Directors have a reasonable expectation that the group is and will continue to be viable.

### Disclosure of information to the auditors

Each of the Directors in office as of the date of approval of this Annual Report and Accounts confirms that:

- > so far as he/she is aware, there is no relevant audit information (being information required by the Company's auditors in the preparation of their report) of which the Company's auditors are unaware; and
- > he/she has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

This confirmation is given, and should be interpreted, in accordance with Section 418 of the Companies Act 2006.

### AGM

Mitie's AGM will be held on 12 July 2016 at 11.30 am at UBS Investment Bank, 1 Finsbury Avenue, London, EC2M 2PP.

By order of the Board

**James Ormrod**  
Company Secretary  
23 May 2016

## Directors' report: statement of Directors' responsibilities

### Statement of Directors' responsibilities in respect of the Annual Report, the remuneration report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the Directors are required to:

- › select suitable accounting policies and then apply them consistently;
- › make judgements and accounting estimates that are reasonable and prudent;
- › state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- › prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that Directors:

- › properly select and apply accounting policies;
- › present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- › provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- › make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, and for the preparation of a Directors' remuneration report which complies with the relevant requirements of the Companies Acts, Listing Rules and Disclosure and Transparency Rules.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' responsibility statement

To the best of each Director's knowledge:

- › the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- › the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- › the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

By order of the Board

**Ruby McGregor-Smith, CBE**  
Chief Executive  
23 May 2016

**Suzanne Baxter**  
Group Finance Director  
23 May 2016

# Independent Auditor's Report to the members of Mitie Group plc

## Opinion on financial statements of Mitie Group plc

In our opinion:

- > the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 and of the group's profit for the year then ended;
- > the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- > the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Balance Sheet and the related notes 1 to 49. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

## Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report on page 61.

We have nothing material to add or draw attention to in relation to:

- > the directors' confirmation on page 100 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- > the disclosures on pages 57-60 that describe those risks and explain how they are being managed or mitigated;
- > the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- > the directors' explanation on page 61 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

## Independent Auditor's Report to the members of Mitie Group plc continued

### Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
<p><b>Appropriateness of revenue and profit recognition</b></p> <p>There are significant accounting judgements required to apply the group's revenue recognition policies to the long-term complex contracts entered into by the group for the provision of project-based services, predominantly long term complex contracts.</p> <p>The contractual arrangements that underpin the measurement of revenue in the period can be complex, with judgements involved in the assessment of current and future financial performance, which are relevant to the application of long term contract accounting principles.</p> <p>We focused our testing on contracts with the following characteristics;</p> <ul style="list-style-type: none"> <li>- Contract related assets that are materially sensitive to changes in the forecast margin;</li> <li>- Contracts that have the potential for material losses; and</li> <li>- Contracts with material judgements.</li> </ul> <p>The group's policy on revenue recognition is set out in note 1 to the group financial statements and revenue is analysed in note 3.</p> <p>The matter is also disclosed as a critical Judgement in note 2.</p>	<p>We have tested the operating effectiveness of the key controls over the contract process including tendering controls, contract monitoring, billings and approvals, the general IT controls over the systems used to generate the information and Management's review and approval of the contract accounting applied.</p> <p>We made a number of contract site visits and attended and inspected minutes from certain meetings, forming a key part of the Group's risk and contract accounting process to fully challenge at a management level, the ongoing performance on long term complex contracts.</p> <p>We have assessed management's judgement regarding the appropriate timing of revenue recognition, including when a percentage of completion basis was applied. We reviewed significant contract terms for the conditions that underpin the revenue and the profit recognition assumptions. We have performed substantive tests and analytical procedures on costs incurred to date and profitability forecasts. This included challenging management's assumptions on the future costs including projected savings, the actions required to achieve these and by analysing historic performance. Through this analysis we assessed the underlying accounting treatment of contract related assets and assessed the recoverability of these assets against future profitability.</p>
<p><b>Recoverability of goodwill and intangible assets in the Healthcare division</b></p> <p>In accordance with International Accounting Standard (IAS) 36 'Impairment of Assets' and the Group's accounting policy, management is required to carry out an annual impairment test of the Group's goodwill of £465.5m and intangible assets of £66.9m.</p> <p>In recent years there has been a reduction in headroom in the goodwill relating to the Healthcare division CGU which accounts for £107.2m of the carried goodwill and £11.3m of group intangible assets.</p> <p>Assessing whether an impairment exists under IAS 36 is complex. Calculating the value in use for identified cash-generating units (CGUs) incorporates judgements based on assumptions about future revenue growth, forecast cash flows, terminal growth rates and determination of the appropriate discount rate and the appropriate inclusion of new initiatives.</p> <p>The Group's policy on impairment of goodwill is disclosed in note 1 and note 2. Further details in respect of the carrying value of goodwill and intangible assets, and the recoverability of individual cash-generating units and sensitivities of the key assumptions are outlined in note 13.</p>	<p>We critically assessed management's position as to whether or not a reasonably possible change to key operating assumptions could result in an impairment. In doing so, we have considered the output of the Group's budgeting process including the sensitivity of the key assumptions relating to future growth in revenue and cost savings to be achieved. We assessed whether the forecasts adopted in the impairment review were board approved and consistent with those used in the going concern and longer-term viability assessment. In addition we challenged the appropriateness of the inclusion of cash flows relating to new initiatives noting these cash-flows are in line with the Group's strategy of expansion in the Healthcare sector. We benchmarked the growth rates employed to available market data and engaged our specialist valuation team to consider the appropriateness of the discount rate applied in the impairment review including reviewing management's calculation and reconciliation. We performed sensitivity analysis in respect of each of the key assumptions and reperformed management's sensitivity disclosure.</p> <p>We also specifically reviewed the appropriateness of the disclosures set out in note 13 to the accounts detailing the point at which the recoverable value of goodwill would equal the carrying amount.</p>



Last year our report included presentation of “other items” on the consolidated income statement and Recoverability of trade receivables as key risks of material misstatement. The risk of presentation of “other items” is not included in our report this year as there has been no material restructuring or businesses being exited in the year. The risk of recoverability of trade receivables is also not included in our report this year as the ageing of trade receivables has improved.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 70-73.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be £5.0 million (2015: £5.0 million) which is based on 5.2% (2015: 12.0%) of statutory profit before tax and which equates to 4.4% (2015: 4.4%) of profit before tax before “other items”, 0.2% (2015: 0.2%) of revenue and 1.2% (2015: 1.3%) of equity. Statutory profit before tax is used due to the reduction in “other items” in the year. Profit was used as the benchmark for determining materiality as this is considered to be a key benchmark used by investors.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £100,000 (2015: £100,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### **An overview of the scope of our audit**

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at the four divisions, reduced from five following the restructuring of the Energy Solutions division in 2015, and at head office.

All UK subsidiaries within the four divisions were subject to a full audit with the exception of recently acquired businesses and dormant entities.

The subsidiaries representing the principal business units account for 94.4% (2015: 100%) of the group’s net assets, 96.0% (2015: 98.2%) of the group’s revenue and 100% (2015: 100%) of the group’s profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £0.01 million to £3.5 million (2015: £0.01 million to £3.5 million).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the overseas entities, dormant entities and two recently acquired businesses not subject to audit.

The group audit team continued to follow a programme of planned visits to key locations including Bristol, London and Reading. These visits have been designed so that the Senior Statutory Auditor meets with divisional management where the group audit scope was focused, at least once a year.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Independent Auditor's Report to the members of Mitie Group plc continued

### Matters on which we are required to report by exception

#### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- › we have not received all the information and explanations we require for our audit; or
- › adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- › the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

#### Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

#### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- › materially inconsistent with the information in the audited financial statements; or
- › apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- › otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **John Charlton FCA (Senior statutory auditor)**

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London  
23 May 2016

## Consolidated income statement

For the year ended 31 March 2016

	Notes	2016			2015		
		Before Other Items £m	Other Items <sup>1</sup> £m	Total £m	Before Other Items £m	Other Items <sup>1</sup> £m	Total £m
<b>Continuing operations</b>							
Revenue	3,4	<b>2,231.9</b>	-	<b>2,231.9</b>	2,266.2	7.6	2,273.8
Cost of sales		<b>(1,909.3)</b>	-	<b>(1,909.3)</b>	(1,928.3)	(17.4)	(1,945.7)
<b>Gross profit</b>		<b>322.6</b>	-	<b>322.6</b>	337.9	(9.8)	328.1
Administrative expenses		<b>(194.3)</b>	<b>(16.4)</b>	<b>(210.7)</b>	(210.0)	(62.8)	(272.8)
Share of profit of joint ventures and associates	16	<b>0.6</b>	-	<b>0.6</b>	0.7	-	0.7
<b>Operating profit</b>	4,6	<b>128.9</b>	<b>(16.4)</b>	<b>112.5</b>	128.6	(72.6)	56.0
Investment revenue	8	<b>0.1</b>	-	<b>0.1</b>	0.3	-	0.3
Finance costs	9	<b>(15.8)</b>	-	<b>(15.8)</b>	(14.8)	-	(14.8)
<b>Net finance costs</b>		<b>(15.7)</b>	-	<b>(15.7)</b>	(14.5)	-	(14.5)
<b>Profit before tax</b>		<b>113.2</b>	<b>(16.4)</b>	<b>96.8</b>	114.1	(72.6)	41.5
Tax	10	<b>(22.7)</b>	<b>3.4</b>	<b>(19.3)</b>	(24.1)	18.3	(5.8)
<b>Profit for the year</b>		<b>90.5</b>	<b>(13.0)</b>	<b>77.5</b>	90.0	(54.3)	35.7
Attributable to:							
Equity holders of the parent		<b>88.7</b>	<b>(13.0)</b>	<b>75.7</b>	89.3	(54.3)	35.0
Non-controlling interests		<b>1.8</b>	-	<b>1.8</b>	0.7	-	0.7
		<b>90.5</b>	<b>(13.0)</b>	<b>77.5</b>	90.0	(54.3)	35.7
<b>Earnings per share (EPS)</b>							
- basic	12	<b>25.0p</b>	<b>(3.7)p</b>	<b>21.3p</b>	24.8p	(15.1)p	9.7p
- diluted	12	<b>24.7p</b>	<b>(3.6)p</b>	<b>21.1p</b>	24.2p	(14.7)p	9.5p

Note:

1. Other items are as described in Note 5.

## Consolidated statement of comprehensive income

For the year ended 31 March 2016

	Notes	2016 £m	2015 £m
<b>Profit for the year</b>		<b>77.5</b>	35.7
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurement of net defined benefit pension liability	37	<b>3.0</b>	(15.0)
Income tax relating to items not reclassified		<b>(1.7)</b>	3.0
		<b>1.3</b>	(12.0)
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation of foreign operations		<b>0.2</b>	(2.0)
Gains on hedge of a net investment taken to equity		<b>(0.7)</b>	1.1
Cash flow hedges:			
Gains arising during the year		<b>6.7</b>	13.4
Reclassification adjustment for losses included in profit and loss		<b>(4.4)</b>	(14.6)
Income tax (charge)/credit relating to items that may be reclassified		<b>(0.6)</b>	0.2
		<b>1.2</b>	(1.9)
<b>Other comprehensive income/(expense) for the financial year</b>		<b>2.5</b>	(13.9)
<b>Total comprehensive income for the financial year</b>		<b>80.0</b>	21.8
Attributable to:			
Equity holders of the parent		<b>78.2</b>	21.1
Non-controlling interests		<b>1.8</b>	0.7

## Consolidated balance sheet

At 31 March 2016

	Notes	2016 £m	2015 £m
<b>Non-current assets</b>			
Goodwill	13	465.5	464.4
Other intangible assets	14	66.9	76.6
Property, plant and equipment	15	49.3	53.3
Interest in joint ventures and associates	16	0.6	1.1
Financing assets	17	14.4	8.0
Trade and other receivables	18	86.0	58.5
Deferred tax assets	22	10.0	13.4
<b>Total non-current assets</b>		<b>692.7</b>	675.3
<b>Current assets</b>			
Inventories	23	9.9	11.0
Trade and other receivables	18	446.7	421.4
Cash and cash equivalents	24	93.1	96.4
<b>Total current assets</b>		<b>549.7</b>	528.8
<b>Total assets</b>		<b>1,242.4</b>	1,204.1
<b>Current liabilities</b>			
Trade and other payables	25	(487.8)	(476.0)
Current tax liabilities		(10.4)	(5.2)
Financing liabilities	26	(1.9)	(1.8)
Provisions	28	(0.4)	(4.9)
<b>Total current liabilities</b>		<b>(500.5)</b>	(487.9)
<b>Net current assets</b>		<b>49.2</b>	40.9
<b>Non-current liabilities</b>			
Trade and other payables	25	(2.5)	(8.0)
Financing liabilities	26	(283.9)	(279.2)
Provisions	28	(0.5)	(7.4)
Retirement benefit obligation	37	(35.5)	(35.8)
Deferred tax liabilities	22	(4.4)	(7.5)
<b>Total non-current liabilities</b>		<b>(326.8)</b>	(337.9)
<b>Total liabilities</b>		<b>(827.3)</b>	(825.8)
<b>Net assets</b>		<b>415.1</b>	378.3

## Consolidated balance sheet continued

At 31 March 2016

	Notes	2016 £m	2015 £m
<b>Equity</b>			
Share capital	31	9.3	9.4
Share premium account	32	127.7	122.6
Merger reserve	32	80.1	80.1
Share-based payments reserve	32	9.4	7.2
Own shares reserve	32	(48.8)	(47.5)
Other reserves	32	0.5	0.4
Hedging and translation reserve	32	(4.6)	(6.4)
Retained earnings		238.6	209.2
<b>Equity attributable to equity holders of the parent</b>		<b>412.2</b>	375.0
Non-controlling interests		2.9	3.3
<b>Total equity</b>		<b>415.1</b>	378.3

The financial statements of the group, company registration number SC019230 were approved by the Board of Directors and authorised for issue on 23 May 2016. They were signed on its behalf by:

**Ruby McGregor-Smith CBE**  
Chief Executive

**Suzanne Baxter**  
Group Finance Director

## Consolidated statement of changes in equity

For the year ended 31 March 2016

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



## Consolidated statement of cash flows

For the year ended 31 March 2016

	Notes	2016 £m	2015 £m
Operating profit		<b>112.5</b>	56.0
Adjustments for:			
Share-based payment expense	36	<b>5.2</b>	6.5
Defined benefit pension charge	37	<b>4.4</b>	4.0
Defined benefit pension contributions	37	<b>(3.0)</b>	(3.1)
Acquisition costs	5	<b>0.3</b>	0.3
Depreciation of property, plant and equipment	15	<b>15.1</b>	19.7
Amortisation of intangible assets	14	<b>18.5</b>	13.8
Write off of acquisition related intangible assets	14	<b>6.2</b>	-
Other non-cash movement in Other items		-	19.0
Share of profit of joint ventures and associates	16	<b>(0.6)</b>	(0.7)
Profit on disposal of businesses		<b>(0.5)</b>	-
Loss on disposal of property, plant and equipment		-	0.3
<b>Operating cash flows before movements in working capital</b>		<b>158.1</b>	115.8
Decrease/(Increase) in inventories		<b>1.1</b>	(3.8)
(Decrease)/increase in receivables		<b>(52.9)</b>	53.4
Increase/(Decrease) in payables		<b>8.7</b>	(50.9)
Decrease in provisions		<b>(0.4)</b>	(1.3)
<b>Cash generated by operations</b>	39	<b>114.6</b>	113.2
Income taxes paid		<b>(15.7)</b>	(15.5)
Interest paid		<b>(13.4)</b>	(13.1)
Facility extension fees		-	(2.0)
Acquisition costs	5	<b>(0.3)</b>	(0.3)
<b>Net cash from operating activities</b>		<b>85.2</b>	82.3
<b>Investing activities</b>			
Interest received		-	-
Purchase of property, plant and equipment		<b>(15.7)</b>	(23.0)
Purchase of subsidiary undertakings, net of cash acquired	33	<b>(8.0)</b>	(0.5)
Dividends received from joint ventures and associates		<b>0.7</b>	0.5
Investment in financing assets		<b>1.9</b>	(0.3)
Purchase of other intangible assets	14	<b>(8.9)</b>	(3.9)
Disposals of property, plant and equipment		<b>2.2</b>	1.8
<b>Net cash outflow from investing activities</b>		<b>(27.8)</b>	(25.4)

## Consolidated statement of cash flows continued

For the year ended 31 March 2016

	Notes	2016 £m	2015 £m
<b>Financing activities</b>			
Repayments of obligations under finance leases		(3.1)	(2.0)
Proceeds on issue of share capital		5.0	3.8
Bank loans repaid		(2.2)	0.6
Purchase of own shares	32	(3.7)	(10.7)
Share buybacks	31	(14.4)	-
Equity dividends paid	11	(42.3)	(40.5)
Non-controlling interests dividends paid		(0.2)	(0.1)
Net cash outflow from financing		(60.9)	(48.9)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3.5)</b>	<b>8.0</b>
<b>Net cash and cash equivalents at beginning of the year</b>		<b>96.4</b>	<b>89.1</b>
Effect of foreign exchange rate changes		0.2	(0.7)
<b>Net cash and cash equivalents at end of the year</b>		<b>93.1</b>	<b>96.4</b>
Net cash and cash equivalents comprise:			
Cash at bank		93.1	96.4
		<b>93.1</b>	<b>96.4</b>
<b>Reconciliation of net cash flow to movements in net debt</b>			
	Notes	2016 £m	2015 £m
Net (decrease)/increase in cash and cash equivalents		(3.5)	8.0
Effect of foreign exchange rate changes		0.2	(0.7)
Decrease in bank loans		0.3	1.4
Non-cash movement in private placement notes and associated hedges		3.0	(1.3)
Decrease in finance leases		(0.5)	1.4
<b>(Increase)/decrease in net debt during the year</b>		<b>(0.5)</b>	<b>8.8</b>
Opening net debt		(177.8)	(186.6)
<b>Closing net debt</b>	30	<b>(178.3)</b>	<b>(177.8)</b>

# Notes to the consolidated financial statements

For the year ended 31 March 2016

## 1. Basis of preparation and significant accounting policies

### Basis of preparation

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

As more fully detailed in the Directors' report, the group's financial statements have been prepared on a going concern basis.

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

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

- › Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- › Annual Improvements to IFRSs 2010-2012 Cycle : the majority of amendments are clarifications rather than substantive changes in existing requirements apart from amendments to IFRS 8 Operating Segments and IAS 24 Related Party Disclosures

The following standards and interpretations have been issued but are not yet mandatorily effective (and in some cases have not yet been adopted by the EU) and have not been applied by the group:

- › IFRS 9 'Financial Instruments'
- › Amendments to IFRS 11 'Joint Arrangements' – Accounting for Acquisitions of Interests in Joint Operations
- › IFRS 15 'Revenue from Contracts with Customers'
- › Amendments to IAS 27 'Separate Financial Statements' – Equity Method in Separate Financial Statements
- › Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- › Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants'
- › Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- › Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosures of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' – Investment Entities: Applying the Consolidation Exception;
- › Amendments to IAS 1 'Presentation of Financial Statements' – Disclosure Initiative; and
- › Amendments resulting from Annual Improvements to IFRSs 2012-2014 and 2013-2015 Cycle.

The group is conducting a review of IFRS 15 'Revenue from Contracts with Customers' which introduces a new revenue recognition model and is due to be effective for periods beginning on or after 1 January 2018. IFRS 16 'Leases' will require nearly all leases to be recognised on the balance sheet as liabilities with corresponding assets being created, it will be effective for periods beginning on or after 1 January 2019. We will be assessing the likely impact of these new standards nearer the time of full adoption. The Directors do not anticipate that the adoption of other standards and interpretations that have been issued but are not yet effective (and in some cases have not yet been adopted by the EU) will have a material financial impact on the group's financial statements in the period of initial application.

### Significant accounting policies under IFRS

The significant accounting policies adopted in the preparation of the group's IFRS financial information are set out below.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of Mitie Group plc and all its subsidiaries. The financial statements of the parent company and subsidiaries are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) with the exception of a small number of entities.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full.

# Notes to the consolidated financial statements continued

For the year ended 31 March 2016

## 1. Basis of preparation and significant accounting policies continued

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. The results, assets and liabilities of joint ventures and associates are accounted for under the equity method of accounting. Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring the accounting policies used into line with those used by the group.

Interests of non-controlling interest shareholders are measured at the non-controlling interest's proportion of the net fair value of the assets and liabilities recognised. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

### Statutory and non-statutory measures of performance

Our financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the group.

We have elected to provide some further disclosures and performance measures, reported as "before other items" (previously designated as "Headline"), in order to present our financial results in a way that demonstrates the performance of our business excluding restructuring and acquisition related costs, businesses being exited and amortisation or write off of acquired intangible assets. Results before other items are a non-statutory measure. Further detail of other items is set out in Note 5 to the financial statements.

### Foreign currency

The financial statements of each of the group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

On consolidation, the assets and liabilities of the group's overseas operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing at the balance sheet date. Income and expenses are translated into sterling at average exchange rates for the period. Exchange differences arising are recognised directly in equity in the group's hedging and translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

### Revenue

Revenue represents income recognised in respect of services provided during the period (stated net of sales taxes) and is earned predominantly within the United Kingdom. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. When revenue is recognised but has not yet been billed accrued income arises. Deferred income arises when the group has billed clients in advance of recognising revenue.

All bid costs are expensed through the income statement up to the point where contract award or full recovery of the costs is virtually certain. The confirmation of the preferred bidder for a contract by a client is the point at which the award of a contract is considered to be virtually certain.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance sheet date. Revenue from time and material contracts is recognised at the contractual rates as labour hours and tasks are delivered and direct expenses incurred. In other cases, the group distinguishes between the following types of contract:

#### Revenue recognition: repeat service-based contracts (single and bundled contracts)

Revenue is recognised on a straight-line basis unless this is not an accurate reflection of the work performed. Where a straight-line basis is not appropriate, for example if specific works on contracts represent a significant element of the whole, revenue is recognised based on the percentage of completion method, based on the proportion of costs incurred at the balance sheet date relative to the total estimated cost of completing the contracted work.

## 1. Basis of preparation and significant accounting policies continued

Costs incurred after confirmation of preferred bidder, but before the commencement of full services under the contract target operating model, are defined as mobilisation costs. These costs are included within trade and other receivables on the balance sheet provided that the costs relate directly to the contract, are separately identifiable, can be measured reliably and that the future net cash inflows from the contract are estimated to be no less than the amounts capitalised.

Such costs may be incurred when a contract is awarded, or when there is a subsequent change in the scope of contracted services. The mobilisation costs are amortised over the contracted period (including any contracted extension periods), generally on a straight-line basis, or on a basis to reflect the profile of work to be performed over the contracted period if the straight-line basis is not considered to be appropriate for the specific contract to which the costs relate. If the contract becomes loss making, any unamortised costs are written off and the expected loss is provided for immediately.

### Revenue recognition: long-term complex contracts

The group has a number of long-term contracts for the provision of complex project-based services, predominantly integrated facilities management contracts. Where the outcome of such complex project-based contracts can be measured reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is measured by the proportion of contract costs incurred for work performed to date compared to the total estimated contract costs. Contract costs used to determine the stage of completion are recognised in the income statement as expenses in the period in which they are incurred and include transition costs which are costs incurred in the performance of transitioning services provided after confirmation of preferred bidder and before commencement of full services under the contract target operating model. Contract costs also include transition costs arising when there is a subsequent change in the scope of contracted services. Where the outcome of a complex project-based contract cannot be estimated reliably, contract revenue is recognised to the extent that it is probable that contract costs will be recovered. Full provision is made for all known or anticipated losses on each contract immediately as losses are forecast. In a number of long-term complex contracts, the achievement of certain key performance indicators (KPIs) is a significant act which enables revenue to be recognised. KPIs are generally measured contemporaneously with the performance of the service, rather than being measured over a long period or retrospectively.

### Revenue recognition: other

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

# Notes to the consolidated financial statements continued

For the year ended 31 March 2016

## 1. Basis of preparation and significant accounting policies continued

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; when the group intends to settle its current tax assets and liabilities on a net basis.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. It is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units ('CGUs') expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost less expected residual value of the assets over their estimated useful lives and is calculated on a straight-line basis as follows:

Freehold buildings and long leasehold property	– 50 years
Leasehold improvements	– period of the lease
Plant and vehicles	– 3–10 years

Annually the group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

### Intangible assets

Intangible assets identified in a business acquisition are capitalised at fair value as at the date of acquisition.

Software and development expenditure is capitalised as an intangible asset if the asset created can be identified, if it is probable that the asset created will generate future economic benefits and if the development cost of the asset can be measured reliably.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are reviewed for impairment annually, or more frequently when there is an indication that they may be impaired. Amortisation expense is charged to administrative expenses in the income statement on a straight-line basis over its useful life.

## 1. Basis of preparation and significant accounting policies continued

### Joint ventures and associates

The group has an interest in joint ventures which are entities in which the group has joint control. The group also has an interest in associates which are entities in which the group has significant influence.

The group accounts for its interest in joint ventures and associates using the equity method. Under the equity method the group's share of the post-tax result of joint ventures and associates is reported as a single line item in the consolidated income statement. The group's interest in joint ventures and associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the group's share of net assets.

### Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs represent materials, direct labour and overheads incurred in bringing the inventories to their present condition and location. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and estimated selling costs. Provision is made for obsolete, slow moving or defective items where appropriate.

### Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. The group derecognises financial assets and liabilities only when the contractual rights and obligations are transferred, discharged or expire.

Assets that are assessed not to be individually impaired are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the group's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

Financial assets comprise loans and receivables and are measured at initial recognition at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised where there is objective evidence that the asset is impaired. Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities comprise trade payables, financing liabilities, including bank and other borrowings, put options on non-controlling interests and deferred contingent consideration. These are measured at initial recognition at fair value and subsequently at amortised cost with the exception of derivative financial instruments which are measured at fair value, and deferred contingent consideration which is measured at the Directors' best estimate of the likely future obligation. Bank and other borrowings are stated at the amount of the net proceeds after deduction of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Derivative financial instruments and hedge accounting

The group uses derivative financial instruments including cross currency interest rate swaps and forward foreign exchange contracts to manage the group's exposure to financial risks associated with interest rates and foreign exchange. Derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value, determined by reference to market rates, at each balance sheet date and included as financial assets or liabilities as appropriate. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

# Notes to the consolidated financial statements continued

For the year ended 31 March 2016

## 1. Basis of preparation and significant accounting policies continued

The group may designate certain hedging instruments including derivatives as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

### Fair value hedges

Hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. Hedge accounting is discontinued when the group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

### Cash flow hedges

Hedges are classified as cash flow hedges when they hedge the exposure to changes in cash flows that are attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity within the group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### Hedges of net investments in foreign operations

Hedges are classified as net investment hedges when they hedge the foreign currency exposure to changes in the group's share in the net assets of a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss. Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in equity are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation as described above.

### Leasing

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Any lease incentives are amortised on a straight-line basis over the non-cancellable period for which the group has contracted to lease the asset, together with any further terms for which the group has the option to continue to lease the asset if, at the inception of the lease, it is judged to be reasonably certain that the group will exercise the option.



## 1. Basis of preparation and significant accounting policies continued

### Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

### Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. Acquisition costs incurred are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Where applicable, the consideration for an acquisition includes any assets or liabilities resulting from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information, obtained within one year from the acquisition date, about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in accordance with IAS 39, either in profit or loss or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognised.

Any business combinations prior to 1 April 2010 were accounted for using the standards in place prior to the adoption of IFRS 3 (revised 2008) which differ in the following respects: transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

### Share-based payments

The group operates a number of executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For all grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes or Monte Carlo models and the corresponding expense is recognised on a straight-line basis over the vesting period based on the group's estimate of shares that will eventually vest. At each balance sheet date, the group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

# Notes to the consolidated financial statements continued

For the year ended 31 March 2016

## 1. Basis of preparation and significant accounting policies continued

### Retirement benefit costs

The group operates and participates in a number of defined benefit schemes. In respect of the schemes in which the group participates, the group accounts for its legal and constructive obligations over the period of its participation which is for a fixed period only.

In addition, the group operates a number of defined contribution retirement benefit schemes for all qualifying employees.

Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

For the defined benefit pension schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if applicable) are recognised in full in the period in which they occur. They are recognised outside profit and loss and presented in the statement of comprehensive income.

Current service cost and past service cost are recognised in profit and loss, in administrative expenses, whilst the net interest cost is recognised in net finance costs.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

## 2. Critical accounting judgements and key sources of estimation uncertainty

### Critical judgements in applying the group's accounting policies

In the process of applying the group's accounting policies, which are described in Note 1 above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

#### Revenue recognition

Revenue is recognised for certain long-term complex projects based on the stage of completion of the contract activity. This is measured by comparing the proportion of costs incurred, which include transition costs reflecting costs incurred in the performance of transitioning services (see Note 1), against the estimated whole-life contract costs. Particular judgement is required in evaluating the operational and financial business plans for these contracts to forecast the expected whole-life contract billings, costs and margin and to assess the recoverability of any resulting accrued income through the life of the contract. In forming the judgement around expected whole-life contract billings, account is taken of potential deductions from and increments to revenue that may arise from the application of performance related measures under contracts.

#### Key sources of estimation uncertainty

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

#### Measurement and impairment of goodwill and other intangible assets

The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of suitable discount rates. Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the CGUs to which the goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates to use in order to calculate present values. The carrying value of goodwill and other intangible assets is £532.4m (2015: £541.0m) at the balance sheet date; see Notes 13 and 14. A sensitivity analysis has been performed and the Board has concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of any of the Soft FM, Hard FM or Property Management CGUs. Further sensitivity testing was performed for the group's Healthcare CGU where the financial performance of the business has deteriorated during the year. On the basis of this review the Board has concluded that no impairment to goodwill is necessary. A sensitivity analysis is included in Note 13.

## 2. Critical accounting judgements and key sources of estimation uncertainty continued

### Measurement of defined benefit pension obligations

The measurement of defined benefit obligations requires judgement. It is dependent on material key assumptions including discount rates, life expectancy rates, future returns on assets and future contribution rates. The present value of defined benefit obligations at the balance sheet date is £201.9m (2015: £207.5m); see Note 37.

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

	Change in assumption	Increase/ (decrease) in liability £m
Discount rate	+0.5%	(19.1)
	-0.5%	19.1
Retail price inflation	+0.5%	15.3
	-0.5%	(14.3)
Consumer price inflation	+0.5%	3.8
	-0.5%	(3.8)
Salary increases	+0.5%	3.8
	-0.5%	(2.9)
Life expectancy	+1 year	6.6

## 3. Revenue

	2016 £m	2015 £m
<b>Before Other Items</b>		
Rendering of services	2,226.9	2,265.8
Construction contracts	5.0	0.4
Revenue before other items	2,231.9	2,266.2
<b>Other items</b>		
Construction contracts	-	7.6
<b>Total revenue as disclosed in the consolidated income statement</b>	<b>2,231.9</b>	<b>2,273.8</b>
Investment revenue (Note 8)	0.1	0.3
<b>Total revenue as defined in IAS 18</b>	<b>2,232.0</b>	<b>2,274.1</b>

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 4. Business and geographical segments

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

Business segments – structure during the year

	2016					2015				
	Revenue £m	Revenue before other items <sup>1</sup> £m	Operating Profit before other items <sup>1</sup> £m	Operating Profit margin before other items <sup>1</sup> %	Profit before tax £m	Revenue £m	Revenue before other items <sup>1</sup> £m	Operating Profit before other items <sup>1</sup> £m	Operating Profit margin before other items <sup>1</sup> %	Profit before tax £m
Soft FM	1,255.1	1,255.1	85.4	6.8	87.5	1,280.3	1,280.3	81.9	6.4	79.6
Hard FM	618.4	618.4	31.7	5.1	18.5	621.1	621.1	31.4	5.1	24.2
Property Management	280.4	280.4	15.8	5.6	15.8	273.4	273.4	10.4	3.8	9.9
Healthcare	78.0	78.0	(4.0)	(5.1)	(8.6)	91.4	91.4	4.9	5.4	0.4
Other Items (Note 5)	-	-	-	-	(16.4)	7.6	-	-	-	(72.6)
<b>Total</b>	<b>2,231.9</b>	<b>2,231.9</b>	<b>128.9</b>	<b>5.8</b>	<b>96.8</b>	<b>2,273.8</b>	<b>2,266.2</b>	<b>128.6</b>	<b>5.7</b>	<b>41.5</b>

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

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

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

Geographical segments

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

Note:

1. Other items are as described in Note 5.

## 5. Other items

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

	2016			2015		
	Restructuring and acquisition related costs £m	Businesses being exited £m	Other items £m	Restructuring and acquisition related costs £m	Businesses being exited £m	Other items £m
Revenue	-	-	-	-	7.6	7.6
Cost of Sales	-	-	-	-	(17.4)	(17.4)
Administrative expenses:						
Administrative expenses	-	(2.2)	(2.2)	-	(6.1)	(6.1)
Exceptional credit/(charge) in relation to design and build Asset Management contracts in Energy Solutions	2.2	-	2.2	(45.7)	-	(45.7)
Restructuring costs relating to the integration of Complete Group	-	-	-	(0.6)	-	(0.6)
Acquisition costs	(0.3)	-	(0.3)	(0.3)	-	(0.3)
Amortisation of acquisition related intangibles (Note 14)	(16.1)	-	(16.1)	(10.1)	-	(10.1)
<b>Other items before tax</b>	<b>(14.2)</b>	<b>(2.2)</b>	<b>(16.4)</b>	<b>(56.7)</b>	<b>(15.9)</b>	<b>(72.6)</b>
Tax on other items	3.0	0.4	3.4	15.0	3.3	18.3
<b>Other items net of tax</b>	<b>(11.2)</b>	<b>(1.8)</b>	<b>(13.0)</b>	<b>(41.7)</b>	<b>(12.6)</b>	<b>(54.3)</b>

## 6. Operating profit

Operating profit has been arrived at after charging:

	2016 £m	2015 £m
Depreciation of property, plant and equipment (Note 15)	15.1	19.7
Amortisation of intangible assets (Note 14)	18.5	13.8
Write off of acquisition related intangible assets (Note 14)	6.2	-
Loss on disposal of property, plant and equipment	-	0.3
Staff costs (Note 7)	1,132.1	1,149.9

A detailed analysis of auditor's remuneration is provided below:

	2016 £'000	2015 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	35	33
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	731	605
Total audit fees	766	638
Other audit related services to the group	59	80
Tax services	74	89
Corporate finance service	53	125
Other services	22	36
Non-audit fees	208	330
<b>Total</b>	<b>974</b>	<b>968</b>

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 7. Staff costs

Number of people	2016	2015
The average number of people employed during the financial year was:		
Soft FM	51,271	56,473
Hard FM	4,912	5,131
Property Management	2,270	2,286
Healthcare	5,069	6,605
<b>Total group</b>	<b>63,522</b>	<b>70,495</b>

The number of people employed at 31 March was:

<b>Total group</b>	<b>62,674</b>	<b>69,557</b>
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Their aggregate remuneration comprised:	2016 £m	2015 £m
Wages and salaries	1,026.0	1,042.9
Social security costs	79.2	81.6
Other pension costs	21.3	18.9
Share-based payments (Note 36)	5.6	6.5
	<b>1,132.1</b>	<b>1,149.9</b>

Details of Directors' remuneration and interests are provided in the audited section of the Directors' remuneration report and should be regarded as an integral part of this Note.

### 8. Investment revenue

	2016 £m	2015 £m
Interest on bank deposits	0.1	0.3
	<b>0.1</b>	<b>0.3</b>

### 9. Finance costs

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

## 10. Tax

	2016 £m	2015 £m
Current tax	21.2	9.7
Deferred tax (Note 22)	(1.9)	(3.9)
	<b>19.3</b>	5.8

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

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

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

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

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

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

## 11. Dividends

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

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

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 12. Earnings per share

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

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

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

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

	2016 p	2015 p
Basic earnings per share before other items <sup>1</sup>	<b>25.0</b>	24.8
Basic earnings per share	<b>21.3</b>	9.7
Diluted earnings per share before other items <sup>1</sup>	<b>24.7</b>	24.2
Diluted earnings per share	<b>21.1</b>	9.5

Note:

1. Other items are as described in Note 5.

The weighted average number of Ordinary shares in issue during the year excludes those accounted for in the Own shares reserve (see Note 32).

### 13. Goodwill

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

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Additions during the year relate to goodwill recognised on one acquisition. More details are presented in the Acquisitions note (Note 33).



### 13. Goodwill continued

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

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

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

#### Key assumptions

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

#### Growth rates and terminal values

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

#### Discount rates

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

#### Sensitivity analysis

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

#### Review of the carrying value of goodwill in the Healthcare CGU

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

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

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 13. Goodwill continued

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

- › the inability to recruit and retain staff at appropriate wage rates;
- › the inability to win new and retain existing contracts to provide care hours at sustainable prices; and
- › an adverse structural change to outsourcing of care in the UK caused by changes in UK Government policy.

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

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

- › an increase in the pre-tax discount rate of 1.9%; or
- › a fall of 2.0% in the terminal value growth rate to a long-term inflationary assumption of 0.5%; or
- › a 27% reduction in operating profit in year 5 and subsequent years compared to the revised business plan.

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

## 14. Other intangible assets

	Acquisition related			Software and development expenditure £m	Total £m
	Customer relationships £m	Other £m	Total acquisition related £m		
<b>Cost</b>					
At 1 April 2014	86.8	10.5	<b>97.3</b>	46.6	<b>143.9</b>
Additions	1.6	0.4	<b>2.0</b>	3.9	<b>5.9</b>
Reclassifications from Property, plant and equipment (Note 15)	-	-	-	5.2	<b>5.2</b>
At 1 April 2015	88.4	10.9	<b>99.3</b>	55.7	<b>155.0</b>
Additions	-	-	-	8.9	<b>8.9</b>
Reclassifications from Property, plant and equipment (Note 15)	-	-	-	8.5	<b>8.5</b>
<b>At 31 March 2016</b>	<b>88.4</b>	<b>10.9</b>	<b>99.3</b>	<b>73.1</b>	<b>172.4</b>
<b>Amortisation</b>					
At 1 April 2014	41.7	8.2	<b>49.9</b>	14.7	<b>64.6</b>
Charge for the year	9.5	0.6	<b>10.1</b>	3.7	<b>13.8</b>
At 1 April 2015	51.2	8.8	<b>60.0</b>	18.4	<b>78.4</b>
Charge for the year	9.5	0.4	<b>9.9</b>	8.6	<b>18.5</b>
Write off of acquisition related intangible assets	6.2	-	<b>6.2</b>	-	<b>6.2</b>
Reclassifications from Property, plant and equipment (Note 15)	-	-	-	2.4	<b>2.4</b>
<b>At 31 March 2016</b>	<b>66.9</b>	<b>9.2</b>	<b>76.1</b>	<b>29.4</b>	<b>105.5</b>
Carrying amount					
<b>At 31 March 2016</b>	<b>21.5</b>	<b>1.7</b>	<b>23.2</b>	<b>43.7</b>	<b>66.9</b>
At 31 March 2015	37.2	2.1	<b>39.3</b>	37.3	<b>76.6</b>

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

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

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 15. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and vehicles £m	Total £m
<b>Cost</b>				
At 1 April 2014	3.3	15.7	101.8	<b>120.8</b>
Additions	-	3.1	20.5	<b>23.6</b>
Reclassifications to intangible assets (Note 14)	-	-	(5.2)	<b>(5.2)</b>
Disposals	(0.6)	(0.8)	(7.7)	<b>(9.1)</b>
At 1 April 2015	2.7	18.0	109.4	<b>130.1</b>
Additions	-	0.6	18.6	<b>19.2</b>
Acquired with subsidiaries	-	-	0.2	<b>0.2</b>
Reclassifications within property, plant and equipment	-	0.5	(0.5)	<b>-</b>
Reclassifications to intangible assets (Note 14)	-	-	(8.5)	<b>(8.5)</b>
Disposals	(1.1)	(0.3)	(17.2)	<b>(18.6)</b>
<b>At 31 March 2016</b>	<b>1.6</b>	<b>18.8</b>	<b>102.0</b>	<b>122.4</b>
<b>Accumulated depreciation and impairment</b>				
At 1 April 2014	0.7	7.5	55.9	<b>64.1</b>
Charge for the year	-	1.7	18.0	<b>19.7</b>
Disposals	(0.1)	(0.8)	(6.1)	<b>(7.0)</b>
At 1 April 2015	0.6	8.4	67.8	<b>76.8</b>
Charge for the year	0.1	1.4	13.6	<b>15.1</b>
Reclassifications within property, plant and equipment	-	0.3	(0.3)	<b>-</b>
Reclassifications to intangible assets (Note 14)	-	-	(2.4)	<b>(2.4)</b>
Disposals	(0.2)	(0.3)	(15.9)	<b>(16.4)</b>
<b>At 31 March 2016</b>	<b>0.5</b>	<b>9.8</b>	<b>62.8</b>	<b>73.1</b>
<b>Carrying amount</b>				
<b>At 31 March 2016</b>	<b>1.1</b>	<b>9.0</b>	<b>39.2</b>	<b>49.3</b>
At 31 March 2015	2.1	9.6	41.6	<b>53.3</b>

The net book value of plant and vehicles held under finance leases included above was £4.0m (2015: £3.4m).

Additions to plant and vehicles during the year amounting to £3.5m (2015: £0.6m) were financed by new finance leases.

### 16. Interest in joint ventures and associates

The group's interests in joint ventures and associates are accounted for in the consolidated financial statements using the equity method.

The group's share of result of joint ventures and associates included in the consolidated income statement was as follows:

	2016 £m	2015 £m
Revenue	<b>3.9</b>	3.8
Operating profit	<b>0.6</b>	0.7
<b>Share of result of joint ventures and associates</b>	<b>0.6</b>	0.7

During the year the group disposed of its interest in Savills Solar for £0.7m, giving rise to a profit on disposal of £0.3m.

## 16. Interest in joint ventures and associates continued

The group's share of net assets of joint ventures and associates as at 31 March 2016 was as follows:

	2016 £m	2015 £m
Non-current assets	-	1.7
Current assets	<b>0.9</b>	1.3
Current liabilities	<b>(0.3)</b>	(0.6)
Non-current liabilities	-	(1.3)
<b>Interest in joint ventures and associates</b>	<b>0.6</b>	1.1

Joint ventures and associated undertakings are not material to the group. None have significant restrictions on the ability to transfer funds to the group in the form of cash dividends, or to repay loans or advances made by the group.

## 17. Financing assets

	2016 £m	2015 £m
Derivative financial instruments (Note 27)	<b>14.4</b>	6.8
Loans to joint ventures and associates	-	1.2
	<b>14.4</b>	8.0
Included in current assets	-	-
Included in non-current assets	<b>14.4</b>	8.0
	<b>14.4</b>	8.0

## 18. Trade and other receivables

	2016 £m	2015 £m
Amounts receivable for the sale of services	<b>213.5</b>	202.3
Allowance for doubtful debt	<b>(3.8)</b>	(8.4)
Trade receivables	<b>209.7</b>	193.9
Amounts recoverable on construction contracts (Note 19)	<b>2.6</b>	8.1
Mobilisation costs (Note 21)	<b>28.6</b>	30.6
Accrued income	<b>236.2</b>	192.6
Prepayments	<b>36.4</b>	38.2
Other debtors	<b>19.2</b>	16.5
	<b>532.7</b>	479.9
Included in current assets	<b>446.7</b>	421.4
Included in non-current assets*	<b>86.0</b>	58.5
	<b>532.7</b>	479.9

\* Non-current trade and other receivables comprise Accrued Income on long-term complex contracts of £68.7m and Mobilisation costs of £17.3m which are further analysed in notes 20 and 21 respectively.

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 18. Trade and other receivables continued

Ageing of trade receivables:

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

Movement in the allowance for doubtful debt:

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

The average credit period taken on sales of services was 28 days (2015: 26 days).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

### 19. Amounts recoverable on construction contracts

	2016 £m	2015 £m
Contracts in progress at the balance sheet date		
Construction contract costs incurred plus recognised profits less recognised losses to date	46.3	127.1
Less progress billings	(43.7)	(119.0)
Amounts due from construction contract customers included in trade and other receivables	2.6	8.1
Included in current assets	2.6	8.1
Included in non-current assets	-	-
	<b>2.6</b>	8.1

At 31 March 2016, retentions held by customers for contract work amounted to £4.7m (2015: £2.8m).

### 20. Accrued Income on long-term complex contracts

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

## 21. Mobilisation costs

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

## 22. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	Tax losses £m	Total £m
At 1 April 2014	0.1	3.8	(9.3)	1.1	3.3	0.1	<b>(0.9)</b>
Credit/(charge) to income	0.4	0.3	2.2	1.0	0.1	(0.1)	<b>3.9</b>
(Charge)/credit to equity and the statement of comprehensive income	–	3.0	–	(0.2)	0.2	–	<b>3.0</b>
Acquisition of subsidiaries	–	–	(0.4)	–	0.3	–	<b>(0.1)</b>
At 1 April 2015	0.5	7.1	(7.5)	1.9	3.9	–	<b>5.9</b>
Credit/(charge) to income	0.5	0.9	3.1	(0.4)	(2.2)	–	<b>1.9</b>
(Charge)/credit to equity and the statement of comprehensive income	–	(1.6)	–	(0.2)	(0.5)	–	<b>(2.3)</b>
Acquisition of subsidiaries	–	–	–	–	0.1	–	<b>0.1</b>
<b>At 31 March 2016</b>	<b>1.0</b>	<b>6.4</b>	<b>(4.4)</b>	<b>1.3</b>	<b>1.3</b>	<b>–</b>	<b>5.6</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £m	2015 £m
Deferred tax assets	10.0	13.4
Deferred tax liabilities	(4.4)	(7.5)
<b>Net deferred tax asset/(liability)</b>	<b>5.6</b>	5.9

The group has unutilised income tax losses of £9.3m (2015: £10.2m) that are available for offset against future profits. In addition the group has £0.8m (2015: £0.8m) of capital losses.

## 23. Inventories

	2016 £m	2015 £m
Work-in-progress	2.5	4.5
Materials	7.4	6.5
	<b>9.9</b>	11.0

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 24. Cash and cash equivalents

	2016 £m	2015 £m
Cash and cash equivalents	93.1	96.4
	<b>93.1</b>	96.4

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 carrying amount of the assets approximates their fair value.

Included in cash and cash equivalents are deposits totalling £0.9m (2015: £0.9m) held by the group's insurance subsidiary, which are not readily available for the general purposes of the group.

### 25. Trade and other payables

	2016 £m	2015 £m
Payments received on account	0.1	2.4
Trade creditors	206.8	201.8
Other taxes and social security	82.7	84.8
Other creditors	9.6	13.1
Accruals	143.1	132.1
Deferred income	48.0	41.8
Put options on non-controlling interests	-	8.0
	<b>490.3</b>	484.0
Included in current liabilities	<b>487.8</b>	476.0
Included in non-current liabilities	<b>2.5</b>	8.0
	<b>490.3</b>	484.0

Trade creditors, accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 days (2015: 44 days).

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

### 26. Financing liabilities

	2016 £m	2015 £m
Bank loans	13.6	13.9
Private placement notes	268.2	263.6
Derivative financial instruments	-	-
Obligations under finance leases (Note 29)	4.0	3.5
	<b>285.8</b>	281.0
Included in current liabilities	<b>1.9</b>	1.8
Included in non-current liabilities	<b>283.9</b>	279.2
	<b>285.8</b>	281.0

The banking facilities and private placement notes are unsecured but have financial and non-financial covenants and obligations commonly associated with these arrangements.

Included in current liabilities are £1.9m (2015: £1.8m) of obligations under finance leases (see Note 29).



## 26. Financing liabilities continued

With the exception of derivative financial instruments and the private placement notes, all financing liabilities are held at amortised cost. The Directors estimate that their carrying value approximates their fair value. Derivative financial instruments are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through profit or loss unless they are designated as hedges for which hedge accounting can be applied (see Note 27). The carrying value of the private placement notes at 31 March 2016 includes a fair value adjustment for interest rate and currency risk of £0.7m (2015: £0.9m). The fair value of the private placement notes is not significantly different from their carrying value.

### Private placement notes

On 13 December 2012, the group issued US\$153.0m and £55.0m of private placement ('PP') notes in the United States Private Placement market. This followed the issue on 16 December 2010 of US\$96.0m and £40.0m of PP notes in the United States Private Placement market. The PP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the group. In order to manage the risk of foreign currency fluctuations and to manage the group's finance costs through a mix of fixed and variable rate debt, the group has entered into cross currency interest rate swaps. The swap contracts have the same duration and other critical terms as the borrowings and are considered to be highly effective. The amount, maturity and interest terms of the PP notes are as shown below:

Tranche	Maturity date	Amount	Interest terms	Swap interest
7 year	16 December 2017	US\$48.0m	US\$ fixed at 3.39%	£ fixed at 3.88%
7 year	16 December 2017	US\$48.0m	US\$ fixed at 3.39%	£ LIBOR + 1.26%
9 year	16 December 2019	£40.0m	£ fixed at 4.38%	n/a
10 year	16 December 2022	US\$76.0m	US\$ fixed at 3.85%	£ fixed at 4.05%
10 year	16 December 2022	US\$77.0m	US\$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	£25.0m	£ fixed at 3.87%	n/a
12 year	16 December 2024	£30.0m	£ fixed at 4.04%	n/a

The weighted average interest rates paid during the year on the overdrafts and loans outstanding were as follows:

	2016 %	2015 %
Overdrafts	2.1	2.7
Bank loans	1.3	1.5
Private placement notes	3.8	3.8

At 31 March 2016, the group had available £259.4m (2015: £261.1m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facilities have an expiry date of July 2019. The loans carry interest rates which are currently determined at 1.0% over LIBOR. Details of the group's contingent liabilities are provided in Note 34.

## 27. Financial instruments

### Classification

The group's principal financial assets are cash and cash equivalents, trade receivables and financing assets. With the exception of derivative financial instruments, all financial assets are classified as loans and receivables.

The group's principal financial liabilities are trade payables, financing liabilities and deferred contingent consideration. With the exception of derivative financial instruments, private placement notes and deferred contingent consideration, all financial liabilities are held at amortised cost.

Derivative financial instruments and private placement loan notes are measured initially at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through profit or loss unless they are designated as hedges for which hedge accounting can be applied. Deferred contingent consideration is measured at the Directors' best estimate of the likely future obligation.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense) for each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 27. Financial instruments continued

#### Risk management objectives

The group's treasury function monitors and manages the financial risks relating to the operations of the group. These risks include those arising from interest rates, foreign currencies, liquidity, credit and capital management. The group seeks to minimise the effects of these risks by using effective control measures and, where appropriate, derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by group policies and reviewed regularly. Group policy is not to trade in financial instruments. The risk management policies remain unchanged from the previous year.

#### Interest rate risk

The group's activities expose it to the financial risks of interest rates. The group's treasury function reviews its risk management strategy on a regular basis and will appropriately enter into derivative financial instruments in order to manage interest rate risk. Having issued US\$249.0m and £95.0m of notes in the US PP fixed rate market, the group has swapped US\$48.0m into floating rate debt.

#### Interest rate sensitivity

The interest rate sensitivity has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. All financial liabilities, other than financing liabilities, are interest free.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the group's profit after tax for the year ended 31 March 2016 and reserves would decrease/increase by £0.4m (2015: £0.3m).

#### Foreign currency risk

The group has limited exposure to transactional foreign currency risk from trading transactions in currencies other than the functional currency of individual group entities and some exposure to translational foreign currency risk from the translation of its operations in Europe. The group considers the need to hedge its exposures appropriately and will enter into forward foreign exchange contracts to mitigate any significant risks.

In addition, the group has fully hedged the US dollar exposure on its PP notes into sterling using cross currency interest rate swaps (see Hedging activities below).

At 31 March 2016 £5.0m (2015: £5.5m) of cash and cash equivalents were held in foreign currencies. Included in bank loans were £13.6m (2015: £13.9m) of loans denominated in foreign currency.

#### Liquidity risk

The group monitors its liquidity risk using a cash flow projection model which considers the maturity of the group's assets and liabilities and the projected cash flows from operations. Bank facilities, which allow for appropriate headroom in the group's daily cash movements, are then arranged. Details of our bank facilities can be found in Note 26.

The tables below summarise the maturity profile (including both undiscounted interest and principal cash flows) of the group's financial liabilities:

	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Financial liabilities at 31 March 2016				
Trade creditors	206.8	-	-	206.8
Financing liabilities	28.5	140.6	170.8	339.9
Deferred contingent consideration	0.4	-	-	0.4
Financial liabilities	235.7	140.6	170.8	547.1

## 27. Financial instruments continued

Financial liabilities at 31 March 2015	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	198.7	–	–	198.7
Financing liabilities	26.3	143.5	172.9	342.7
Put options on non-controlling interests	–	11.0	–	11.0
Deferred contingent consideration	4.9	6.5	–	11.4
<b>Financial liabilities</b>	<b>229.9</b>	<b>161.0</b>	<b>172.9</b>	<b>563.8</b>

### 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 and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies and are managed through regular review.

The amounts presented in the balance sheet in relation to the group's trade receivables are net of allowances for doubtful receivables.

The group's credit risk is primarily attributable to its trade receivables. 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.

In determining the recoverability of a trade receivable, the group considers the credit quality of the counterparty. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Directors believe that there is no further provision required in excess of the allowance for doubtful debts at the balance sheet date.

The maximum exposure to credit risk in relation to trade receivables at the balance sheet date is the fair value of trade receivables. 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.

### Capital management risk

The group manages its capital to ensure that entities in the group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the group consists of net debt per Note 30 and equity per the consolidated statement of changes in equity.

The group's capital structure is reviewed regularly. In 2013, the Board approved a share purchase policy to maintain share numbers at a broadly consistent level year on year with the aim of ensuring that the interests of shareholders are not diluted by the issue of shares that support the group's various share schemes, nor by the issue of shares as consideration for earn outs under the Mitie model. During the year, the group bought back 5.2m (2015: nil) shares at a cost of £15.2m (2015: £nil) and subsequently cancelled these shares. To offset shares issued under various share schemes and to hedge against shares to be issued in the future, 2.3m (2015: 3.7m) shares were bought to be held in Treasury at a total cost of £6.6m (2015: £10.7m). Further details are provided in Notes 31 and 32.

The group is not subject to externally imposed regulatory capital requirements with the exception of those applicable to the group's captive insurance subsidiary, which is monitored on a regular basis.

### Hedging activities

#### Cash flow hedges

The group holds a number of cross currency interest rate swaps designated as cash flow hedges. Bi-annual fixed interest cash flows arising over the periods to December 2022 and denominated in US\$ from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. The group also holds a number of forward exchange currency contracts designated as hedges of highly probable forecast transactions. All cash flow hedges were assessed as being highly effective as at 31 March 2016.

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 27. Financial instruments continued

#### Fair value hedges

The group holds a number of cross currency interest rate swaps designated as fair value hedges. Fixed interest cash flows denominated in US\$ from the US Private Placement market are exchanged for floating interest cash flows denominated in sterling. All fair value hedges were assessed as being highly effective as at 31 March 2016.

#### Hedge of net investment in foreign operations

Included in bank loans at 31 March 2016 was a borrowing of €9.5m (2015: €9.5m) which has been designated as a hedge of the net investment in the Republic of Ireland business of Dalkia FM in Ireland and is being used to hedge the group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of the borrowing are transferred to equity to offset gains or losses on the translation of the net investment.

#### Derivative financial instruments

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

	<b>Assets 2016 £m</b>	Assets 2015 £m	<b>Liabilities 2016 £m</b>	Liabilities 2015 £m
Cross currency interest rate swaps designated as cash flow hedges	<b>10.3</b>	3.7	-	-
Cross currency interest rate swaps designated as fair value hedges	<b>4.1</b>	3.1	-	-
Derivative financial instruments hedging private placement notes	<b>14.4</b>	6.8	-	-

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

#### Financial instruments fair value disclosure

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

Deferred contingent consideration is measured at the Directors' best estimate of the likely future obligation based on the attainment of certain profit targets. In assessing the likely future obligation, the Directors have used their experience and knowledge of market conditions, alongside internal business plans and growth forecasts. Actual amounts payable may vary up to a maximum of £0.4m (2015: £11.4m) dependent upon the results of the acquired businesses.

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

	Deferred contingent consideration £m	Put options of non- controlling interests £m
At 1 April 2015	11.4	8.0
Movement of put options recognised in equity	-	(8.0)
Other amounts recognised through equity arising from transactions from non-controlling interests	(11.0)	-
At 31 March 2016	<b>0.4</b>	-

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

## 28. Provisions

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

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

Deferred contingent consideration settled in cash includes £4.7m in respect of the remaining 49% in Creativevents Limited, and £3.8m in respect of the prior year acquisition of the remaining 49% of Direct Enquiries Holdings Limited (see note 33).

## 29. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts payable under finance leases:				
Within one year	<b>2.0</b>	1.8	<b>1.9</b>	1.8
In the second to fifth years inclusive	<b>2.3</b>	2.0	<b>2.1</b>	1.7
	<b>4.3</b>	3.8	<b>4.0</b>	3.5
Less: future finance charges	<b>(0.3)</b>	(0.3)	–	–
Present value of lease obligations	<b>4.0</b>	3.5	<b>4.0</b>	3.5
Less: Amount due for settlement within 12 months	<b>(1.9)</b>	(1.8)	<b>(1.9)</b>	(1.8)
Amount due for settlement after 12 months	<b>2.1</b>	1.7	<b>2.1</b>	1.7

The average remaining lease term is 23 months (2015: 17 months). For the year ended 31 March 2016, the average effective borrowing rate was 4.1% (2015: 4.5%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The fair value of the group's lease obligations approximates their carrying amount. The group's obligations under finance leases are protected by the lessors' rights over the leased assets.

## 30. Analysis of net debt

	2016 £m	2015 £m
Cash and cash equivalents (Note 24)	<b>93.1</b>	96.4
Bank loans (Note 26)	<b>(13.6)</b>	(13.9)
Private placement notes (Note 26)	<b>(268.2)</b>	(263.6)
Derivative financial instruments hedging private placement notes (Note 27)	<b>14.4</b>	6.8
<b>Net debt before obligations under finance leases</b>	<b>(174.3)</b>	(174.3)
Obligations under finance leases (Note 29)	<b>(4.0)</b>	(3.5)
<b>Net debt</b>	<b>(178.3)</b>	(177.8)

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 31. Share capital

Ordinary shares of 2.5p	Number million	£m
<b>Allotted and fully paid</b>		
At 1 April 2015	375.2	9.4
Share buybacks	(5.2)	(0.1)
Issued under share option schemes	2.1	-
<b>At 31 March 2016</b>	<b>372.1</b>	<b>9.3</b>
At 1 April 2014	373.5	9.3
Issued under share option schemes	1.7	0.1
At 31 March 2015	375.2	9.4

During the year 5.2m (2015: nil) Ordinary shares of 2.5p were purchased at a cost of £15.2m (2015: £nil) and subsequently cancelled.

During the year 2.1 m (2015: 1.7m) Ordinary shares of 2.5p were allotted in respect of share option schemes at a price between 162p and 318.6p (2015: 127p and 260p) giving rise to share premium of £5.1m (2015: £3.7m).

### 32. Reserves

#### Share premium account

The share premium account represents the premium arising on the issue of equity shares (see Note 31).

#### Merger reserve

The merger reserve represents amounts relating to premiums arising on shares issued subject to the provisions of Section 612 of the Companies Act 2006.

#### Share-based payment reserve

The share-based payment reserve represents credits relating to equity-settled share-based payment transactions that have not yet fully vested (see Note 36).

#### Own shares reserve

The group uses shares held in the Employee Benefit Trust and SIP Trust to satisfy options under the group's LTIP and SIP share option schemes respectively. During the year 2.3m (2015: 3.7m) Treasury shares were purchased at a cost of £6.6m (2015: £10.7m) and are held so that they can be reissued at a later date if required (see details of Capital management risk in Note 27). In addition, 1.3m shares were utilised out of Treasury shares in the year (2015: nil) at a cost of £3.8m (2015: nil). The own shares reserve at 31 March 2016 represents the cost of 17.7m (2015: 17.5m) shares in Mitie Group plc, with a weighted average of 18.8m (2015: 15.1m) shares during the year.

#### Other reserves

Other reserves are comprised of the revaluation reserve of £(0.2)m (2015: £(0.2)m), the capital redemption reserve of £0.5m (2015: £0.5m) and other reserves of £0.2m (2015: £0.1m).

#### Hedging and translation reserve

The hedging and translation reserve of £4.6m (2015: £6.4m) includes balances in respect of the group's cash flow hedges (see Note 27) of £2.7m (2015: £5.0m). The net cash flow hedge movement during the year of £(2.3)m (2015: £(1.2)m) is included within Other comprehensive income. The hedging and translation reserve also includes balances arising on translation of the group's overseas operations and in respect of net investment hedges.

### 33. Acquisitions

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

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

#### Current year acquisitions

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

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

#### Purchase of Tascor Medical Services Limited

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

#### Purchase of non-controlling interests

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

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

#### Prior year acquisitions

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

### 34. Contingent liabilities

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

Deferred contingent consideration relating to acquisitions has been accrued at the Directors' best estimate of the likely future obligation of £0.4m (2015: £11.4m) per Note 28. This is the maximum amount payable subject to certain targets being attained.

In addition, the group and its subsidiaries have provided guarantees and indemnities in respect of performance, issued by financial institutions on its behalf, amounting to £23.6m (2015: £28.9m) in the ordinary course of business. These are not expected to result in any material financial loss.

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 35. Operating lease arrangements

The group as lessee

	2016 £m	2015 £m
Minimum lease payments under operating leases recognised in income for the year	27.4	25.8

At the balance sheet date, the group had total outstanding aggregate commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £m	2015 £m
Within one year	19.7	15.0
In the second to fifth years inclusive	30.5	21.8
After five years	5.4	2.7
	55.6	39.5

Operating lease payments represent rentals payable by the group for certain of its office properties and hire of vehicles and other equipment. These leases have average durations ranging from three to ten years. No arrangements have been entered into for contingent rental payments.

### 36. Share-based payments

The Company has six equity-settled share option schemes:

#### Discretionary share plans:

##### The Mitie Group plc Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2007. The awards of shares or rights to acquire shares (the awards) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is three years, although for awards granted in 2015 and subsequently some are subject to a holding period of up to a further two years. If the awards remain unexercised after a period of twelve months from the date of vesting the awards expire. The awards may be forfeited if the employee leaves the group. Before the awards can be exercised, performance conditions must be satisfied which are based on movements in a range of market and non-market measures over a three year period.

The group also awards performance-related bonuses for Executive Directors which are deferred in shares and are accounted for as a share-based payment charge.

##### The Mitie Group plc 2001 Executive share option scheme (ESO)

The Executive share option scheme exercise price is equal to the average market value of the shares over the five day period immediately preceding the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the group. Before options can be exercised, a performance condition must be satisfied; the performance condition is linked to the percentage growth in earnings per share over a three year period.

##### The Mitie Group plc 2011 Executive share option scheme (ESO)

The Executive share option scheme exercise price is equal to the average market value of the shares on the business day preceding grant or, if the Committee decides, the average market value of shares over a number of preceding business days (not to exceed 20). The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the group. Before options can be exercised, a performance condition must be satisfied; the performance condition is linked to the percentage growth in earnings per share over a three year period.

##### The Conditional share plan (CSP)

The CSP was introduced in 2014 and is a discretionary scheme. The awards of shares or the rights to acquire shares (the award) are offered to a small number of key senior management. Where offered as options the exercise price is £nil. The vesting period is determined at the discretion of the Remuneration Committee and is generally two or three years. If the awards remain unexercised after a period of ten years from the date of grant the awards expire. The awards may be forfeited if the employee leaves the group.



## 36. Share-based payments continued

### Non-discretionary share plans:

#### The Mitie Group plc 2011 SAYE scheme

The SAYE scheme is open to all employees. The exercise price is not less than 80% of the market value of the shares determined using either: the share price preceding the date on which invitations to participate in the scheme are issued, or an average share price over five days preceding the invitation date. The vesting period is three years. If the options remain unexercised after a period of six months from the date of vesting, the options expire. Options may be forfeited if the employee leaves the group.

#### The Share Incentive Plan (SIP)

The SIP was introduced in 2011 and is a non-discretionary scheme open to all eligible UK resident employees. Under the scheme, eligible employees are invited to invest in Partnership Shares which are purchased in the market on their behalf and held in a separate UK trust. One Matching Share is awarded for every ten Partnership Shares purchased and has a holding period of three years. Matching Shares are funded by way of market purchases.

Details of the share options outstanding during the year are as follows:

	2016		2015	
	Number of share options (million)	Weighted average exercise price (p)	Number of share options (million)	Weighted average exercise price (p)
Outstanding at beginning of the year	22.1	157	20.3	138
Granted during the year	8.1	170	8.4	167
Forfeited during the year	(4.6)	130	(4.8)	77
Exercised during the year	(4.2)	192	(1.8)	203
Outstanding at the end of the year	21.4	162	22.1	157
Exercisable at the end of the year	2.2	216	2.4	220

The group recognised the following expenses related to share-based payments:

	2016 £m	2015 £m
Discretionary share plans	4.0	5.4
Non-discretionary share plans	1.2	1.1
	5.2	6.5

The weighted average share price at the date of exercise for share options exercised during the year was 313p (2015: 310p). The options outstanding at 31 March 2016 had exercise prices (other than nil in the case of the LTIP, the CSP and the SIP) ranging from 191p – 319p (2015: 162p – 318p) and a weighted average remaining contractual life of 3.8 years (2015: 4.0 years). In the year ended 31 March 2016, options were granted in May and August in respect of the SAYE, LTIP and ESO schemes. The aggregate of the estimated fair values of the options granted on those dates was £8.5m. In the year ended 31 March 2015, options were granted in May, June, July and November 2014 and January 2015 in respect of the SAYE, LTIP and ESO schemes. The aggregate of the estimated fair values of the options granted on those dates was £6.9m.

The fair value of options is measured by use of the Black-Scholes and Monte Carlo models.

The inputs into the Black-Scholes model are as follows:

	2016	2015
Share price (p)	251 – 318	219 – 313
Exercise price (p)	0 – 319	0 – 319
Expected volatility (%)	25 – 30	30 – 32
Expected life (years)	3 – 5	3 – 5
Risk-free rate (%)	0.13 – 1.1	0.55 – 1.48
Expected dividends (%)	3.5 – 4.1	3.5 – 4.1

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 36. Share-based payments continued

The inputs into the Monte Carlo model are as follows:

	2016	2015
Share price (p)	251 – 319	251 – 319
Average correlation with TSR benchmark (%)	26 – 32	29 – 32
Expected volatility (%)	18 – 24	21 – 24
Expected life (years)	3	3
Risk-free rate (%)	0.64 – 1.29	0.64 – 1.29
Expected dividends (%)	3.5 – 4.1	3.5 – 4.1

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon historical data and has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

### 37. Retirement benefit schemes

The group has a number of pension arrangements for employees:

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

The group operates a number of defined contribution pension schemes for qualifying employees. The group has a defined benefit pension scheme called the Mitie Group plc Pension Scheme ('Group scheme') where Mitie Group plc is the principal employer. The group participates in a number of other defined benefit schemes ('Other schemes') in respect of certain employees who joined the group under the Transfer of Undertakings (Protection of Employment) Regulations 2006 ('TUPE').

#### Defined contribution schemes

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

The contributions are recognised as employee benefit expense when they are due.

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

During the year, the group made a total contribution to the defined contribution schemes of £13.3m (2015: £10.7m) and contributions to the auto-enrolment scheme of £4.1m (2015: £4.1m), which are included in the income statement charge. The group expects to make contributions of a similar amount in the coming year.

#### Defined benefit schemes

##### Group scheme

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

The scheme closed to new members in 2006, with new employees able to join one of the defined contribution schemes. Pensions in payment are generally increased in line with RPI inflation, subject to certain caps and floors. Benefits are payable on death and other events such as withdrawal from active service.

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

## 37. Retirement benefit schemes continued

The nature of the relationship between the group and the Trustee is also governed by local regulations and practice. The Trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (which are determined by the Trustee with advice from the scheme actuary). The most recent triennial valuation was carried out as at 31 March 2014.

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

### Other defined benefit schemes

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

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

### Further information in respect of the Group scheme and Other schemes

The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2014.

The group made a total contribution to the Group scheme of £2.5m during the year (2015: £2.8m). The group expects to make contributions of around £2.5m to the Group scheme in the coming year. Employees' contribution to the cost of the scheme (7.5% of pensionable salaries) is generally paid through a 'salary sacrifice' arrangement.

The group made contributions to the Other schemes of £0.4m in the year (2015: £0.4m). The group expects to make contributions of around £0.4m to the Other schemes in the coming year.

### Details of latest funding valuation

	Group scheme
Date of last formal funding valuation	31 March 2014
Assets at valuation date	£143.6 million
Funding liabilities at valuation date	£149.6 million
Deficit at valuation date	£6.0 million
Contribution rate agreed to meet the cost of benefits accruing, including related expenses	22.3% of pensionable salary
Employer contribution rate (including expenses)	14.8% of pensionable salary
Employee contribution rate	7.5% of pensionable salary

To eliminate the funding deficit the Trustee and the group have agreed that additional contributions (i.e. over and above those required to cover benefits being accrued) will be paid into the scheme of £11.1m by 31 March 2024 (or if less, the deficit at that time). The group has provided security for this liability by a UK clearing bank letter of credit building up to that value to 2024.

Under this recovery plan, if the assumptions made are borne out in practice, the deficit will be eliminated by 31 March 2024.

### Group scheme details

The following table sets out details of the membership of the Group scheme:

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 37. Retirement benefit schemes continued

#### Scheme details at last valuation date

	Group scheme
Active members – by number	349
Active members – by proportion of funding liability	34%
Total pensionable salary roll pa	£16.9m
Deferred members – by number	1,195
Deferred members – by proportion of funding liability	47%
Total deferred pensions pa (at date of leaving scheme)	£3.6m
Pensioner members – by number	515
Pensioner members – by proportion of funding liability	19%
Total pensions in payment pa	£1.9m

#### Accounting assumptions

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

The discount rate used to determine the present value of the obligations is set by reference to market yields on high quality corporate bonds. The assumptions for price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds. The assumption for increases in pensionable pay takes into account expected salary inflation, the cap at CPI, and how often the cap is likely to be exceeded.

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations, with a lower 'best-estimate' allowance for future improvements to mortality.

#### Principal accounting assumptions at balance sheet dates

	Group scheme		Other schemes (restated)	
	2016 %	2015 %	2016 %	2015 %
Key assumptions used for IAS 19 valuation:				
Discount rate	<b>3.60</b>	3.40	<b>3.60</b>	3.40
Expected rate of pensionable pay increases	<b>1.70</b>	1.65	<b>3.10</b>	3.05
Retail price inflation	<b>3.10</b>	3.05	<b>3.10</b>	3.05
Consumer price inflation	<b>2.10</b>	2.05	<b>2.10</b>	2.05
Future pension increases	<b>3.10</b>	3.05	<b>3.10</b>	3.05

	Group scheme	
	2016 Years	2015 Years
Post retirement life expectancy:		
Current pensioners at 65 – male	<b>88.0</b>	88.0
Current pensioners at 65 – female	<b>89.0</b>	89.0
Future pensioners at 65 – male	<b>89.0</b>	89.0
Future pensioners at 65 – female	<b>91.0</b>	91.0

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

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

### 37. Retirement benefit schemes continued

#### Amounts recognised in financial statements

The table below outlines where the group's post-employment amounts are included in the financial statements.

	2016			2015		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Current service cost	(3.6)	(0.3)	(3.9)	(3.2)	(0.3)	(3.5)
Total administration expense	(0.5)	-	(0.5)	(0.5)	-	(0.5)
Amounts recognised in operating profit	(4.1)	(0.3)	(4.4)	(3.7)	(0.3)	(4.0)
Net interest cost	(1.2)	-	(1.2)	(0.7)	-	(0.7)
Amounts recognised in profit before tax	(5.3)	(0.3)	(5.6)	(4.4)	(0.3)	(4.7)

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

	2016			2015		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Actuarial (losses)/gains due to changes in financial assumptions	6.3	0.4	6.7	(31.7)	(1.5)	(33.2)
Actuarial gains/(losses) due to changes in demographic assumptions	-	-	-	1.4	(0.1)	1.3
Actuarial gains/(losses) due to liability experience	3.1	-	3.1	1.2	(0.1)	1.1
Return on scheme assets, excluding interest income	(6.2)	(0.6)	(6.8)	13.0	0.6	13.6
Contract transfers	-	-	-	-	2.2	2.2
	3.2	(0.2)	3.0	(16.1)	1.1	(15.0)

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

	2016			2015		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	156.9	9.5	166.4	162.2	9.5	171.7
Present value of defined benefit obligations	(191.3)	(10.6)	(201.9)	(197.1)	(10.4)	(207.5)
Net pension liability	(34.4)	(1.1)	(35.5)	(34.9)	(0.9)	(35.8)

All figures above are shown before deferred tax.

#### Reconciliation of group balance sheet

The movement in the net defined benefit obligation in the year in respect of both the Group and Other schemes is as follows:

	2016			2015		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	197.1	10.4	207.5	160.8	18.3	179.1
Current service cost	3.6	0.3	3.9	3.2	0.3	3.5
Interest cost	6.6	0.4	7.0	7.1	0.4	7.5
Contributions from scheme members	0.1	0.1	0.2	0.1	0.1	0.2
Actuarial losses/(gains) on liabilities arising from changes in financial assumptions	(6.3)	(0.4)	(6.7)	31.8	1.5	33.3
Actuarial (gains)/losses liabilities arising from experience	(3.1)	-	(3.1)	(1.2)	0.1	(1.1)
Actuarial (gains)/losses on liabilities arising from demographic assumptions	-	-	-	(1.4)	0.1	(1.3)
Benefits paid	(6.7)	(0.2)	(6.9)	(3.3)	(0.2)	(3.5)
Contract transfers	-	-	-	-	(10.2)	(10.2)
<b>At 31 March</b>	<b>191.3</b>	<b>10.6</b>	<b>201.9</b>	<b>197.1</b>	<b>10.4</b>	<b>207.5</b>

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 37. Retirement benefit schemes continued

The defined benefit obligation of the Group scheme is analysed by participant status below:

	2016 £m	2015 £m
Active	<b>62.2</b>	62.8
Deferred	<b>78.4</b>	86.1
Pensioners	<b>50.7</b>	48.2
<b>At 31 March</b>	<b>191.3</b>	197.1

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

	2016			2015		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	<b>162.2</b>	<b>9.5</b>	<b>171.7</b>	143.8	16.2	160.0
Interest income	<b>5.4</b>	<b>0.3</b>	<b>5.7</b>	6.4	0.4	6.8
Actuarial gains and losses	<b>(6.2)</b>	<b>(0.6)</b>	<b>(6.8)</b>	13.0	0.6	13.6
Contributions from the sponsoring companies	<b>2.5</b>	<b>0.4</b>	<b>2.9</b>	2.7	0.4	3.1
Contributions from scheme members	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	0.1	0.1	0.2
Expenses paid	<b>(0.4)</b>	-	<b>(0.4)</b>	(0.5)	-	(0.5)
Benefits paid	<b>(6.7)</b>	<b>(0.2)</b>	<b>(6.9)</b>	(3.3)	(0.2)	(3.5)
Contract transfers	-	-	-	-	(8.0)	(8.0)
<b>At 31 March</b>	<b>156.9</b>	<b>9.5</b>	<b>166.4</b>	162.2	9.5	171.7

The history of experience adjustments is as follows:

	Group scheme				
	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Fair value of scheme assets	<b>156.9</b>	162.2	143.8	134.0	120.7
Present value of defined benefit obligations	<b>(191.3)</b>	(197.1)	(160.8)	(163.7)	(137.9)
Deficit in the scheme	<b>(34.4)</b>	(34.9)	(17.0)	(29.7)	(17.2)
Experience adjustments on scheme liabilities	<b>3.1</b>	1.2	0.1	0.1	(5.3)
Percentage of scheme liabilities	<b>(1.6)%</b>	(0.6)%	(0.1)%	(0.1)%	3.9%
Experience adjustments on scheme assets	<b>(6.2)</b>	13.0	3.6	3.9	(4.3)
Percentage of scheme assets	<b>(3.2)%</b>	8.0%	2.5%	2.9%	(3.6)%

	Other schemes				
	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Fair value of scheme assets	<b>9.5</b>	9.5	16.2	7.9	10.7
Present value of defined benefit obligations	<b>(10.6)</b>	(10.4)	(18.3)	(8.1)	(10.8)
Deficit in the scheme	<b>(1.1)</b>	(0.9)	(2.1)	(0.2)	(0.1)
Experience adjustments on scheme liabilities	-	(0.1)	0.3	0.2	0.2
Percentage of scheme liabilities	-	0.9%	(1.8)%	(2.8)%	(2.0)%
Experience adjustments on scheme assets	<b>(0.6)</b>	0.8	(0.3)	0.5	0.2
Percentage of scheme assets	<b>(6.1)%</b>	8.4%	(1.9)%	6.1%	1.6%

### 37. Retirement benefit schemes continued

#### Asset categories

	31 March 2016			31 March 2015		
	Group	Other	Total	Group	Other	Total
Equities	56.9	6.0	62.9	61.1	6.1	67.2
Government bonds	22.3	1.4	23.7	22.8	1.0	23.8
Corporate bonds	19.2	0.7	19.9	19.2	1.0	20.2
Property	17.0	0.8	17.8	17.5	0.8	18.3
Diversified growth fund	40.2	-	40.2	41.3	-	41.3
Cash	1.3	0.6	1.9	0.3	0.6	0.9
Total fair value of assets	156.9	9.5	166.4	162.2	9.5	171.7

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

Around 73% (2015: 74%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long term.

£7m (2015: £7m) of the property assets represent freehold property, the rest are quoted property investments.

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

#### Sensitivity of defined benefit obligation to key assumptions

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.1%	Decrease by 2.0%	Increase by 2.0%
RPI inflation*	0.1%	Increase by 1.6%	Decrease by 1.5%
CPI inflation (excluding pay)	0.1%	Increase by 0.4%	Decrease by 0.4%
Pay increases	0.1%	Increase by 0.4%	Decrease by 0.3%
Life expectancy	1 year	Increase by 3.4%	-

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

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the Group scheme holds a proportion of its assets in UK corporate bonds. A fall in the discount rate as a result of lower UK corporate bond yields would lead to an increase in the value of these assets, thus mitigating the increase in the defined benefit obligation to some extent.

The duration, or average term to payment for the benefits due, weighted by liability, is around 20 years for the Group scheme.

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 37. Retirement benefit schemes continued

#### Risks and risk management

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

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

Risk	Description
Asset volatility	<p>The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation for accounting is calculated using a discount rate set with reference to corporate bond yields.</p> <p>The Group scheme holds a large proportion of its assets (73%) in equities and other return-seeking assets (principally diversified growth funds ('DGFs') and property). The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level has the potential to be volatile in the short term, potentially resulting in short-term cash requirements or alternative security offers which are acceptable to the Trustee and an increase in the net defined benefit liability recorded on the group's balance sheet.</p> <p>The group believes that equities and DGFs offer the best returns over the long term with an acceptable level of risk and hence holds a significant proportion of these types of asset. However, the schemes' assets are well-diversified by investing in a range of asset classes, including property, government bonds and corporate bonds. The Group scheme holds 26% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.</p>
Changes in bond yields	<p>Falling bond yields tend to increase the funding and accounting liabilities. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.</p>
Inflation risk	<p>The majority of the scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.</p>
Life expectancy	<p>The majority of the schemes' obligations are to provide a pension for the life of the member, so unexpected increases in life expectancy will result in an increase in the liabilities.</p>

#### Areas of risk management

Although investment decisions in the scheme are the responsibility of the Trustee, the group takes an active interest to ensure that pension plan risks are managed efficiently. The group and Trustee have agreed a long-term strategy for reducing investment risk where appropriate.

Certain benefits payable on death before retirement are insured.

### 38. Related party transactions

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

During the year, the group derived £0.8m (2015: £0.3m) of revenue from contracts with joint ventures and associated undertakings. At 31 March 2016 trade and other receivables of £nil (2015: £nil) were outstanding and loans to joint ventures and associates of £nil (2015: £1.1m) were included in Financing assets.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company, as R McGregor-Smith and S C Baxter are two of the trustees of the Foundation. During the year, the group made donations of £79,000 (2015: £25,000) and gifts in kind of £267,000 (2015: £277,000) to the Foundation. At the end of the year £nil (2015: £23,000) was due to the Foundation and the Foundation had £nil (2015: £11,000) held within creditors as an amount accrued to Mitie Group plc.

No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest.

The group's key management personnel are the Directors and Non-Executive Directors whose remuneration is disclosed in the audited section of the Directors' remuneration report. The share-based payment charge for key management personnel was £0.7m (2015: £1.6m).



### 39. Notes to the consolidated statement of cash flows

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

Note:

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

### 40. Subsidiaries

The companies set out below are those which were part of the group at 31 March 2016.

Company	Country of incorporation	At 31 March 2016 % Voting rights and ownership interest	At 31 March 2016 % Nominal value owned
Abbey Home Care Agency Limited	United Kingdom	100%	100%
Angels Care Services Limited	United Kingdom	100%	100%
At Home Community Care Limited	United Kingdom	100%	100%
Blythswood Decorators Limited	United Kingdom	100%	100%
Care & Custody (Health) Limited	United Kingdom	100%	100%
Care Connect Homecare Services Limited	United Kingdom	100%	100%
Caretime Services Limited	United Kingdom	100%	100%
Cole Motors Limited	United Kingdom	100%	100%
Com:pact Community Services Holdings Limited	United Kingdom	100%	100%
Com:Pact Community Services Limited	United Kingdom	100%	100%
Complete Care Holdings Limited	United Kingdom	100%	100%
Complete Care Services Wiltshire Ltd	United Kingdom	100%	100%
Countryview Homecare Services Limited	United Kingdom	100%	100%
County Care Home Care Services Limited	United Kingdom	100%	100%
Creativevents Limited	United Kingdom	100%	100%
Croft Community Services Ltd	United Kingdom	100%	100%
DCSL Corporate Services Limited	Nigeria	100%	100%
Delight Care Limited	United Kingdom	100%	100%
Direct Enquiries Holdings Limited	United Kingdom	100%	100%
Enara Finance Limited	United Kingdom	100%	100%
Enara Group Limited	United Kingdom	100%	100%

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 40. Subsidiaries

The companies set out below are those which were part of the group at 31 March 2016.

Company	Country of incorporation	At 31 March 2016 % Voting rights and ownership interest	At 31 March 2016 % Nominal value owned
Environmental Property Services Holdings Limited	United Kingdom	100%	100%
Environmental Property Services Limited	United Kingdom	100%	100%
EPS Group Limited	United Kingdom	100%	100%
Extracare Limited	United Kingdom	100%	100%
First Choice Community Support Services Limited	United Kingdom	100%	100%
First Class Recruitment Limited	United Kingdom	100%	100%
Formcomplete Limited	United Kingdom	100%	100%
Freedom Socialcare Limited	United Kingdom	100%	100%
Freedom Socialcare Recruitment Ltd	United Kingdom	100%	100%
Heart to Heart Care Limited	United Kingdom	100%	100%
Home Comforts (South) Limited	United Kingdom	100%	100%
Home Comforts Care Swansea Limited	United Kingdom	100%	100%
Jabez Holdings Limited	United Kingdom	100%	100%
Keratome Limited	United Kingdom	100%	100%
MiHomecare Limited	United Kingdom	100%	100%
Mitie Air Conditioning (Scotland) Limited	United Kingdom	100%	100%
Mitie Aviation Security Limited	United Kingdom	100%	100%
Mitie Belgium BVBA	Belgium	100%	100%
Mitie Belgium Security BVBA	Belgium	100%	100%
Mitie Built Environment Limited	United Kingdom	100%	100%
Mitie Business Services Limited	United Kingdom	100%	100%
Mitie Business Services UK Limited	United Kingdom	72.4%	99.5%
Mitie Care and Custody Limited	United Kingdom	65.7%	99.5%
Mitie Catering Services Limited	United Kingdom	80.3%	99.3%
Mitie Cleaning & Environmental Services Limited	United Kingdom	100%	100%
Mitie Cleaning Services Limited	United Kingdom	100%	100%
Mitie Client Services Limited	United Kingdom	100%	100%
Mitie Company Secretarial Services Limited	United Kingdom	100%	100%
Mitie Compliance Ltd	United Kingdom	100%	100%
Mitie Deutschland GmbH	Germany	100%	100%
Mitie Document Solutions Limited	United Kingdom	100%	100%
Mitie Energy Limited	United Kingdom	100%	100%
Mitie Engineering Limited	United Kingdom	100%	100%
Mitie Engineering Projects Limited	United Kingdom	100%	100%
Mitie Engineering Services (Bristol) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Edinburgh) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Guernsey) Limited	Guernsey	100%	100%
Mitie Engineering Services (Jersey) Limited	Jersey	100%	100%
Mitie Engineering Services (Leeds) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Liverpool) Limited	United Kingdom	100%	100%
Mitie Engineering Services (London) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Midlands) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Northern Region) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Retail) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Scotland) Limited	United Kingdom	100%	100%
Mitie Engineering Services (South West) Limited	United Kingdom	100%	100%
Mitie Engineering Services (SW Region) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Swansea) Limited	United Kingdom	100%	100%
Mitie Engineering Services (Wales) Limited	United Kingdom	100%	100%
Mitie Engineering Services Limited	United Kingdom	100%	100%
Mitie Environmental Limited	United Kingdom	100%	100%

## 40. Subsidiaries continued

Company	Country of incorporation	At 31 March 2016 % Voting rights and ownership interest	At 31 March 2016 % Nominal value owned
Mitie España, S.L.	Spain	100%	100%
Mitie Events & Leisure Services Limited	United Kingdom	74.8%	99.6%
Mitie Facilities Management Limited	Ireland	93.9%	99.4%
Mitie Facilities Services Limited	United Kingdom	100%	100%
Mitie France SAS	France	100%	100%
Mitie Greencote Limited	United Kingdom	100%	100%
Mitie Group Pension Scheme Trustee Company Limited	United Kingdom	100%	100%
Mitie Holdings Limited	United Kingdom	100%	100%
Mitie Infrastructure Limited	United Kingdom	100%	100%
Mitie Integrated Facilities Management Limited	United Kingdom	100%	100%
Mitie Interiors Limited	United Kingdom	100%	100%
Mitie International Limited	United Kingdom	100%	100%
Mitie Investments Limited	United Kingdom	100%	100%
Mitie Justice Limited	United Kingdom	100%	100%
Mitie Landscape (Northern) Limited	United Kingdom	100%	100%
Mitie Landscape (Southern) Limited	United Kingdom	100%	100%
Mitie Landscapes Limited	United Kingdom	100%	100%
Mitie Lighting Limited	United Kingdom	100%	100%
Mitie Limited	United Kingdom	100%	100%
Mitie Local Services Limited	United Kingdom	83.2%	99.7%
Mitie Managed Services (South West and Wales) Limited	United Kingdom	100%	100%
Mitie Managed Services (Southern) Limited	United Kingdom	100%	100%
Mitie Managed Services Limited	United Kingdom	100%	100%
Mitie McCartney Fire Protection Limited	United Kingdom	100%	100%
Mitie Nederland B.V.	Netherlands	100%	100%
Mitie Norge Aksjeselskap	Norway	100%	100%
Mitie Payroll Services Limited	United Kingdom	100%	100%
Mitie Pest Control (London) Limited	United Kingdom	100%	100%
Mitie Pest Control Limited	United Kingdom	100%	100%
Mitie PFI Limited	United Kingdom	100%	100%
Mitie Polska Sp. z o.o.	Poland	100%	100%
Mitie Property Management Limited	United Kingdom	100%	100%
Mitie Property Services (Eastern) Limited	United Kingdom	100%	100%
Mitie Property Services (UK) Limited	United Kingdom	100%	100%
Mitie Property Services Limited	United Kingdom	100%	100%
Mitie Property Solutions Limited	United Kingdom	100%	100%
Mitie Reinsurance Company Limited	Guernsey	100%	100%
Mitie Resources Limited	United Kingdom	100%	100%
Mitie Schweiz GmbH	Switzerland	100%	100%
Mitie Scotgate Limited	United Kingdom	100%	100%
Mitie Security (London) Limited	United Kingdom	100%	100%
Mitie Security (North) Limited	United Kingdom	100%	100%
Mitie Security Holdings Limited	United Kingdom	100%	100%
Mitie Security Limited	United Kingdom	100%	100%
Mitie Security Systems Limited	United Kingdom	100%	100%
Mitie Services (Retail) Limited	United Kingdom	100%	100%

## Notes to the consolidated financial statements continued

For the year ended 31 March 2016

### 40. Subsidiaries continued

Company	Country of incorporation	At 31 March 2016 % Voting rights and ownership interest	At 31 March 2016 % Nominal value owned
Mitie Shared Services Limited	United Kingdom	100%	100%
Mitie Suomi Oy	Finland	100%	100%
Mitie Sverige AB	Sweden	100%	100%
Mitie T S 2 Limited	United Kingdom	100%	100%
Mitie Technical Facilities Management Holdings Limited	United Kingdom	100%	100%
Mitie Technical Facilities Management Limited	United Kingdom	90.9%	99.9%
Mitie Tilley Roofing Limited	United Kingdom	100%	100%
Mitie Transport Services Limited	United Kingdom	100%	100%
Mitie Treasury Management Limited	United Kingdom	100%	100%
Mitie Trustee Limited	United Kingdom	100%	100%
Mitie Waste & Environmental Services Limited	United Kingdom	69.8%	99.6%
Mitie Work Wise Limited	United Kingdom	77.2%	99.6%
Nene Investment Group Limited	United Kingdom	100%	100%
Parkersell Limited	United Kingdom	100%	100%
Pinniger and Partners Limited	United Kingdom	100%	100%
Procius Limited	United Kingdom	100%	100%
R. McCartney (Painters) Limited	United Kingdom	100%	100%
Rise and Shine Care Limited	United Kingdom	100%	100%
Robert Prettie & Co Limited	United Kingdom	100%	100%
Sanne Secretaries Limited	Jersey	100%	100%
Service Management International Asia Pacific PTE. Ltd.	Singapore	100%	100%
Shinedream Limited	United Kingdom	100%	100%
Sophisticare Limited	United Kingdom	100%	100%
Source Eight Limited	United Kingdom	51%	51%
Source8 Africa Limited	United Kingdom	100%	100%
Source8 Delivery (Nigeria) Limited	Nigeria	100%	100%
Source8 Services FZLLC	United Arab Emirates	100%	100%
The Care Agency Limited	United Kingdom	100%	100%
TLC Care Ltd	United Kingdom	100%	100%
Training & Care Solutions Essex Limited	United Kingdom	100%	100%
Two Counties Community Care Limited	United Kingdom	100%	100%
UK CRBS Limited	United Kingdom	100%	100%
Utilyx Asset Management Limited	United Kingdom	100%	100%
Utilyx Asset Management Projects Limited	United Kingdom	100%	100%
Utilyx Broking Limited	United Kingdom	100%	100%
Utilyx Healthcare Energy Services Limited	United Kingdom	100%	100%
Utilyx Holdings Limited	United Kingdom	100%	100%
Utilyx Limited	United Kingdom	100%	100%
Utilyx Risk Management Limited	United Kingdom	100%	100%
Village Homecare Services (Wales) Limited	United Kingdom	100%	100%
Wealthy Thoughts Limited	United Kingdom	100%	100%

No subsidiaries have non-controlling interests that are material to the group. Whilst the group has 90.9% voting rights and ownership interest in Mitie Technical Facilities Management Limited, Mitie is entitled to a threshold amount of profit and net assets in the recapitalised business, which reduces the non-controlling interests.

The group has a related party relationship with The Mitie Foundation as R McGregor-Smith and S C Baxter, who are directors of the group, are also trustees of the Foundation.

The group has a 50% interest in its joint venture, Pyramid Plus South LLP, a limited liability partnership registered in the United Kingdom.

## Company balance sheet

At 31 March 2016

	Notes	2016 £m	2015 £m
<b>Fixed assets</b>			
Investments in subsidiary undertakings	43	<b>691.2</b>	703.7
<b>Total fixed assets</b>		<b>691.2</b>	703.7
<b>Current assets</b>			
Debtors	44	<b>31.1</b>	30.5
<b>Total current assets</b>		<b>31.1</b>	30.5
<b>Total assets</b>		<b>722.3</b>	734.2
Creditors: amounts falling due within one year	46	<b>(57.0)</b>	(97.9)
<b>Total current liabilities</b>		<b>(57.0)</b>	(97.9)
<b>Net current liabilities</b>		<b>(25.9)</b>	(67.4)
<b>Total assets less current liabilities</b>		<b>665.3</b>	636.3
<b>Net assets</b>		<b>665.3</b>	636.3
<b>Capital and reserves</b>			
Share capital	31	<b>9.3</b>	9.4
Share premium account		<b>127.7</b>	122.6
Merger reserve		<b>80.1</b>	80.1
Share-based payments reserve		<b>20.6</b>	16.7
Own shares reserve		<b>(48.8)</b>	(47.5)
Other reserves		<b>0.5</b>	0.5
Profit and loss account		<b>475.9</b>	454.5
<b>Equity shareholders' funds</b>		<b>665.3</b>	636.3

The financial statements of Mitie Group plc, company registration number SC019230, were approved by the Board of Directors and authorised for issue on May 2016. They were signed on its behalf by:

**Ruby McGregor-Smith CBE**  
Chief Executive

**Suzanne Baxter**  
Group Finance Director

## Statement of changes in equity

For the year ended 31 March 2016

	Share capital £m	Share premium account £m	Merger reserve £m	Share-based payments reserve £m	Own shares reserve £m	Other reserves £m	Profit and loss account £m	Total £m
As at April 2014	9.3	118.9	101.2	12.6	(37.2)	0.5	270.8	<b>476.1</b>
Shares issued	0.1	3.7	-	-	-	-	-	<b>3.8</b>
Purchase of own shares	-	-	-	-	(10.7)	-	-	<b>(10.7)</b>
Share-based payments	-	-	-	4.1	0.4	-	1.9	<b>6.4</b>
Profit for the year	-	-	-	-	-	-	201.2	<b>201.2</b>
Reserves transfer	-	-	(21.1)	-	-	-	21.1	<b>-</b>
Dividends paid to shareholders	-	-	-	-	-	-	(40.5)	<b>(40.5)</b>
<b>Balance at 31 March 2015</b>	<b>9.4</b>	<b>122.6</b>	<b>80.1</b>	<b>16.7</b>	<b>(47.5)</b>	<b>0.5</b>	<b>454.5</b>	<b>636.3</b>
Shares issued	-	5.1	-	-	3.8	-	-	<b>8.9</b>
Purchase of own shares	-	-	-	-	(6.6)	-	(0.8)	<b>(7.4)</b>
Share-based payments	-	-	-	3.9	1.4	-	(0.3)	<b>5.0</b>
Profit for the year	-	-	-	-	-	-	80.2	<b>80.2</b>
Share buybacks	(0.1)	-	-	-	0.1	-	(15.3)	<b>(15.3)</b>
Dividends paid to shareholders	-	-	-	-	-	-	(42.4)	<b>(42.4)</b>
<b>Balance at 31 March 2016</b>	<b>9.3</b>	<b>127.7</b>	<b>80.1</b>	<b>20.6</b>	<b>(48.8)</b>	<b>0.5</b>	<b>475.9</b>	<b>665.3</b>

As at 31 March 2016, the Company had distributable reserves of £239.2m.

Details of dividends are given in Note 11 of the consolidated financial statements.

# Notes to the Company financial statements

For the year ended 31 March 2016

## 41. Significant accounting policies

### Basis of accounting

The separate financial statements of the Company are presented as required by company law. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The Company meets the definition of a qualifying entity under FRS100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 March 2016 the Company has undergone transition from reporting under UK GAAP to FRS101 as issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. This transition is not considered to have had a material effect on the financial statements.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, impairment of assets, standards not yet effective, and related party transactions.

Where relevant, equivalent disclosures have been given in the group accounts.

As more fully detailed in the Directors' report, the Company's financial statements have been prepared on a going concern basis.

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

### Investments

Fixed asset investments in subsidiaries are shown at cost less any provision for impairment.

### Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to the profit and loss account, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

### Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### Financial instruments

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account where there is objective evidence that the asset is impaired.

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are measured at amortised cost.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

# Notes to the Company financial statements continued

For the year ended 31 March 2016

## 41. Significant accounting policies continued

### Share-based payments

The group operates a number of executive and employee share option schemes. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. For all grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes or Monte Carlo models and the corresponding expense is recognised on a straight-line basis over the vesting period based on the group's estimate of shares that will eventually vest. At each balance sheet date, the group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Options over the Company's shares awarded to employees of the Company's subsidiaries are accounted for as a capital contribution within the carrying value of investments in subsidiary undertakings.

### Pensions

The Company participates in a group defined benefit scheme. The pension liability relating to the group scheme is disclosed in the group's subsidiary financial statements. There is no contractual agreement or stated policy for charging the net defined benefit cost. The Company recognises a cost equal to its contribution payable for the period, which is presented within administrative expenses in the profit and loss account. Note 37 to the consolidated financial statements sets out the details of the IAS 19 'Employee Benefits' net pension liability of £35.5m (2015: £34.9m).

## 42. Profit for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. Mitie Group plc reported a profit after taxation for the financial year ended 31 March 2016 of £80.2m (2015: £201.2m).

The auditor's remuneration for audit services to the Company was £35,000 (2015: £33,000).

Detailed disclosures of Directors' remuneration and share options are given in the audited section of the Directors' remuneration report contained in the consolidated financial statements.

## 43. Investments in subsidiary undertakings

	£m
<b>Shares at cost</b>	
At 1 April 2015	736.3
Additions	0.2
Capital contribution re share-based payments	3.9
Disposals	(16.6)
<b>At 31 March 2016</b>	<b>723.8</b>
Provision for impairment	
At 1 April 2015	32.6
<b>At 31 March 2016</b>	<b>32.6</b>
<b>Net book value</b>	
<b>At 31 March 2016</b>	<b>691.2</b>
At 31 March 2015	703.7

A listing of principal subsidiaries is given in Note 40.

Disposals in the period relate to the voluntary striking-off of dormant subsidiaries within the group.



#### 44. Debtors

	2016 £m	2015 £m
Amounts owed by subsidiary undertakings	27.5	28.5
Other debtors	2.3	0.5
Prepayments and accrued income	0.8	0.8
Corporation tax	-	0.1
Deferred tax asset (Note 45)	0.5	0.6
	<b>31.1</b>	<b>30.5</b>

The Directors consider that the carrying amount of debtors approximates their fair value.

#### 45. Deferred tax

	Share-based payment timing difference £m
Deferred tax asset at 1 April 2015	0.6
Charge to the profit and loss account	(0.1)
<b>Deferred tax asset at 31 March 2016 (Note 44)</b>	<b>0.5</b>

#### 46. Creditors: amounts falling due within one year

	2016 £m	2015 £m
Overdraft	35.3	81.3
Trade creditors	1.1	-
Amounts owed to subsidiary undertakings	9.3	5.2
Other taxes and social security	1.1	0.3
Accruals and deferred income	10.0	11.1
Corporation tax	0.2	-
	<b>57.0</b>	<b>97.9</b>

Amounts owed to subsidiary undertakings are repayable on demand.

The Directors consider that the carrying amount of creditors approximates their fair value.

The Company's bank overdrafts are part of the group's banking arrangements and are offset against credit balances within the group. The Company has adequate liquidity to discharge all current obligations.

For details of group borrowings, see Note 26.

## Notes to the Company financial statements continued

For the year ended 31 March 2016

### 47. Contingent liabilities

Details of contingent liabilities have been given in Note 34 of the consolidated financial statements.

### 48. Share-based payments

#### Equity-settled share option schemes

The Company has seven share option schemes as described in Note 36 of the consolidated financial statements.

The Company recognised an expense of £1.2m (2015: £2.2m) related to the share-based payment charge for discretionary share option schemes.

The fair value of options is measured by use of the Black-Scholes and Monte Carlo models. The inputs into the Black-Scholes and Monte Carlo models are as described in Note 36 of the consolidated financial statements.

### 49. Related parties

The Company makes management charges to all of its subsidiaries, whether they are wholly-owned or otherwise, and receives dividends from its subsidiaries, according to their ability to remit them. Other details of related party transactions have been given in Note 38 of the consolidated financial statement.

Under FRS 101 the Company is exempt from disclosing key management personnel compensation and transactions with other companies wholly owned by Mitie Group plc. Other related party transactions are disclosed below:

	Sales to		Purchases from	
	2016 £m	2015 £m	2016 £m	2015 £m
Subsidiaries	0.4	5.1	-	-

All inter-company balances are unsecured; training balances are payable within 30 days unless both parties agree an extension, funding balances are repayable on demand.

## Shareholder information

### Results

2017 Half-yearly results	21 November 2016
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### Dividends

2016 Half-yearly dividend 5.4p paid	1 February 2016
2016 Final dividend 6.7p (proposed)	–
2016 Final ex-dividend date	23 June 2016
2016 Final dividend record date	24 June 2016
2016 Final dividend payment date	4 August 2016
2016 Final dividend last date for receipt/revocation of DRIP mandate	8 July 2016

### 2016 Annual General Meeting

2016 Annual General Meeting	12 July 2016
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### Company details

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Fax: 0117 301 4159  
Email: [group@mitie.com](mailto:group@mitie.com)  
Website: [www.mitie.com](http://www.mitie.com)

Registered number: SC019230

### Registrars

Capita Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

Telephone: 0871 664 0300\*  
Website: [www.mitie-shares.com](http://www.mitie-shares.com)

\* calls cost 12p a minute plus network extras,  
lines are open 9.00am – 5.30pm Mon – Fri.

### Dividend reinvestment plan (DRIP)

Mitie has set up a dividend reinvestment plan (DRIP) to enable you to build your shareholding by using your cash dividends under a standing election to buy additional shares in Mitie. If you would like to receive further information, including details of how to apply, please call Capita Asset Services on 020 8639 3402 or contact them by sending an email to: [shares@ccapita.co.uk](mailto:shares@ccapita.co.uk).

### Mitie online share portal

Mitie has launched a shareholder portal where shareholders can register and can:

- > access information on shareholdings and movements;
- > update address details;
- > view dividend payments received and register bank mandate instructions;
- > sell Mitie shares;
- > complete an online proxy voting form; and
- > register for e-communications allowing Mitie to notify shareholders by email that certain documents are available to view on its website. This will further reduce Mitie's carbon footprint as well as reduce costs.

If you wish to register, please sign up at [www.mitie-shares.com](http://www.mitie-shares.com)

### Corporate website

This report can be downloaded in PDF from the Mitie website, which also contains additional general information about Mitie. Please visit [www.mitie.com](http://www.mitie.com)

### Cautionary Statement

Certain statements contained in this announcement constitute or may constitute 'forward-looking statements'. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'projects', 'aims', 'plans', 'predicts', 'prepares', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the group's present and future business strategies and the environment in which the group will operate in the future. These forward-looking statements speak only as at the date of this announcement. Except as required by applicable law, rule or regulation, the group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this announcement to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the group's control. Forward-looking statements are not guarantees of future performance. Mitie's actual results of operations, financial condition and the development of the business sector in which the group operates may differ materially from those suggested by the forward-looking statements contained in this document including, but not limited to, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, currency changes, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the group and its affiliates operate. In addition, even if the group's actual results of operations, financial condition and the development of the business sector in which the group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. The forward-looking statements contained in this document speak only as of the date of this announcement.

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# A huge thank you

To our people, who excel, challenge and inspire every day, and make Mitie the business it is today.

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