07 June 2018

Mitie Group plc

Full-year results for the year ended 31 March 2018

Mitie Group plc (Mitie) (Ticker: MTO), the UK's leading facilities management and professional services company, today announces its full-year 2017/18 (FY 17/18) financial and operational results for the period ended 31 March 2018.

Highlights (pre-IFRS 15)

- Adjusted revenue[1] growth, up 2.8% at £2.2bn (FY 16/17: £2.1bn); reported revenue of £2.2bn, up 3.8% (FY 16/17: £2.1bn)
- Adjusted operating profit[1] before other items in line with guidance, down 6.0% at £77.1m (FY 16/17: £82.0m), reflecting investments made in customer service and internal capabilities
- Reported operating profit before other items of £89.6m (FY 16/17: £(6.3)m)
- Connected Workspace in deployment and increasingly impacting bid-wins
- Transformation programme on track and progressing well
    - Commercial reorganisation and finance transformation complete; HR transformation ongoing; IT and Engineering Services workflow technology transformation begun
    - Cost of change is £35m for FY 17/18, with associated in-year benefits of £13.2m, and run rate benefits of £27m
- Net Debt as at 31 March 2018 of £193.5m (31 March 2017: £147.2m); year-end leverage 1.98x, operating comfortably within debt covenants
- Order book of £4.5bn, up 2.4%, reported under IFRS 15 guidelines
- Notable contract wins in the period include:
    - a Detention & Escorting contract for the Home Office (worth £525m over 10 years)
    - a large integrated FM technology-led contract with the Co-op
    - a 5-year contract with West Hertfordshire Hospitals NHS Trust worth £55m
- The Board is recommending a final dividend of 2.67p, making the total full-year dividend 4.0p per share (FY 16/17: 4.0p)

Phil Bentley, Chief Executive of Mitie, commented:

"We are one year into our transformation programme and we are where we need to be. It has been a year of discovery, simplification and significant change, all set against a challenging market. We have made much progress, building the foundations that will ensure that Mitie is at the forefront of the UK facilities management industry.

"Our core business has demonstrated its strength and resilience and is performing well, our commitment to strong financial management remains unwavering and our focus on costs, customers, technology and our people is delivering tangible benefits.

"With an uptick in revenue, a normalising balance sheet, a good order book, a focused execution plan, significant investment in technology and a settled management team, I believe Mitie is well positioned for growth."

Group results from continuing operations	Year ended 31 March		
	2018	2017	*Change*
Adjusted[1]			
Revenue	**£2,199.1m**	**£2,140.0m**	*2.8%*
Operating profit before other items	**£77.1m**	**£82.0m**	*(6.0)%*
Reported[2]			
Revenue	**£2,203.7m**	**£2,123.4m**	*3.8%*
Operating profit/(loss) before other items	**£89.6m**	**£(6.3)m**	*nm*
Operating loss	**£(8.3)m**	**£(42.9)m**	*nm*
Basic loss per share	**(7.6)p**	**(14.7)p**	*nm*
Net debt	**£193.5m**	**£147.2m**	*31.5%*
Dividends per share	**4.00p**	**4.00p**	*0.0%*
Order book[3]	**£4.5bn**	**£4.4bn**	*2.0%*

[1] Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.

[2] FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.

[3] Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

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Mitie will be presenting its full-year results for the year ended 31 March 2018 at 09:30am on Thursday, 7 June 2018. A live webcast of the presentation will be available online at www.mitie.com/investors at 09:30am. The recorded webcast of the presentation and a copy of the accompanying slides will also be available on our website later in the day.

About Mitie

Founded in 1987, Mitie is the UK's leading facilities management and professional services company. We offer a range of specialist services including engineering services, security, energy and property consultancy within Professional Services, catering, cleaning, pest control, landscaping, custody support services, and property maintenance.

Mitie employs 49,000 people across the UK, looking after a large, diverse blue-chip customer base, from banks and retailers, to hospitals, schools and government departments. We take care of our customers' people and buildings, by delivering the basics brilliantly and by deploying advanced technology. We are

pioneers in the Connected Workspace, using smart analytics to provide valuable insight and deliver efficiencies to create outstanding work environments for our customers.

Find out more at **www.mitie.com**

Legal disclaimer

This announcement may contain certain forward-looking statements, beliefs or opinions, including statements with respect to Mitie business, financial condition and results of operations. These forward-looking statements can be identified by the use of words such as 'anticipate', 'expect', ‘estimate’, 'intend', 'will', ‘may’, 'project', 'plan', ‘target’ and 'believe' and other words of similar meaning in connection with any discussion of future events. These statements are made by the Directors of Mitie in good faith, based on the information available to them as at 6 June 2018 and reflect the Mitie Directors’ beliefs and expectations. These statements, by their nature, involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements in this announcement and accordingly all such statements should be treated with caution. Nothing in this announcement should be construed as a profit forecast.

Except as required by law or regulation, Mitie is under no obligation to update or keep current the forward-looking statements contained in this announcement or to correct any inaccuracies which may become apparent in such forward-looking statements.

This announcement contains inside information.

Chairman's statement

Focused transformation in a challenging market

Overview

This has been a year of discovery, transformation and change for Mitie, all set against a challenging and, at times, difficult market. The outsourcing sector has been in the spotlight with the demise of Carillion, and the challenges faced by many other firms across the wider sector.

Outsourcing and, more specifically, Facilities Management, is a relatively new industry where the early benefits derived from economies of scale and expertise have now, largely, been eroded away. Third, fourth and even fifth generation contracts have resulted in low margins for providers and few cost give-aways for customers. However, technology and scale remain opportunities for the sector and what has become clear is that these need to be delivered in tandem with a wholesale industry-wide correction in the pricing of risk; contracts need to correctly account for price, quality, certainty and timeliness of delivery. The collapse of Carillion, the challenges faced by almost every other industry participant, as well as the failure of many other individual contracts to be delivered on budget, on time or at the quality required, show that wholesale sector recalibration is needed for the economics of FM to continue to be sustainable. We are pleased to see that this is already happening; as we engage with government, prospective customers and existing clients, the focus is moving subtly away from just cost and towards value.

Strategy

Mite is a strong resilient business, with a broad and diverse client base, and a frontline workforce with specialist skills, expertise and experience. It is also now one year into a major three-year transformation programme under the stewardship of CEO, Phil Bentley. All discovery work has been completed and the business is now firmly in execution and delivery mode.

The four-pillared strategy launched in June 2017 is shaping the direction of the Group and the business is continuing to make significant investments in technology, smart analytics and data-led insight.

Operationally the business has made major strides forward in the last 12 months, removing complexity, duplication, upgrading and simplifying processes, professionalising and understanding the true drivers and levers of the business.

The accounting review completed in June 2017. Recommended changes to reporting and the control environment are progressing and being monitored by the Audit Committee.

The Financial Reporting Council's (FRC) Corporate Reporting Review of the annual report and accounts of Mitie for the year ended 31 March 2016 completed in November 2017, with no further action required of the Company. Although the FRC continue, under the Accountancy Scheme, to investigate Members formerly involved with Mitie, including Deloitte (the Company's former auditors), neither the Group nor current management are the subject of this investigation.

We have also provided extensive material for the Financial Conduct Authority (FCA) investigation in connection with the timeliness of a profit warning announced by the Company on 19 September 2016 and the manner of preparation and content of the Company's financial information, position and results for the period ending 31 March 2016. We are continuing to co-operate with the FCA, but at this time have had no indication as to when their investigation may be concluded.

People & Community

I would like to acknowledge that this has been a challenging year for many of the people working at Mitie, especially for those interacting every day with our customers. Our own transformation programme, the volatility in the share price and wider sector turbulence have fuelled the uncertainty that comes with change. Yet, despite this, the team at Mitie have demonstrated an unwavering commitment to providing exceptional customer service and to going the extra mile, and I would like to personally thank them for their dedication and hard work. The Board and I all joined the Mitie management team in going 'back-to-the-floor' for a shift in one of our businesses, and we were incredibly impressed by the commitment and passion our colleagues have in all they do.

The Mitie Foundation, our charitable operation focusing on employability, has had a good year. We continue to excel in getting those in our society that are hard to reach, with disabilities, with criminal convictions and with significant barriers to employment, back into work. For the communities in which we work the Foundation plays a very important role, and our people and our customers can see the major

impact it can have, both on the lives of the individuals finding a job and on those who are engaged in the process. During the year we have extended our programme with Lloyds Bank plc in Scotland, we have engaged with the Co-op and look forward to working in partnership with them to support vulnerable people, and we have continued to work with a number of schools, prisons and other charities. We believe that the Foundation is vitally important to the sustainability of our business and the continuing role that we wish to play in our communities.

Results

Adjusted revenue grew by 2.8% – a solid result in the first year of transformation, reflecting the good quality of our core business, our market-leading positions and the strength of our broad offering. Operating profit before other items, although lower than the comparable FY 16/17 result, was in line with our expectations and guidance. We delivered cost savings whilst investing back into our core capabilities and customer service. We continue to operate comfortably within our debt covenants and our order book is strong.

Dividends

The Board has recommended a final dividend of 2.67p, taking the total dividends for the year to 4.0p. Going forward we expect the interim dividend to be approximately one third of the previous full-year dividend. We expect to hold the dividend flat until, at least, completion of the transformation programme when we will review the dividend policy.

Board and Corporate Governance

Since the commencement of my role as Chairman in July 2017, the composition of the Board has been further reviewed, leading to several key appointments during the year.

In July 2017, we announced the appointments of Jennifer Duvalier and Mary Reilly as Non-Executive Directors, joining the Board in July and September respectively. In November, we welcomed Paul Woolf as Chief Financial Officer and Philippa Couttie as a Non-Executive Director.

Additionally, as announced in February 2018, we appointed Roger Yates as a Non-Executive Director with effect from 1 March 2018. Roger will succeed Larry Hirst as Senior Independent Director upon Larry's retirement from the Board at the Annual General Meeting (AGM) in July 2018 after more than eight years' service. I would like to thank Larry for his long service to Mitie. Mark Reckitt will stand down from the Board at the 2018 AGM after three years' service. I would also like to thank Mark for his contribution to Mitie. Mary Reilly will succeed Mark as Chair of the Audit Committee.

Our new appointments have significantly strengthened and widened the areas of expertise and experience on the Board.

Outlook

It has been a year of good progress at Mitie, though not without its challenges. The magnitude of the internal restructuring and the number of things that have needed to be 'fixed' are far more significant than was earlier anticipated. However, much of the heavy-lifting is now complete, and we are moving through each stage of our transformation methodically and systemically.

As the Facilities Management sector slowly steadies itself, I am confident that Mitie is increasingly well placed to be an active and significant participant in the future of the industry. Our clear strategy, our focus, our strong management team, our scale and our market leading positions all play to our advantage. We are pioneers in the roll-out of technology, and this is further strengthening our leading positions in UK FM.

We expect to report modest top-line growth (pre-IFRS 15) next year and we remain committed to medium-term margin improvement to around 4.5-5.5% in the future. We remain confident in our ability to build shareholder value.

Derek Mapp

Chairman

Chief Executive's review

Strategy and transformation

The strategy that we set out this time last year has provided a strong framework for our actions in the last year. We are executing a wholesale transformation of the Group in a challenging market. We are actively engaging with our private and public sector customers, our regulators and our other stakeholders to help bring about the changes our sector needs to thrive, and there are a significant number of projects and deliverables that we are driving forward. By using the four strategic pillars of our overarching strategy – customer, cost, technology and people – we have remained focused on the task in hand and I am confident in our ability to deliver on our ambitions.

- **Putting our customers at the heart of our business**

We have put a major focus on our customers. Mitie has a diverse and impressive list of over 3,000 major clients and we firmly believe making them happy will drive our own business success. Historically Mitie engaged with its customers in a somewhat fragmented way, creating confusion for them and making client servicing as well as cross-selling for us, more difficult. To address this, we have undertaken a full audit of our customer portfolio; we have centralised the commercial and sales function so that our customers have one primary point of contact with the business; we have implemented one CRM system that gives us valuable, accurate insight across our business units; and we are deploying a standardised internal approach to engagement, dataflow and reporting. We have also centralised our bid processes and have initiated a formal New Business Committee for all commercial opportunities. And we have rolled out a Group-wide Net Promoter Score programme to understand what our customers really think. The outcome of this is that we have more efficient, less costly, more customer-focused teams; and our customers are increasingly enjoying simpler access, ease of navigation around Mitie and greater visibility of their account team. We have more still to do but we expect to reap further benefits from these actions in the year ahead. Our Net Promoter Score across our top 100 accounts grew by 17 points and the revenue from our top 40 customers grew 9% year-on-year.

- **Transforming our cost base**

In June 2017, we launched Project Helix, to kick start changing the DNA of Mitie. This ambitious three-year programme involves the simplification of our structure, the standardisation of internal processes, the rationalisation of our systems and the removal of spans of management and layers of inefficiencies. We knew that there was considerable work to be done, but we also knew that it would deliver significant cost savings and operational upside. The scale of the task is larger than we originally anticipated, but we believe the upside will be greater too.

We have almost completed the full transformation of our Finance function, including outsourcing our back-office processes to Genpact in Kolkata. We are near completion of our HR restructure with a new centralised HR organisational structure and a new Group-wide HR operational system (SAP), replacing multiple legacy systems. We have fully collapsed the highly fragmented 'Mitie earn-out model' and we are intending to move from over 50 legal entities towards one operational reporting entity in FY 18/19, greatly simplifying our internal processes and systems, reducing internal recharging and streamlining almost every aspect of the business. We have built a small dedicated transformation project office, tasked with the sequencing and coordination of the Group's turnaround. Working closely with the Executive Leadership Team, they will focus in the year ahead on our IT and Engineering Services technology transformation programmes.

As at March 2018, this programme has delivered annualised cost savings of £13.2m, and we expect this to rise to annualised cost savings of £50m by March 2020.

We are one year into our three-year programme and we have more to do here but our ambition remains to be the most efficient, value-focused technology-led company in our industry.

- **Building a winning culture and developing and retaining our people**

Mitie is a people business, and our aim is to build a company where each of us can thrive and be the best that we can be, every day.

We have launched our new 'Vision, Purpose, Promises and Values' across the organisation under the banner headline of 'The exceptional, every day.' This articulates and embodies who we are, what makes Mitie great and where we are taking the company. It recognises the importance of our people, our culture, our customers, the role technology plays in our future, and the journey we are on. They articulate the glue that binds us. This is an important step forward as we seek to deliver 'One Mitie'. Looking ahead we will be embedding these new values in all aspects of our organisation, including our annual performance review, our recruitment, in all our marketing and customer communications and in our external engagement.

In the last year, we relaunched our Group Leadership Team Forum and we have overhauled our internal communications programme. We were also delighted to partner with Salary Finance, launching an innovative new loan scheme for our staff, which has had a significant uptake with over 1,400 employees benefiting, helping our people with financial management and removing the need for staff to use pay day lenders. As part of the HR transformation, we have appointed a leading third-party provider to manage the end-to-end process for hiring temporary resources. We expect efficiency improvements as well as cost savings from using the new provider. Looking forward we will be rolling out a new Learning and Development programme, an executive mentoring and development scheme and we will be looking to simplify reward and recognition across the Group.

In April 2018, we partnered with Aon Hewitt to run Mitie's 2018 People Survey to set the baseline of our employee engagement. I am pleased to say that the completion rate was 30% against 19% the year before - almost 15,000 Mitie employees have responded to the survey. In a period of significant change, employee engagement improved, but only marginally, and we have much to do. We have evaluated the results and identified the priorities and will be implementing action plans to drive the change needed to become a great place to work.

Mitie champions apprenticeships, and this year we employed 555 apprentices across the Group, including 540 who were supported through the Apprenticeship Levy. We believe we are well placed to offer exceptional opportunities for those seeking apprenticeships in a wide variety of roles, and we are planning to increase the number and variety of apprenticeships that we offer.

- **Investing in technology to make Mitie the easiest company to do business with**

Technology will be a core enabler for Mitie and its customers in the future. The FM industry is yet to capitalise fully on the benefits of better technology, but Mitie is at the forefront of early adoption.

Our Connected Workspace technology – our 'smart' proposition – helps buildings and people perform better. It pioneers the combined use of sensors, data, expertise and intelligent insight to give our customers information that is invaluable, helping them improve for improving the performance of their estates and their staff. In the last 12 months Connected Workspace has been part of 29 successful Mitie bids and there are 44 further connected workspace propositions in the pipeline. Becoming a technology-enabled business through our Connected Workspace offering, we believe, will be transformational for Mitie.

Leadership

Our Executive Leadership Team is now almost complete with the appointment in the last year of a new Group CFO, Group HR Director, Group Head of Corporate Affairs & Investor Relations, Group Marketing & Strategy Director and new MDs for our Engineering Services and Cleaning & Environmental Services businesses. These appointments have brought valuable blue-chip and change skills to the senior team. We have also attracted a number of experienced senior managers to the Group Leadership Team during the year and the business is benefiting from their expertise, knowledge and diversity.

Business performance

This, undoubtedly, has been a year of significant change for Mitie. We are implementing a major transformation programme, addressing challenges and opportunities as they arise, whilst focusing on our medium-term strategic goals. This has all been set against the backdrop of a challenged industry in the spotlight. Despite this, we have grown our revenues, reduced our average daily net debt position and won some major new customers and contracts.

We are part way on our journey and we are making good progress. Adjusted revenue was 2.8% up at £2.2bn, on the prior year although adjusted operating profit before other items has reduced to £77.1m

from £82.0m. The order book grew 2% to £4.5bn and is reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Care & Custody has been the stand-out division this year, winning a notable £525m 10-year contract to provide Detention and Escorting services for the Home Office. Engineering Services and Security have also had a good year in terms of revenues and contract wins. Cleaning & Environmental Services, pleasingly too, has stabilised sales after a recent decline. Property Management has not performed as well as hoped, though this has in part been a result of the distraction of a terminated sales process; the business is beginning now to focus on key social housing opportunities.

Professional Services continues to win consultancy and project management work, though this has in part been offset by the full-year impact of waste contract losses in the previous year. Of particular note is the traction we are now seeing in our Connected Workspace proposition, moving from pilot phase into expansion of initial engagement with a number of customers, such as a European financial services company, an energy drink company and a financial services group. Our Technology and Remote Operating Centre in Bracknell opened this year and provides a perfect forum to showcase our own smart, connected technology to clients.

Balance sheet management has been a core focus for us this year and will continue to be going forward. We are committed to reducing our customer invoice discounting, normalising debtor and creditor days, asking clients for fair payment terms, streamlining our billing processes and delivering faster cash collection. Our efforts have seen a notable decline in average daily net debt and we are operating comfortably within our debt covenants.

Looking ahead

Change and transformation is never easy or without challenges. Mitie is fundamentally a strong business, with great customers, outstanding staff and a real opportunity ahead of it. We want to be shaping the FM industry as it continues to evolve, using our unrivalled expertise, our pioneering technology and our ambition to propel ourselves forward. We have more to do, but we are on track and I am pleased with the progress to date. With an uptick in revenue, a normalising balance sheet, a good order book, a focused execution plan and experienced leadership, I believe Mitie is well positioned for growth in the upcoming years.

Phil Bentley

Chief Executive

Dividend

Reflecting the lower earnings of the business and to improve our balance sheet strength the Board has recommended a final dividend of 2.67p in respect of FY 17/18, making the total full-year dividend 4.0p per share (FY 16/17: 4.0p per share).

The following is the dividend timetable for the shareholders' information:

Ex-dividend date: 21 June 2018

Record date: 22 June 2018

Drip election date: 9 July 2018

Payment date: 6 August 2018.

Financial Review

We are pleased with progress one year into our three-year transformation programme. Culturally and operationally we are moving towards a One Mitie way of delivering our products and services. This has enabled us to simplify and streamline operational and financial processes across the organisation. We have reduced ongoing costs by delayering management infrastructures and centralising support functions such as IT, Finance and HR.

Adjusted operating profit before other items was impacted by the investment of transformation cost savings into improved customer service levels, technology and internal capabilities. These are the building blocks of our future growth plans. To deliver these transformation changes we have incurred a number of costs which are shown in other items, along with various impairments and other one-off charges.

We are operating comfortably within our financial covenants. In particular, our leverage ratio has remained below 2, notwithstanding a material reduction in our customer invoice discounting programme and an improvement in our supplier payment performance.

We have taken the decision to early-adopt IFRS 15, using the cumulative retrospective method, which means we have restated opening reserves rather than restating the prior year comparatives.

Following on from the Accounting Review undertaken last year, Mitie implemented a series of measures to strengthen its financial control environment. Management now operates a structured process for identifying material accounting judgements and a number of new internal Group accounting policies were put in place in areas such as trade receivables and accrued income provisioning. As part of converting to IFRS 15, Mitie has adopted a conservative contract asset accounting approach which will only enable certain strictly defined assets to be recognised on the balance sheet, with the remainder being expensed. We are also increasing the size of our internal audit team to enable a broader selection of areas to be audited each year.

During the year we have moved our finance transactional processing operations to our partner Genpact. This entailed the consolidation of activities in multiple locations across the UK into a single operations centre in Kolkata. Genpact have deep experience in improving efficiency, streamlining processes and codifying controls for a global blue-chip customer base. We expect to benefit from all these areas in the coming months once the initial transfer is fully bedded down.

Reported financial performance

Reported revenue and reported operating profit are set out below:

£m	**FY 17/18**	Restated FY 16/17	Change, %
Revenue	**2,203.7**	2,123.4	3.8
Operating profit/(loss) before other items	**89.6**	(6.3)	(1,522.2)
Other items	**(97.9)**	(36.6)	167.5
Operating loss	**(8.3)**	(42.9)	(80.7)

Reported revenue was £2,203.7m compared with £2,123.4m in FY 16/17. The Group reported an operating profit before other items of £89.6m compared with a loss of £6.3m in FY 16/17 which was a consequence of the Accounting Review carried out that year.

Note that the prior year comparatives have been restated due to an accounting error in respect of an under accrual of costs with a corresponding increase in accrued income and revenue. There was no impact on total net assets or operating profit. We have disclosed the impact of the restatement in Note 1 to the financial statements.

Reported balance sheet

£m	**FY 17/18**	FY 16/17	Change, %
Goodwill and intangible assets	**347.9**	397.1	(12.4)
Property, plant and equipment	**33.6**	32.3	4.0
Working capital balances	**(198.2)**	(152.0)	30.4
Net debt	**(193.5)**	(147.2)	31.5
Retirement benefit liabilities	**(56.8)**	(74.2)	(23.5)
Deferred tax	**35.9**	21.1	70.1
Other net assets	**7.1**	12.7	(44.1)
Total net (liabilities)/assets	**(24.0)**	89.8	(126.7)

The Group had reported net liabilities at 31 March 2018 of £24.0m (2017: net assets £89.8m). The £113.8m reduction is primarily driven by the adoption of IFRS 15, which is explained in more detail later in this review.

Basis of comparatives – Alternative Performance Measures (APMs)

To enable an effective comparison of our year-on-year performance, FY 17/18 is shown pre-IFRS 15 and FY 16/17 is shown for continuing operations on the previously reported APMs, per last year's published Annual Report and Accounts, as restated. The APMs are referred to as 'adjusted revenue', 'adjusted operating profit', 'adjusted other items', 'adjusted net assets' and 'adjusted cash flows'. Further details can be found in Note 1 and the Appendix to the financial statements.

FY 17/18 APMs: Mitie has adopted the IFRS 15 revenue recognition accounting standard from 1 April 2017 using the cumulative retrospective method. This leads to an adjustment to reserves on the date of adoption rather than a restatement of the comparative periods presented. As a consequence, unless otherwise stated, all figures presented are presented pre-IFRS 15 adoption, in order to retain comparability with prior year results. We have disclosed the impact of IFRS 15 for each line item in the financial statements in Note 1 to the consolidated financial statements. The FY 17/18 APMs adjust for the impact of IFRS 15.

FY 16/17 APMs: As a result of the Accounting Review in FY 16/17, which led to asset write-downs of a non-recurring nature, the FY 16/17 APMs have been provided to facilitate a comparative assessment between FY 17/18 and FY 16/17. The FY 16/17 APMs adjust for one-off items.

Adjusted financial performance

£m	**FY 17/18**	FY 16/17	Change, %
Revenue	**2,199.1**	2,140.0	2.8
Operating profit before other items	**77.1**	82.0	(6.0)
Operating margin	***3.5%***	*3.8%*	*(0.3ppt)*

Adjusted revenue was £2,199.1m (2017: £2,140.0m), representing growth of 2.8% during Mitie's first year of transformation. Adjusted operating profit before other items of £77.1m represents a drop of 6.0%. This reduction is a consequence of investment in customers, technology and capability more than offsetting growth in the profitability of contracts and cost savings from the transformation programme.

Adjusted balance sheet

£m	**FY 17/18**	FY 16/17	Change, %
Goodwill and intangible assets	**348.9**	397.1	(12.1)
Property, plant and equipment	**33.8**	32.3	4.6
Working capital balances	**(83.8)**	(152.0)	(44.9)
Net debt	**(193.5)**	(147.2)	31.5
Retirement benefit liabilities	**(56.8)**	(74.2)	(23.5)
Deferred tax	**16.9**	21.1	(19.9)
Other net assets	**4.3**	12.7	(66.1)
Total net assets	**69.8**	89.8	(22.3)

The Group's adjusted net assets reduced at 31 March 2018 to £69.8m (2017: £89.8m). The £20.0m reduction is primarily driven by impairment and amortisation of goodwill and other intangible assets of

£58.5m and an increase in net debt of £46.3m, partly offset by intangible asset additions of £10.1m, a working capital movement of £68.2m, and a reduction in the net deficit on defined benefit pension schemes of £17.4m. These movements are explained in more detail later in the report.

IFRS 15

NO IMPACT	KEY AREAS OF ADJUSTMENT
• To lifetime revenue or lifetime profitability of contracts	• Derecognition of accrued income assets previously recognised on long-term complex contracts following the elimination of percentage of completion accounting • Derecognition of mobilisation assets not meeting the more stringent criteria under IFRS 15 • Derecognition of work in progress assets where control of output is yet to pass to the customer on contracts where revenue is recognised over time
• To cash flows of contracts	• Higher deferred income recognised from customer payments made in advance of delivering contract outcomes and where significant contracted discounts including extension discounts have been offered

The Group has early adopted IFRS 15 effective from 1 April 2017 in line with its goal to simplify the business and improve transparency. The adoption of IFRS 15 improves the alignment of financial results with the cash flows of contracts. The effect of adopting IFRS 15 is a reduction of £108.2m in the opening net assets as at 1 April 2017 and an increase of £12.5m in reported operating profit before other items for FY 17/18.

Our adoption process followed the principles set out in the standard's five step model:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when or as the entity satisfies its performance obligations.

This process identified the following six key areas of adjustment discussed in more detail below:

- percentage of completion accounting;
- mobilisation assets;
- design and development and other upfront fees;
- accrued income and contract assets;
- work in progress; and
- contracted discounts including extension discounts.

IFRS 15 gives rise to changes in the timing of revenue and cost recognition but does not impact the lifetime profitability or the cash flow of contracts. The main changes for Mitie from the adoption of the accounting standard are on its long-term contracts. In particular:

- revenue is more evenly matched over the life of contracts in line with the delivery of outcomes to clients and, consequently, the timing of profits is re-profiled;
- in certain cases there will be lower profits, or even losses, in the early years of contracts where there are significant upfront restructuring or mobilisation costs, with a compensating increase in profits in later years;
- the overall impact on the income statement at Group level is a function of the balance of contracts in the early or late stage of their lifecycle. For FY 17/18, the impact is a £12.5m increase in operating profit before other items;
- a number of contract related assets have been derecognised, comprising of the accrued income balance associated with percentage of completion accounting, work in progress where control is yet to pass to the client and cannot be reliably estimated, and the elimination of certain deferred mobilisation costs that do not meet the more stringent criteria of recognition as an asset under IFRS 15;
- the Group's balance sheet under IFRS 15 includes limited contract assets created in the process of mobilising and transforming services;
- there is an increase in the level of deferred income in relation to contracts where advance payments have been received from clients to undertake work prior to the recognition of revenue and planned outcomes being delivered. Deferred income will unwind over the life of contracts; and

- due to the changes in the pattern and timing of revenue and cost recognition under IFRS 15, and the resulting adjustment to opening reserves on 1 April 2017, the principles of IAS 12 give rise to a movement in deferred tax, primarily an increase in the deferred tax asset recognised.

The impact on reported net assets as at 1 April 2017 and on the reported revenue and reported operating profit before other items recognised for the year ended 31 March 2018 for the Group are as follows:

£m	Net assets 1 April 2017	Revenue FY 17/18	Operating profit before other items FY 17/18
Pre-IFRS 15	89.8	2,199.1	77.1
IFRS 15 adjustments:			
Percentage of completion accounting	(50.2)	7.6	7.6
Mobilisation assets	(24.9)	(0.6)	4.4
Design and development and other upfront fees	(30.1)	3.1	3.3
Accrued income and contract assets	-	-	1.0
Work in progress	(26.5)	(6.1)	(4.6)
Contracted discounts including extension discounts	(1.5)	0.6	0.8
Tax	25.0		
Total IFRS 15 adjustments	(108.2)	4.6	12.5
As reported under IFRS 15	(18.4)	2,203.7	89.6

Divisional breakdown of adjusted financial performance

Adjusted revenue, £m	**FY 17/18**	FY 16/17	Change, %
Engineering Services	**833.8**	803.7	3.7
Security	**431.7**	403.7	6.9
Professional Services	**90.8**	96.6	(6.0)
Cleaning & Environmental Services	**405.5**	399.2	1.6
Care & Custody	**62.3**	46.4	34.3
Catering	**137.1**	132.7	3.3
Property Management	**237.9**	257.7	(7.7)
Total	**2,199.1**	2,140.0	2.8

Adjusted operating profit/(loss) before other items, £m	**FY 17/18**	FY 16/17	Change, %
Engineering Services	**35.5**	33.0	7.6
Security	**25.2**	21.6	16.7
Professional Services	**7.0**	9.3	(24.7)
Cleaning & Environmental Services	**19.8**	20.9	(5.3)
Care & Custody	**3.2**	2.9	10.3
Catering	**5.0**	5.3	(5.7)
Property Management	**7.9**	12.3	(35.8)
Corporate centre	**(26.5)**	(23.3)	(13.7)
Total	**77.1**	82.0	(6.0)

The Group's adjusted revenue increased in the year, from £2,140.0m to £2,199.1m. This was principally due to good revenue growth in Security, Care & Custody and Engineering Services offset by significant volume declines in Property Management and a smaller reduction in Professional Services. Adjusted operating profit before other items fell by 6.0% in the year from £82.0m to £77.1m, reflecting investments made to enhance customer services, investment in technology and capability in Professional Services and corporate centre, and the volume declines in Property Management, partly offset by solid growth from both the Security and Engineering Services divisions.

Adjusted other items before discontinued operations

Adjusted other items before tax total £103.0m (2017: £36.6m). £34.6m (2017: £15.0m) relates to impairment of the Property Management goodwill which is further described below. £47.3m (2017: £14.9m) is related to organisational change, to support the Group's cost efficiency and transformation programmes, and specifically relates to consultancy and project management for the change process, redundancy and double running costs, property closure costs, and assets written off as a function of the transformation programme. Of this, £34.7m relates to Project Helix. £8.4m (2017: £6.7m) relates to the amortisation of acquisition related intangible assets, business acquisition costs and costs associated with the aborted disposal of Property Management. Other exceptional items of £12.7m include £3.3m for settlement of a contractual dispute, £3.1m in relation to contract terminations and extensions, £2.3m in relation to costs associated with various regulatory enquiries, £1.9m relating to pension curtailments, £1.3m for property dilapidations, and £0.8m of IFRS 15 adoption costs. The tax credit on other items was £11.7m (2017: £4.1m) resulting in other items after tax of £91.3m (2017: £32.5m). As noted above, as a result of the Accounting Review, a number of one-off items in the FY 16/17 financial statements were included in the loss before other items rather than in other items, and adjusted through the APMs to provide a more meaningful comparison.

Tax contribution

The Group manages both direct and indirect taxes to ensure that it pays the appropriate amount of tax in each country whilst respecting the applicable tax legislation, where appropriate utilising any legislative reliefs available. The strategy is reviewed regularly and is endorsed by the Board.

Mitie is a significant contributor of revenues to the UK Exchequer, paying £481.2m in the year ended 31 March 2018 (2017: £534.4m). This comprised £492.8m of indirect taxes including business rates, VAT and payroll taxes paid and collected, less an £11.6m refund of UK corporation tax. The tax refund was due to the utilisation of losses resulting from the accounting adjustments in the prior year's accounts. As Mitie's business is primarily based in the UK, the effective tax rate should track the UK statutory tax rate. Losses reported as a consequence of the adjustments to the balance sheet following the adoption of IFRS 15 will reduce the Group's corporation tax payments over the next few years.

Discontinued operations

Following a strategic review of the operations of the Group earlier in the year, a sale process was initiated in connection with the Property Management business. It was therefore classified as a discontinued operation in the half-yearly financial report for the six months ended 30 September 2017. On 5 December 2017, Mitie confirmed that it had withdrawn the Property Management business from sale, as none of the indicative offers received were at an acceptable level.

It has therefore been classified as a continuing operation as at 31 March 2018 and will now be integrated into the Engineering Services division.

On 28 February 2017, the Group completed the sale of its Healthcare division following the Board's decision to withdraw from the domiciliary healthcare market. As a result of the disposal, the Healthcare business was classified as a discontinued operation for the year ended 31 March 2017.

Dividends

The full-year dividend is 4.0p per share (2017: 4.0p per share), comprising an interim dividend of 1.33p per share and a final dividend recommended by the Board of 2.67p per share.

Mitie Model

As previously signalled, the Group has ceased its past practice of creating Mitie Model jointly held companies, with specific earn out targets, and all remaining minority shareholder interests have been bought out during the year.

Adjusted goodwill and intangible assets

Adjusted goodwill and other intangible assets of £348.9m (2017: £397.1m) were held on the balance sheet at 31 March 2018. As part of its annual review of impairment the Group has updated its estimate of the recoverable amount of the Property Management cash-generating unit (CGU), principally due to changes in broader market conditions, which has resulted in an impairment charge of £34.6m being taken in other items. In addition, other intangible assets impairment charges, mainly relating to software development assets that are no longer in use, were £10.4m, and other intangible assets amortisation was £13.5m.

Other goodwill balances have been maintained and there were no acquisitions during the year giving rise to goodwill.

Adjusted cash flow

The Group took steps to strengthen its balance sheet during the year, including normalising its working capital position. Utilisation of non-recourse invoice discounting was reduced at the year-end and supplier payment performance was improved. Although this negatively impacted cash flow during the year, it resulted in a stronger underlying balance sheet position and an improved position for suppliers.

The adjusted operating cash inflow, before movements in working capital, was £49.6m (2017: £9.1m). This includes a cash outflow of £27.5m relating to other items charged to the income statement in FY 17/18.

Adjusted cash used in operations during the year was £6.6m (2017: cash generated £151.1m), as a result of a working capital outflow of £56.2m (2017: inflow £142.0m). The working capital movement is explained in more detail below.

After paying interest of £13.5m (2017: £12.7m) and corporate tax receipts of £11.6m (2017: paid £15.3m) the adjusted net cash outflow from operating activities was £8.5m (2017: inflow £122.8m). Capital expenditure reduced by £0.8m compared to the prior year, to £26.1m (2017: £26.9m). Dividends of £4.8m were paid in the year (2017: £37.4m). Other net cash outflows totalled £6.9m, including the settlement of amounts owed in connection with the disposal of Healthcare of £9.7m (2017: £27.4m, including share buybacks of £24.4m).

Overall, this resulted in an increase in the Group's net debt of £46.3m (2017: £31.1m decrease) to £193.5m (2017: £147.2m).

Adjusted working capital

As highlighted above, the Group took steps to normalise its working capital balances as part of a series of measures to strengthen its balance sheet. There were two main drivers explaining the working capital movement of £56.2m in FY 17/18.

Firstly, the Group reduced its non-recourse customer invoice discounting by £34.4m to £76.3m. The invoice discounting facilities are netted off against trade and other receivables within the balance sheet and therefore led to a working capital outflow from receivables of £34.4m (2017: £28.5m inflow). Excluding the impact of invoice discounting, there was an underlying decrease in receivables of £4.3m and total working capital increased by £21.8m.

The second factor was the measures taken to improve our supplier payment performance at the year end. Total payables reduced by £30.3m over the year as the Group improved its supplier payment days to 58 days (2017: 72 days).

Net debt

The Group's net debt increased by £46.3m to £193.5m as at 31 March 2018 (2017: £147.2m). However, average borrowings of £286.1m were £49.8m lower than the prior year (2017: £335.9m), of which £23.6m can be attributed to higher average invoice discounting (in contrast to the lower year-end position). As noted above, this increase in net debt can be attributed to the measures taken to reduce the year-end use of invoice discounting and to improve supplier payment performance. The Group is focused on continuing to drive further sustainable improvements to its average borrowings.

Liquidity and covenants

As at 31 March 2018, the Group had £466.5m of committed funding arrangements (2017: £526.8m), compared to net debt of £193.5m (2017: £147.2m). The £275m multi-currency Revolving Credit Facility (RCF) matures in July 2021. The £191.5m of US Private Placement notes are spread over three maturities: December 2019 £40.0m; December 2022 £121.5m; and December 2024 £30.0m. In December 2017, £60.2m of US Private Placement notes matured and this was funded as anticipated through existing facilities.

Mitie's two key covenant ratios are leverage (ratio of net debt to covenant EBITDA to be no more than 3 times) and interest cover (ratio of covenant EBITDA to net finance costs to be no less than 4 times). At the year end, we were operating comfortably within these ratios at 1.98 for leverage and 6.8 for interest cover.

Mitie's intention is to consistently maintain adequate headroom within its committed facilities. In addition to its committed funding, the Group utilises ancillary facilities, including invoice discounting of £76.3m (2017: £110.7m). The Group's trade creditors include amounts due to UK suppliers which make use of supply chain finance arranged by Mitie of £45.1m (2017: £39.5m).

Retirement benefit schemes

The net defined benefit pension liability at 31 March 2018 was £54.8m (2017: £70.7m) for the Mitie Group scheme. The reduction in the deficit is principally due to a 5bps increase in the discount rate driven by improvements in corporate bond rates since 31 March 2017. On 14 November 2017, the Group closed the final salary section of the main Mitie Group scheme to future accrual and the resulting annualised savings to the Group from FY 18/19 are expected to be in the region of £0.8m per annum. The latest valuation of the Mitie Group scheme as at 31 March 2017, indicated an actuarial deficit of £46.6m (31 March 2014: £6.0m), largely due to a fall in discount rates since 2014. The Group has negotiated, subject to final approval, a deficit recovery plan with the Trustee totalling £58.0m over 10 years, of which £3.0m was paid in FY 17/18.

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. At 31 March 2018, Mitie's net defined benefit pension liability in respect of these schemes, which it is committed to funding, amounted to £2.0m (2017: £3.5m).

In addition, the Group also participates in four industry multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme. These schemes are accounted for as defined contribution schemes, either because the assets and liabilities cannot be apportioned among employers or the amounts involved are not significant. Contributions to these schemes for FY 18/19 are expected to be approximately £0.1m. The Group is exposed to Section 75 employer debts in respect of two of these schemes. These liabilities crystallise when the Group ceases to have any active employees in the schemes. Further details can be found in Notes 18 and 19.

Conclusion

In line with recent Financial Reporting Council guidance, we will continue to simplify our operational and financial processes as we increase transparency and improve our internal control environment.

Operating Review

To enable an effective comparison of our performance, adjusted revenue and adjusted operating profit are presented for both FY 17/18 and FY 16/17 as Alternative Performance Measures (APMs). FY 17/18 adjusted numbers are presented on pre-IFRS 15 basis. FY 16/17 adjusted numbers are presented as per last year's published APM, for continuing operations, restated to reflect changes in management reporting implemented in 2018 for certain business unit activities transferring between segments. The order book is presented for continuing operations in line with IFRS 15 requirements for both FY 17/18 and FY 16/17.

Engineering Services

£m		FY 17/18	FY 16/17	*Change, %*
Revenue	Reported[1]	**840.7**	789.1	*6.5*
	Adjusted[2]	**833.8**	803.7	*3.7*
Operating profit / (loss) before other items	Reported[1]	**45.8**	(4.5)	*nm*
	Adjusted[2]	**35.5**	33.0	*7.6*
Order book[3]		**2,064.2**	2,095.2	*(1.5)*

[1] FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.

[2] Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.

[3] Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Operational performance

In FY 17/18, we enhanced the quality and efficiency of the service we provide to customers by creating more effective operational teams and streamlining internal processes; in FY 18/19 we will be further investing in state-of-the-art technology to continue this programme. As part of the overall re-shaping of the Engineering Services business, we have focused on reducing layers and increasing spans of control. As part of our One Mitie approach we have centralised our Group Sales team, who service our key national accounts, to ensure our customers receive the highest quality of care and service.

During the year, we continued to invest in our key client relationships. We also introduced Client Operations Executive roles (aligned with the sales structure) to drive clear accountability for the overall performance for our largest and most valuable customers.

To support our growth strategy, we have embarked on a multi-year transformation as part of the Mitie-wide Project Helix programme and we are already beginning to see the benefits of this. In FY 17/18, we faced a number of challenges in our operational delivery, but we are now starting to see major improvements in engineer utilisation and service delivery. We have made notable progress in the following focus areas:

- clearly defining our core operational metrics;
- sharing best practice on-job planning for our mobile workforce;
- redesigning the organisation for consistency and standardisation; and
- listening more to customer feedback.

As part of Engineering Services transformation programme, we launched Mitie Innovate, which was introduced at the end of 2017. A pilot region in London was chosen to test and improve initiatives before rolling them out to the rest of our national team. As part of the initial roll-out, we conducted 20+ ride-alongs with our mobile and site-based engineers to understand how they went about their day and how we could help provide a better experience for customers and our frontline teams. In the eight-week period following the launch of Mitie Innovate, we saw significant improvements in operational KPIs from

the frontline; for example, our engineers were 6% more productive (completing more jobs per productive hour), with some sub-regions improving by 20%. Their travel time reduced by 12% with some sub-regions showing a decrease by 30%; and the first-time fix rate improved by 4% with some sub-regions improving the first-time fix rate by 13%.

The integration of our core workforce has created a highly flexible and skilled team with optimal support systems. Workflow management for scheduling, tasking and billing will start to be introduced in FY 18/19 and our engineers will receive enhanced training and tools to enable them to continue to deliver the highest quality of service.

In the future, technology will be a key enabler for Engineering Services. It will be deployed to link outputs to the Connected Workspace, generating actionable data insights and providing the most responsive and valued service in the market. By using a combination of existing building systems and environment sensors, along with energy, asset and workplace data, we are providing tailored solutions to satisfy each client's unique requirements.

This year, Engineering Services won a multi-year contract for all Co-op's corporate sites, a 5.5-year extension with Heathrow Airport and further work with the Scottish Government. We also retained a significant contract with an NHS Trust. These wins and extensions offset the previously announced loss of a top-20 contract and of another, due to a merger.

Financial performance

The Engineering Services division reported adjusted revenue of £833.8m, an increase of 3.7% on the prior year of £803.7m, driven by good performances from both its core customer contracts (growth of 3%) as well as growth in its projects business. Adjusted operating profit before other items was £35.5m (FY 16/17 £33.0m) reflecting revenue growth and higher gross margins on net new contract wins versus losses. Cost savings from Project Helix were largely reinvested back into improvement in customer service levels, staff training and technology.

Notwithstanding the loss of an important top 20 contract, the outlook remains positive. We achieved a number of contract extensions and new business wins during the year, meaning the order book remains relatively stable at £2.1bn (FY 16/17: £2.1bn). The business is also planning a major investment into its workflow technology over the next couple of years which will improve the experience of our customers whilst also simplifying the business enabling a reduction in costs to serve.

Outlook

The significant focus within the Engineering Services division for FY 18/19 will be on our ongoing transformation. We have commenced the scoping phase, looking into asset and workflow scheduling. We are coming to the end of the discovery phase for the workflow transformation programme.

The objective of this stage of the transformation is to fully upgrade our end-to-end service delivery, from job receipts to billing, via process re-engineering, operational restructure and technology implementation. This will:

- improve first-time fix and customer experience by having the right details at enquiry;
- increase efficiency through better resource planning by matching right-skilled resource to the job;
- protect revenue and increase billing accuracy through automating time-sheeting and proof of work;
- improve delivery through better engineering capacity planning, upskilling labour and supply chain management; and
- better engage, inspire and manage our people.

Security

£m		FY 17/18	FY 16/17	*Change, %*
Revenue	Reported[1]	**432.0**	403.7	*7.0*
	Adjusted[2]	**431.7**	403.7	*6.9*
Operating profit before other items	Reported[1]	**27.5**	17.8	*54.5*
	Adjusted[2]	**25.2**	21.6	*16.7*
Order book[3]		**640.8**	724.3	*(11.5)*

[1] FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.

[2] Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.

[3] Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Operational performance

In FY 17/18, Mitie's Security division has renewed or expanded several major contracts, including with DP World Southampton, a major transport sector client, a major London Airport, Fujitsu, Durham University, Springfields Fuels Limited and TNT. Customer retention rate improved to 93.5% against 84% in the prior year. Notable new contract awards in FY 17/18 include a UK retailer, a global delivery services company and The Royal Academy of Arts.

Document Management has had another robust year, with client retention running at 98% and good organic growth. Key new customers include a global investment bank and an international law firm. We have seen the document management business recognised with two national PFM awards for work with our clients, PwC and Linklaters. Document Management launched two new product lines in FY 17/18: document production and examiner services, both focused on servicing the legal sector. The business has continued to develop its national coverage and now has a full-service offering ranging from managed print solutions and outsourcing of mail room activities, to a complete customised restructuring of document workflows and processes.

Our Front of House business, Signature, has had a good year, refocusing its market offering. The business has progressed under new leadership and moved towards a closer alignment with our wider security business, an example of this being the award of The Royal Academy of Arts contract. Our new identity, Signature, signifies a clear change in both the culture and future direction of the business and is underpinned by several impactful programmes to drive growth and sustainability, particularly in new business wins and client retention.

Procius, our employee vetting business, which is one of the UK's largest vetting providers, and the leader in the Transport and Aviation Sectors for pre-employment screening and criminal records checking services, continues to deliver strong growth. In FY 17/18, we saw increasing demand for our services across existing key customers in the Aviation Sector along with good contract wins, including a market leading logistics company, a leading company in the travel and tourism sector and a Premier League football club.

The security market remains highly competitive. We continue to focus on delivering sustainable growth through strong customer engagement, the provision of a comprehensive service offering and the promotion of the benefits of risk-based technology-led solutions. We strive to attract and retain our customers through the provision of exceptional service.

Financial performance

The Security division grew its adjusted revenue by 6.9% in FY 17/18 to £431.7m. This was achieved through new sales wins and record low contract terminations (with a retention rate of 93.5%). Adjusted operating profit before other items increased 16.7% to £25.2m with operational efficiencies and the growing use of technology adding to the impact of the improved top-line performance. Outside the main security businesses, good performances from Document Management and Front of House also contributed to the overall profit growth.

Innovation remains a core focus in Security. In FY 17/18 we developed and expanded our contract with a leading supermarket chain, with the introduction of SMART risk technology and 5,000 lone worker devices, aiding the full implementation of a risk-based deployment model. Technology-driven accounts now make up c.12% of the business. The order book is £640.8m, down from £724.3m, as the unwinding of large multi-year contracts more than offset new wins.

Within the Security business, technology and the Connected Workspace play an increasingly important role for both our existing and future customers. We have secured several excellent technology-enabled contracts from developing existing and new customers, including contract wins with an engineering company and a major UK retailer. The control centre for the 10-year Home Office Detention & Escorting contract won within Care & Custody will be located at MiTec in Belfast. We saw continued growth of contracts with legacy Fire customers, a telecommunications company and a leading financial services customer, and we also secured new maintenance customers in the NHS and with Rexel.

Outlook

We are optimistic and ambitious for the year ahead. Our focus continues to be on growing our Security business, offering customers tailored solutions, increasing the use of technology to ensure a safe environment and provide seamless operations and utilising data and analytics generated through our proprietary Connected Workspace offering.

Professional Services

£m		FY 17/18	FY 16/17	*Change, %*
Revenue	Reported[1]	**90.2**	96.6	*(6.6)*
	Adjusted[2]	**90.8**	96.6	*(6.0)*
Operating profit before other items	Reported[1]	**6.5**	6.7	*(3.0)*
	Adjusted[2]	**7.0**	9.3	*(24.7)*
Order book[3]		**75.5**	81.5	*(7.4)*

[1] FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.

[2] Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.

[3] Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Operational performance

During the year, within our recently established Professional Services (PS) division, the focus has been to bring together and align a number of businesses and service offerings, combining technical skills and teams to lay the foundations for future growth. This has included bringing in new senior leaders for our Occupier Services, Risk and Resilience and Connected Workspace businesses. In addition, we have added senior business development staff to help drive sales actively across the division.

The division started FY 17/18 with the headwind of two contract losses in Waste Management and the immediate focus was on replacing these revenues. Contract wins during FY 17/18, most significantly with two major manufacturing clients ensured that the Waste Management business revenue returned to growth in 2H 17/18. Notwithstanding the revenue impact from the prior year, the Waste Management team has delivered improved operating profit through a drive to simplify its cost structure and focus on profitable revenues.

The Energy component of our Sustainability business has performed well with significant wins, including a contract with a major telecommunications provider and a ground-source heat-pump project delivering significant carbon and cost savings to an engineering client. Consequently, it grew revenue by 16%, also demonstrating growth in operating profit and margin. Within the year we have brought our Water Management business into the PS division to complement our Sustainability offering. We are

restructuring this business to return it to growth following the completion of a Mitie earn-out and the departure of the previous management team at the end of FY 16/17.

We continue to win real estate consultancy and project management work as demonstrated by the award of two new significant international project management frameworks with global technology businesses.

Our Connected Workspace offer has moved from early pilot into deployment stages with a number of clients across Mitie and we are pleased to report that we have opened our Innovation Centre in Bracknell. Furthermore, we have agreed and implemented strategic partnerships with various world-class technology partners, including Microsoft and Vodafone. Working across the Group, the PS division continues to define, design, trial and sell our Connected Workspace technology solutions and capabilities to assist our clients in improving the performance of their buildings and people.

We have seen significant interest from existing and potential customers in all areas of our business in our Connected Workspace offering. We are now running nine live pilots at customer sites, with another 14 currently in the pipeline. 5,000 sensors have been deployed providing us with two million readings each day which are fed into our data lake informing insight into building and people performance and offering tangible solutions to our customers to improve results and save money.

Mitie's commitment to transforming and improving customer experience and service is further demonstrated by the investment in consulting services and support by the PS division. During the year, our professional services colleagues were deployed to work with our account management teams to drive improvement in the customer experience and service for many of our large FM clients. Given the work carried out to date, we do not expect the same volume of investment in internally focused engagement to be required in FY 18/19.

Financial performance

The two major Waste contract losses in the prior financial period saw the PS division start the year from a lower base, and overall the PS division reported adjusted revenue of £90.8m, down 6.0%. Adjusted operating profit before other items dropped to £7.0m (FY 16/17: £9.3m), with good performances in Waste & Sustainability driven by operational efficiency measures more than offset by investment in internal capabilities and in customer service. During the year the business also built Real Estate, Risk Management and International service capabilities further enhancing our consultancy offering.

The order book stands at £75.5m against FY 16/17 of £81.5m with this reduction driven mainly by a re-evaluation of our Water Management order book and the unwinding of large multi-year contracts, which have more than offset new wins.

Outlook

The division has recorded a number of contract wins at higher margins during FY 17/18 and, with an energised sales drive to generate new business in the year ahead, the division has closed the year with strong momentum. The revenue pipeline in our Real Estate Occupier Services consultancy, Connected Workspace and International service lines has begun to show encouraging growth; and our technology-led Connected Workspace strategy continues to support growth opportunities across Mitie.

This momentum has delivered fourth quarter FY 17/18 revenues 8.9% higher than those in the first quarter, providing a better trajectory into next year.

Our focus is to act as a trusted partner to our clients, creating exceptional environments for their customers and people and adding value every day. With the provision of world-class professional services, allied to intelligent use of technologies in our industry-leading Connected Workspace solutions, we create insights and solutions that make a difference.

Cleaning & Environmental Services

£m		FY 17/18	FY 16/17	*Change, %*
Revenue	Reported[1]	**406.4**	395.6	*2.7*
	Adjusted[2]	**405.5**	399.2	*1.6*
Operating profit before other items	Reported[1]	**21.5**	6.5	*230.8*
	Adjusted[2]	**19.8**	20.9	*(5.3)*
Order book[3]		**661.3**	736.0	*(10.1)*

[1] FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.

[2] Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.

[3] Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Operational performance

This year the Cleaning & Environmental Services (CES) division has stabilised following a period of decline; though it continues to face significant structural headwinds from service commoditisation, low barriers to entry and price competition. During the second half of the year, we appointed a new Managing Director for the division, Matthew Thompson, who has wide industry leadership experience, including eight years at Compass Group where he was Managing Director of the UK Sports & Leisure business, covering sector services, from catering to cleaning. The division is undergoing a significant restructuring, and we expect it to stabilise further this year and see steady improvement thereafter.

Despite a difficult trading year, the business continued to secure contracts with high-profile customers, including a new major multi-service contract with a major UK retailer and the West Hertfordshire Hospital NHS Trust and taking on the cleaning services from Carillion at Heathrow T5. This major contract was mobilised smoothly at extremely short notice.

The new multi-service contract with the West Hertfordshire Hospital NHS Trust, worth £55m over a five-year term with an optional extension of a further two years, builds on Mitie's existing strong portfolio of NHS clients. As part of the contract Mitie will be investing in new technology, including new digital software to enable the helpdesk to communicate more effectively across its four sites, we will also be utilising 'Moptimus Prime', the next generation in robot cleaning.

As part of the three-year integrated facilities contract with the Co-op, Mitie will be providing cleaning and landscaping services.

Our client retention rate for FY 17/18 was below expectations. Our NPS score tells a similar story and, though showing an improvement against the previous period, is still negative overall. The margin challenge in Cleaning Services has been exacerbated by an unfavourable change in contract mix during the year. We lost some high-margin contracts and at the same time mobilised material new contracts. In the short term this had an impact on the overall profitability of the business.

In response to the challenging cleaning sector market environment, we are simplifying our management and overhead structure; focusing on delivering our basic service well; and introducing improved technology for better workforce management. We are in the process of implementing Workplace+, a handheld-enabled, all-in-one operations portal for scheduling, payslips and supplies. The wide adoption of Workplace+ will allow the business to better communicate with our employees, measure and analyse productivity patterns, and enable rapid roll-out of best practices.

Financial performance

The CES division reported adjusted revenues of £405.5m (FY 16/17: £399.2m) and adjusted operating profit before other items of £19.8m (FY 16/17: £20.9m). After a period of decline, overall revenue was up 1.6% versus prior year, but the operating profit was down by 5.3%.

The industry backdrop for our core Cleaning business is one of general margin pressure. In FY 17/18, we saw this in several new contract wins which, whilst revenue enhancing, were margin dilutive. We expect to reverse this trend through Project Helix cost savings together with improved execution under new management.

Our Landscape Services business had a good year with both adjusted revenue and adjusted operating profit increasing. The business retained existing contracts, and acquired new ones, with particular success in the retail sector which has been a core target over the past two years.

The Pest Control and Healthcare Services businesses also had a solid year. Healthcare Services is a multi-service Mitie business, providing not just cleaning services, but portering, helpdesk, in-patient and retail catering. During the year, the Healthcare business addressed a number of difficult contracts, so we expect it to show growth over the coming years.

The CES order book stands at £661.3m (FY 16/17: £736.0m) as the unwinding of large multi-year contracts more than offset new wins.

Outlook

We believe that by focusing on the basics of delivery, simplifying the division's structure, implementing new technology that will enable us to improve our overall efficiency and communicate better with our frontline, we will further stabilise this business over the coming year. We are focused on delivering profitable growth in the future. Cleaning is a highly competitive low-margin mass-market business, but we believe that we can enjoy slightly better margins than we have today. We also view cleaning as a cornerstone of our FM offering in building our client relationships and successfully introducing the breadth and depth of our services, including our specialist services.

Care & Custody

£m		FY 17/18	FY 16/17	*Change, %*
Revenue	Reported[1]	**59.9**	46.4	*29.1*
	Adjusted[2]	**62.3**	46.4	*34.3*
Operating profit before other items	Reported[1]	**1.9**	2.2	*(13.6)*
	Adjusted[2]	**3.2**	2.9	*10.3*
Order book[3]		**670.1**	210.4	*218.5*

[1] FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.

[2] Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.

[3] Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Operational performance

In December 2017, we were pleased to report that Care & Custody had been awarded a 10-year Detention & Escorting contract with the Home Office to provide immigration services. It is the largest ever contract for Care & Custody, worth an estimated £525m. The award of such a significant contract reinforces Mitie's role as the largest supplier of immigration detention services to the UK Government and will double the division's size in FY 18/19.

Mitie will be responsible for escorting immigration detainees, both within the UK and overseas. The contract, which started on 1 May 2018, also includes the management of a number of fixed facilities throughout the UK, including airport holding rooms, reporting centres and two short-term holding facilities. Technology development programmes will be at the heart of the partnership with the Home Office, to transform the way that immigration escorting services are delivered. This focus on the use of new and emerging technologies will modernise working and operational practices to improve efficiency and de-risk removals.

In order to deliver high-quality services, Care & Custody needs to attract and retain high quality and talented people; it is therefore important we seek to create specific career paths and provide access to training and education. For example, we have created a new nurse-led police Forensic Medical Examiner delivery model where our lead nurses train to undertake over 90% of the role previously delivered by general practitioners. This opens up an opportunity for great career paths for our nurses and at the same time our police clients have highly qualified clinical professionals located permanently at their custody suite sites. This has the added benefit of dramatically reducing the waiting time for detainees before their healthcare needs are assessed, creating better outcomes for the service user and the police.

The business has secured c.£520m of new orders in the year. As well as the significant Home Office Detention & Escorting contract win, Care & Custody secured new contracts with several police forces, including Cleveland, West Mercia, Warwickshire, Staffordshire and Nottinghamshire, further cementing Care & Custody's position as the leading supplier of services in police FME and related areas.

In FY 17/18, Care & Custody was awarded a three-year contract by Nottinghamshire Police. Care & Custody will provide medical support services across two custody suites in the county. A 24/7 team will operate at both Bridewell and Mansfield sites, which include over 100 custodial cells. The specialist Mitie team will provide clinical assessments, address the immediate health needs of detainees and provide patients with onward referral pathways for ongoing health and wellbeing following custody.

Care & Custody already delivers these services to 13 police forces across the UK. These include six Sexual Assault Referral Centres and a Short-Term Holding Facility in Northern Ireland. Care & Custody's specialist teams conduct over 180,000 medical interventions every year in 62 police custody facilities. This expertise was instrumental during the Nottinghamshire Police tender process, with scenario responses and the overall value of its proposition setting Care & Custody apart from the competition.

Not only does this contract build on the Care & Custody team's strong track record, this new work with Nottinghamshire Police establishes an East Midlands hub of expertise as it borders with another existing Care & Custody contract in Leicestershire.

Financial performance

Care & Custody had a good year, delivering growth of 34.3% in adjusted revenue, up from £46.4m in the previous year to £62.3m. This significant growth is a result of a solid stream of contract wins in custodial and Forensic Medical Examiner services throughout the year, as well as the mobilisation of the Home Office Detention & Escorting contract. As the contract only went live in May 2018, the main benefits will be realised in FY 18/19 and beyond.

Adjusted operating profit before other items grew to £3.2m (FY 16/17: £2.9m). The growth was driven by the new contract wins whilst the operating margin was diluted by business development costs as we invested in building future growth.

The order book increased significantly to £670.1m (FY 16/17: £210.4m) following the transformational Detention & Escorting contract which will double the size of the Care & Custody division.

Outlook

Our sales pipeline remains positive. There are major opportunities with central government through the second half of 2018 with decisions due in early 2019. Care & Custody is well placed to secure further growth as our scale and reach increase and with few experienced competitors in our markets.

The success of the business is built upon our ability to deliver outstanding value-for-money public services to the people in our care, whilst maintaining the confidence of our commissioners, inspectors, regulators, government and the general public. Our leadership team is highly experienced, well-respected in the market and focused upon building long-term relationships, ensuring we have a clear understanding of our clients' needs, so we can develop service design solutions that meet and exceed their expectations. We recognise that our policies and processes must reflect and respond to relevant legislation, and actively embrace external regulatory scrutiny. We underpin these principles by promoting a culture of openness, transparency and high performance.

Catering

£m		FY 17/18	FY 16/17	*Change, %*
Revenue	Reported[1]	**137.1**	134.3	*2.1*
	Adjusted[2]	**137.1**	132.7	*3.3*
Operating profit before other items	Reported[1]	**5.6**	4.7	*19.1*
	Adjusted[2]	**5.0**	5.3	*(5.7)*
Order book[3]		**34.7**	29.4	*18.0*

[1] FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.

[2] Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.

[3] Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Operational performance

Against the backdrop of continuing challenging sector dynamics, including the continued impact of food price and labour inflation, as well as a general reduction in discretionary spending across the hospitality sector, our Catering division has delivered solid revenue growth, developed its pipeline and secured some key new contract wins during the period.

Gather & Gather continues to offer a differentiated proposition within a market which has undergone further consolidation over the last 12 months. We continue to be a distinctive quality alternative to the large corporate caterers who dominate the mass market. Specifically, our market-leading technology continues to drive consumer behaviour in our contracts, and as testament to this, we were delighted to be recognised with a Best Use of Technology Award by the Restaurant Marketer & Innovation Awards in January 2018. Gather & Gather is also proud to have re-secured the maximum three-star rating from the Sustainable Restaurant Association, recognising our positive progress in three areas of sourcing, society and the environment.

During FY 17/18, Catering won a contract with a major online retailer in Ireland, as well as contracts within our integrated FM offerings, such as the three-year integrated facilities contract for all the Co-op's corporate sites to provide tailored catering through Mitie's Gather & Gather business.

Mitie was awarded the three-year contract with the Co-op following a competitive tender process. The contract covers cleaning, landscaping, engineering services, security, front of house, catering and waste. These services will be delivered in a manner to fully reflect the Co-op's commitment to sustainability and employee wellbeing.

Gather & Gather offers a fresh approach to food, working closely with independent and local suppliers to stay ahead of market trends. Its focus on sustainable sourcing and value for money aligns with the Co-op's sustainability and diversity ambitions. Gather & Gather will introduce pop-ups and food truck events in partnership with local suppliers to bring innovation and variety to lunchtime breaks. Further investments in technology will enhance the experience for Co-op colleagues purchasing beverages on site with a launch of a pre-order service through a mobile app, as well as a daily menu microsite.

After two difficult years' trading, it is notable that Creativevents has been successful in re-securing some prestigious and long-standing clients such as RHS Chelsea Flower Show and Royal Ascot. The business unit was also successful in winning some high-volume concert and festival work at the end of April 2018.

Post the year-end the division won an exciting contract to provide bar and food services at BBC Music's The Biggest Weekend. Four festivals took place at four sites over the four days of the late May Bank Holiday weekend (25-28 May 2018). The Biggest Weekend saw BBC Radio 1, BBC Radio 2, BBC Radio 3 and BBC Radio 6 Music stations bring live music to crowds of over 175,000. The financial impact of this contract will be reported in FY 18/19.

Financial performance

Adjusted revenue grew by 3.3% to £137.1m (FY 16/17: £132.7m) driven by the full-year impact of new contract wins in Ireland, volume increases in new events at Creativevents, partially offset by a shortfall in Gather & Gather UK.

The gross margin remained stable after a series of cost saving measures were taken to offset food and labour input price inflation. These included menu changes and tighter staffing schedules.

Whilst the business turned around and exited less profitable contracts in Creativevents and Gather & Gather Ireland, the division's adjusted operating profit before other items decreased by 5.7% to £5.0m (FY 16/17: £5.3m).

The order book for the Catering division increased from £29.4m in FY 16/17 to £34.7m in FY 18/19 driven by contract wins.

Outlook

Having attracted some experienced new talent to the team, momentum for the next 12 months is building. We continue to see opportunities for organic growth through our customisable, modern and high-quality offer, complemented by our market-leading approach to wellbeing and our unique understanding of workplace dynamics and the role of food and hospitality in boosting staff morale, engagement and productivity. As a key component of Mite's Connected Workspace strategy, the insights and data we collect and receive are invaluable in helping us understand how best to add value to our customers' working day.

Property Management

£m		FY 17/18	FY 16/17	Change, %
Revenue	Reported[1]	**237.4**	257.7	*(7.9)*
	Adjusted[2]	**237.9**	257.7	*(7.7)*
Operating profit before other items	Reported[1]	**7.3**	(4.5)	*(262.2)*
	Adjusted[2]	**7.9**	12.3	*(35.8)*
Order book[3]		**348.7**	515.0	*(32.3)*

[1] FY 17/18 reported on post-IFRS 15 basis and FY 16/17 on a reported basis.

[2] Presented on an Alternative Performance Measure (APM) basis: FY 17/18 pre-IFRS 15; FY 16/17 per prior year APM.

[3] Order book for both years reported under IFRS 15 guidelines which mandate us to include only fixed-term contracted work and exclude variable work.

Operational performance

FY 17/18 has been a challenging year for Property Management. The management team's attention was diverted whilst the division was considered for sale; it was later withdrawn from sale in December 2017. Now back in the Mitie portfolio, we have included Property Management within our overall transformation programme.

Within its core maintenance services operations, the business has focused on investing in people, and delivering the best quality service to customers at the right cost. Over the course of FY 17/18, Property Management was successful in winning a number of new contracts in Scotland, expanding its operational and geographical footprint. Of particular note was a contract with was Aberdeenshire Council as part of their Housing Improvement Plan, with a four-year strategic objective to improve the housing stock in line with Scottish Housing Quality Standards and the energy improvement objectives under the Energy Efficiency Standard for Social Housing. Mitie is focused on delivering services worth £40m over the four-year term. Other notable contract wins included:

- Maryhill Housing Association in Glasgow. This contract will see Mitie deliver a range of reactive repairs and maintenance works over the three-year contract, which has an optional two-year extension;

- North Lanarkshire Council, with a contract valued at £3.1m per annum;
- The renewal of a partnership with Oak Tree Housing Association will see Mitie deliver the second phase of maintenance services to 300 properties;
- A Paisley-based housing association, Williamsburgh, and Sanctuary Scotland added to our growing list of social housing customers. Williamsburgh is a four-year contract worth £2.8m; and
- The refurbishment of 150 homes for displaced residents from Grenfell Tower under a contract with the London Borough of Kensington and Chelsea.

Our goal is to differentiate our offering in a relatively commoditised market, by creating long-term, sustainable partnerships that offer our customers innovative solutions and services. We have identified four key focus areas based upon client needs: tackling fuel poverty, fire safety, innovation, and cost planning efficiencies.

Technology has been an integral part of our integrated and partnership offerings, as it brings efficiency and decision-making benefits to our clients. The focus is on leveraging the Group's technology capabilities to support our unique asset management solution for Property Management, using it to build bespoke solutions to reduce call handling requirements, associated costs and to improve customer experience.

Financial performance

Property Management reported adjusted revenue of £237.9m (FY 16/17: £257.7m), down 7.7% year-on-year. This reduction dropped through to adjusted operating profit before other items which was down 35.8% to £7.9m (FY 16/17: £12.3m). In addition, there was a bad debt charge relating to a prior year contract of £1.4m. The division was impacted by a shortfall in capital spend by major clients and lower high-margin project revenue.

In the post-Grenfell environment, one of our large customers has delayed planned investment in its housing stock with the expectation that funds will be diverted to risk and compliance related improvements. This also impacted the division's performance.

Difficult trading conditions defined by continued spending cuts by customers impacted the order book which declined to £348.7m (FY 16/17: £515.0m).

Outlook

Market conditions remain challenging and the main focus for the next 12 months is to re-energise the business, get the basics right, continue to invest in our people, deliver the highest quality service to customers – at the right cost – and to invest in the communities in which we work.

In FY 18/19, Mitie Property Management's businesses, comprising roofing, painting and social housing, will be integrated into Engineering Services. There are considerable synergistic benefits to be achieved by combining Property Management into Engineering Services which will enhance efficiency and customer service.

Consolidated income statement

For the year ended 31 March 2018

	Notes	2018 Before other items £m	2018 Other items[1] £m	2018 Total £m	Restated 2017[1,2] Before other items £m	Restated 2017[1,2] Other items[1] £m	Restated 2017[1,2] Total £m
Continuing operations							
Revenue	3	**2,203.7**	**–**	**2,203.7**	2,123.4	–	2,123.4
Cost of sales		**(1,894.8)**	**–**	**(1,894.8)**	(1,893.6)	–	(1,893.6)
Gross profit		**308.9**	**–**	**308.9**	229.8	–	229.8
Administrative expenses		**(220.1)**	**(97.9)**	**(318.0)**	(236.7)	(36.6)	(273.3)
Share of profit of joint ventures and associates		**0.8**	**–**	**0.8**	0.6	–	0.6
Operating (loss)/profit	3	**89.6**	**(97.9)**	**(8.3)**	(6.3)	(36.6)	(42.9)
Investment revenue		**0.2**	**–**	**0.2**	–	–	–
Finance costs		**(16.6)**	**–**	**(16.6)**	(15.3)	–	(15.3)
Net finance costs		**(16.4)**	**–**	**(16.4)**	(15.3)	–	(15.3)
(Loss)/profit before tax	3	**73.2**	**(97.9)**	**(24.7)**	(21.6)	(36.6)	(58.2)
Tax	5	**(12.0)**	**10.7**	**(1.3)**	3.3	4.1	7.4
(Loss)/profit from continuing operations after tax		**61.2**	**(87.2)**	**(26.0)**	(18.3)	(32.5)	(50.8)
Discontinued operations							
Loss from discontinued operations		**–**	**–**	**–**	(11.4)	(121.0)	(132.4)
(Loss)/profit for the year		**61.2**	**(87.2)**	**(26.0)**	(29.7)	(153.5)	(183.2)
Attributable to:							
Equity holders of the parent		**60.1**	**(87.2)**	**(27.1)**	(30.5)	(153.5)	(184.0)
Non-controlling interests		**1.1**	**–**	**1.1**	0.8	–	0.8
		61.2	**(87.2)**	**(26.0)**	(29.7)	(153.5)	(183.2)
(Loss)/earnings per share (EPS) attributable to equity shareholders of the parent							
From continuing operations:							
basic	7	**16.8p**		**(7.6)p**	(5.5)p		(14.7)p
diluted	7	**16.8p**		**(7.6)p**	(5.5)p		(14.7)p
From continuing and discontinued operations:							
Basic	7	**16.8p**		**(7.6)p**	(8.7)p		(52.4)p
Diluted	7	**16.8p**		**(7.6)p**	(8.7)p		(52.4)p

Note:

1. Other items are as described in Note 4.

2. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

Consolidated statement of comprehensive income

For the year ended 31 March 2018

	Notes	2018 £m	Restated 2017[1] £m
Loss for the year		**(26.0)**	(183.2)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of net defined benefit pension liability	19	**19.7**	(35.4)
Income tax (charge)/credit relating to items not reclassified		**(3.4)**	5.5
		16.3	(29.9)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**0.1**	1.3
Gains on hedge of a net investment taken to equity		**0.4**	0.1
Net gains/(losses) on cash flow hedges arising during the year		**0.1**	(4.8)
Income tax credit relating to items that may be reclassified		**0.1**	0.3
		0.7	(3.1)
Other comprehensive income/(expense) for the financial year		**17.0**	(33.0)
Total comprehensive expense for the financial year		**(9.0)**	(216.2)
Attributable to:			
Equity holders of the parent		**(10.1)**	(217.0)
Non-controlling interests		**1.1**	0.8

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

Consolidated balance sheet

As at 31 March 2018

	Notes	2018 £m	Restated 2017[1,2] £m
Non-current assets			
Goodwill	8	**309.6**	343.9
Other intangible assets	9	**38.3**	53.2
Property, plant and equipment		**33.6**	32.3
Interest in joint ventures and associates		**0.8**	0.6
Derivative financial instruments	14	**6.1**	–
Trade and other receivables	10	**–**	50.3
Contract assets[2]	11	**1.8**	–
Deferred tax assets	12	**36.7**	22.2
Total non-current assets		**426.9**	502.5
Current assets			
Inventories		**6.9**	6.8
Trade and other receivables	10	**386.0**	395.6
Contract assets[2]	11	**0.4**	–
Derivative financial instruments	14	**–**	35.8
Current tax assets		**6.3**	12.1
Cash and cash equivalents	16	**59.8**	129.1
Total current assets		**459.4**	579.4
Total assets		**886.3**	1,081.9

	Notes	2018 £m	Restated 2017[1] £m
Current liabilities			
Trade and other payables		**(496.8)**	(574.5)
Deferred income	13	**(46.2)**	–
Financing liabilities		**(0.8)**	(310.8)
Provisions	15	**(25.2)**	(20.4)
Total current liabilities		**(569.0)**	(905.7)
Net current liabilities		**(109.6)**	(326.3)
Non-current liabilities			
Trade and other payables		**–**	(3.4)
Deferred income	13	**(18.8)**	–
Financing liabilities		**(258.6)**	(1.3)
Provisions	15	**(6.3)**	(6.4)
Retirement benefit liabilities	19	**(56.8)**	(74.2)
Deferred tax liabilities	12	**(0.8)**	(1.1)
Total non-current liabilities		**(341.3)**	(86.4)
Total liabilities		**(910.3)**	(992.1)
Net (liabilities)/assets		**(24.0)**	89.8

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. At 31 March 2018, contract assets comprise pre contract costs and contract fulfilment costs capitalised in accordance with IFRS 15 and the Group's internal accounting policy.

	2018 £m	Restated 2017[1] £m
Equity		
Share capital	**9.3**	9.2
Share premium account	**130.6**	130.6
Merger reserve	**104.2**	91.8
Own shares reserve	**(43.4)**	(42.2)
Other reserves	**11.3**	10.3
Hedging and translation reserve	**(7.3)**	(8.0)
Retained losses	**(228.7)**	(104.2)
Equity attributable to equity holders of the parent	**(24.0)**	87.5
Non-controlling interests	**–**	2.3
Total equity	**(24.0)**	89.8

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

The consolidated financial statements of Mitie Group plc, company registration number SC019230 were approved by the Board of Directors and authorised for issue on 6 June 2018. They were signed on its behalf by:

Phil Bentley
Chief Executive Officer

Paul Woolf
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 March 2018

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares reserve £m	Other reserves[2] £m	Hedging and translation reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
At 1 April 2016	9.3	127.7	80.1	(48.8)	9.9	(4.6)	185.0	**358.6**	2.9	**361.5**
Loss for the year	–	–	–	–	–	–	(184.0)	**(184.0)**	0.8	**(183.2)**
Other comprehensive expense	–	–	–	–	–	(3.4)	(29.6)	**(33.0)**	–	**(33.0)**
Total comprehensive expense	–	–	–	–	–	(3.4)	(213.6)	**(217.0)**	0.8	**(216.2)**
Shares issued	0.1	2.9	11.7	–	–	–	–	**14.7**	–	**14.7**
Dividends paid	–	–	–	–	–	–	(37.4)	**(37.4)**	(0.1)	**(37.5)**
Share buybacks	(0.2)	–	–	(0.2)	0.4	–	(24.4)	**(24.4)**	–	**(24.4)**
Share-based payments	–	–	–	6.8	–	–	2.4	**9.2**	–	**9.2**
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	(16.2)	**(16.2)**	(1.3)	**(17.5)**
At 31 March 2017	9.2	130.6	91.8	(42.2)	10.3	(8.0)	(104.2)	**87.5**	2.3	**89.8**
Balance at 1 April 2017	9.2	130.6	91.8	(42.2)	10.3	(8.0)	(104.2)	**87.5**	2.3	**89.8**
Impact of change in accounting policy[1]	–	–	–	–	–	–	(108.2)	**(108.2)**	–	**(108.2)**
Adjusted balance at 1 April 2017	9.2	130.6	91.8	(42.2)	10.3	(8.0)	(212.4)	**(20.7)**	2.3	**(18.4)**
Loss for the year	–	–	–	–	–	–	(27.1)	**(27.1)**	1.1	**(26.0)**
Other comprehensive income	–	–	–	–	–	0.7	16.3	**17.0**	–	**17.0**
Total comprehensive income	–	–	–	–	–	0.7	(10.8)	**(10.1)**	1.1	**2.9**
Dividends paid	–	–	–	–	–	–	(4.8)	**(4.8)**	–	**(4.8)**
Share-based payments	–	–	–	6.9	1.0	–	0.3	**8.2**	–	**8.2**
Acquisitions and other movements in non-controlling interests	0.1	–	12.4	(8.1)	–	–	(1.0)	**3.4**	(3.4)	**–**
At 31 March 2018	9.3	130.6	104.2	(43.4)	11.3	(7.3)	(228.7)	**(24.0)**	–	**(24.0)**

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Other reserves include the share-based payments reserve, the revaluation reserve and the capital redemption reserve.

Consolidated statement of cash flows

For the year ended 31 March 2018

		Notes	**2018 £m**	Restated 2017 £m
Operating loss	– continuing operations		**(8.3)**	(42.9)
	– discontinued operations		**–**	(135.2)
Adjustments for:				
Share-based payments expense			**4.6**	6.2
Defined benefit pension charge		19	**3.1**	4.3
Past service cost and curtailments		19	**1.9**	–
Defined benefit pension contributions		19	**(4.7)**	(2.4)
Acquisition costs		4	**–**	1.2
Depreciation of property, plant and equipment			**12.8**	14.1
Amortisation of intangible assets		9	**13.5**	23.8
Share of profit of joint ventures and associates			**(0.8)**	(0.6)
Impairment of goodwill and intangible assets		8,9	**45.0**	109.2
Loss on disposal of businesses			**0.2**	30.4
(Gain)/loss on disposal of property, plant and equipment			**(0.1)**	1.0
Operating cash flows before movements in working capital			**67.2**	9.1

	Notes	2018 £m	Restated 2017 £m
(Increase)/decrease in inventories		**(0.1)**	3.2
(Increase)/decrease in receivables		**(43.2)**	60.2
(Increase)/decrease in contract assets		**(2.3)**	–
Decrease in deferred income arising on contracts		**(12.8)**	–
(Decrease)/increase in payables		**(21.2)**	73.0
(Decrease)/increase in provisions		**4.5**	5.6
Cash (used in)/generated by operations		**(7.9)**	151.1
Income taxes received/(paid)		**11.6**	(15.3)
Interest paid		**(13.5)**	(12.7)
Acquisition costs	4	**–**	(0.3)
Net cash (outflow)/inflow from operating activities		**(9.8)**	122.8
Investing activities			
Interest received		**0.2**	0.1
Purchase of property, plant and equipment		**(15.8)**	(14.5)
Dividends received from joint ventures and associates		**0.6**	0.6
Purchase of other intangible assets	9	**(9.0)**	(12.4)
Disposals of property, plant and equipment		**1.6**	1.0
Disposal of subsidiaries, including cash disposed		**(9.7)**	(1.7)
Net cash outflow from investing activities		**(32.1)**	(26.9)

	Notes	2018 £m	Restated 2017 £m
Financing activities			
Repayments of obligations under finance leases		**(1.5)**	(1.6)
Proceeds on issue of share capital		**–**	0.1
Private placement notes repaid and associate hedges settled		**(60.2)**	–
Proceeds from new borrowings		**38.3**	1.7
Proceeds from re-issue of treasury shares		**3.4**	2.4
Purchase of non-controlling interests		**(3.0)**	(1.4)
Share buybacks		**–**	(24.4)
Equity dividends paid	6	**(4.8)**	(37.4)
Non-controlling interests dividends paid		**–**	(0.1)
Other financing items		**–**	0.4
Net cash outflow from financing activities		**(27.8)**	(60.3)
Net (decrease)/increase in cash and cash equivalents		**(69.7)**	35.6
Net cash and cash equivalents at beginning of the year		**129.1**	93.1
Effect of foreign exchange rate changes		**0.4**	0.4
Net cash and cash equivalents at end of the year		**59.8**	129.1

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

Reconciliation of net cash flow to movements in net debt	Notes	2018 £m	2017 £m
Cash drivers			
Net (decrease)/increase in cash and cash equivalents		**(69.7)**	35.6
Increase in bank loans		**(38.3)**	(1.7)
Movement in private placement notes and associated hedges		60.2	–
Decrease in finance leases		1.5	1.2

	Note	2018	2017
Non-cash drivers			
Non-cash movement in bank loans		**(0.7)**	–
Non-cash movement in private placement notes and associated hedges		**0.3**	(4.4)
Effect of foreign exchange rate changes		**0.4**	0.4
(Increase)/decrease in net debt during the year		**(46.3)**	31.1
Opening net debt		**(147.2)**	(178.3)
Closing net debt	16	**(193.5)**	(147.2)

Notes to the consolidated financial statements

For the year ended 31 March 2018

1. Basis of preparation and significant accounting policies

The financial information presented in this preliminary announcement has been extracted from the Group's Annual Report & Accounts for the year ended 31st March 2018 and is prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted by the EU and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. With the exception of IFRS 15 Revenue from contracts with customers, the details of which are presented in note 1 the principal accounting policies adopted in the preparation of the financial information in this preliminary announcement are unchanged from those used in the company's financial statements for the year ended 31 March 2017 and are consistent with those that the company has applied in its financial statements for the year ended 31 March 2018.

The financial information set out above does not constitute the company's statutory accounts for the current or prior year. Statutory accounts for the years ended 31 March 2018 and 31 March 2017 have been reported on by the Independent Auditors. The Independent Auditors' Report on the Annual Report and Financial Statements for the year ended 31 March 2018 was qualified on the basis that the Financial Statements do not agree with the requirement contained in IAS 1 to present a third balance sheet for the year-ended 31 March 2016. The Directors consider that it is not appropriate or meaningful to attempt to quantify or represent the financial impact of any line item reclassification adjustment that may have arisen from this re-presentation to the income statement for the year ended 31 March 2017. Notwithstanding the foregoing, as described in the prior year restatement note below, had these adjustments been presented in accordance with IAS 1, they would have had no impact on the reported net assets for the year ended 31 March 2016 or the reported loss for the year ended 31 March 2017. The independent auditors report for the year ended 31 March 2017 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 March 2017 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 March 2018 will be delivered to the Registrar following the company's AGM.

(a) Basis of preparation

The Group's financial statements for the year ended 31 March 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union.

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.

Whilst the Property Management business was previously classified as a discontinued operation in the FY2018 Half Year Report, there are no active sales processes at year end and hence it is no longer classified as a discontinued operation.

Prior year restatement

The prior year comparatives have been restated due to an accounting error in respect of an under accrual of costs with a corresponding increase in accrued income and revenue. The impact on the prior year balance sheet is an increase in accruals and accrued income of £14.6m and a decrease in revenue and costs of sales of £2.9m within the income statement. The Directors recognise that the under accrual of costs and understatement of accrued income may also be apparent in the 2016 balance sheet. However as disclosed in the 2017 accounts, an extensive review was undertaken, which led to both prior year adjustments to 2016 and material adjustments being recognised in 2017 arising from changes to accounting estimates.

In addition, as a result of the 2016 financial statements being subject to judgements and estimates made by the then Directors at that time, the current Directors consider it is not appropriate or meaningful to attempt to quantify or represent any errors, and as a result the balance sheet for the year ended 31 March 2016 has not been represented. Notwithstanding this, management note that any error of the nature identified, were it present in the year ended 31 March 2016, would not have any impact on closing net assets for that year nor would it have any impact on the reported loss for the year ended 31 March 2017.

Going concern

The Directors have concluded that whilst the Group is in a net current liability position at year end, it has adequate financial resources to continue in operation for the foreseeable future and can prepare its financial statements on a going concern basis.

The Directors have considered the future prospects and performance of the Group including: the future business plans of the Group; the potential impact of acquisition activity and possible changes to the composition of the Group; 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.

Accounting standards that are newly effective in the current year

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2017 except for the following amendments, which were effective for the first time in the current year but had no impact on the results or financial position of the Group:

- Amendments to IAS 12 'Income taxes'- clarification of requirements on recognition of deferred tax assets for unrealised losses on debt instrument financial assets measured at fair value;
- Amendments to IAS 7 'Cash flow statements' – disclosure initiative; and
- Amendments resulting from annual improvements to IFRSs 2014-2016 cycle.

The Group has early adopted IFRS 15 'Revenue from contracts with customers'. The impacts of adopting the new accounting standard are detailed below.

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

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';
- IFRS 16 'Leases';
- IFRS 17 'Insurance contracts';
- Amendments to IFRS 2 'Share-based payment' – classification and measurement of share-based payment transactions;
- IFRIC 22 'Foreign currency transactions and advance consideration';
- IFRIC 23 'Uncertainty over income tax treatments';
- Amendments to IFRS 9 'Prepayment features with negative compensation';
- Amendments to IAS 28 'Long-term interests in associates and joint ventures'; and
- Annual improvements to IFRS's 2015-2017 cycle.

The Directors have considered the impact of IFRS 9 and IFRS 16 as noted below. The Directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

- IFRS 9 'Financial instruments' is effective for the Group starting 1 April 2018 and replaces the current requirements of IAS 39 'Financial instruments: recognition and measurement'. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new expected loss model for the impairment of financial assets, revisions to the hedge accounting model, and amendments to disclosures. The changes are generally to be applied retrospectively. Given the nature of the financial assets and liabilities currently held by the Group and its hedging arrangements, the changes are not expected to have a significant impact on the financial statements.

IFRS 16 'Leases' will be effective for the Group starting 1 April 2019 and will replace the current requirements IAS 17 'Leases'. An asset for the right to use the leased item and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in the income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the existing accounting for finance leases, but substantively different to the existing accounting for operating leases under which no lease asset or lease liability is recognised and rentals payable are charged to the income statement on a straight-line basis. Following the early adoption of IFRS 15, the Group is currently considering the adoption date for IFRS 16 and is continuing its assessment of the impact that the application of the standard will have on the Group's financial statements. It remains too early to fully determine the impact on the Group's financial statements as this will be influenced by the composition of the lease portfolio and the relevant discount rates at the date of adoption. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Early adoption of IFRS 15

The Group decided to early adopt IFRS 15 'Revenue from contracts with customers', with a date of initial application of 1 April 2017. As a result, the Group has changed its accounting policies and updated its internal processes and controls relating to revenue recognition.

The Group has applied IFRS 15 using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 April 2017, calculated only for those contracts that were not completed as at
1 April 2017. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 'Revenue' and IAS 11 'Construction contracts'.

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts.

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract

3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Set out below is the revenue recognition policy under IFRS 15 and the five-step model together with the impact of adopting the standard.

Revenue recognition policy under IFRS 15

The Group operates contracts with a varying degree of complexity across its service lines so accordingly, a range of methods are used for the recognition of revenue based on the principles set out in IFRS 15. Revenue represents income recognised in respect of services provided during the period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

Step 1 – Identify the contract(s) with a customer

For all contracts with customers, the Group determines if the arrangement creates enforceable rights and obligations. This assessment results in certain Framework arrangements or Master Service Agreements (MSAs) not meeting the definition of a contract under IFRS 15 unless it specifies the minimum quantities to be ordered. Usually the work order and any change orders together with the Framework or MSA will constitute the IFRS 15 contract.

Duration of contract

The Group frequently enters into contracts with customers which contain extension periods at the end of the initial term, automatic annual renewals, and/or termination for convenience and break clauses that could impact the actual duration of the contract. As the term of the contract impacts the period over which amortisation of contract assets and revenue from performance obligations may be recognised, the Group applies judgement to assess the impact that such clauses have in determining the relevant contract term. In forming this judgement, management considers certain influencing factors including the amount of discount provided, the presence of significant termination penalties in the contract, and the relationship, experience and performance of contract delivery with the customer and/or the wider industry, in understanding the likelihood of extension or termination of the contract.

Contract modifications

The Group's contracts are frequently amended for changes to customer requirements such as change orders and variations. A contract modification takes place when the amendment creates new enforceable rights and obligations or changes the existing price or scope (or both) of the contract, and the modification has been approved. Contract modifications can be approved in writing, by oral agreement, or implied by customary business practices.

If the parties to the contract have not approved a contract modification, revenue is recognised in accordance with the existing contractual terms. If a change in scope has been approved but the corresponding change in price is still being negotiated, the Group estimates the change to the total transaction price.

Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct good or service. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Step 2 – Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Group to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers such as in the Group's integrated facilities management contracts, the Group applies judgement to consider whether those promised goods and services are:

i. Distinct and accounted for as separate performance obligations;
ii. Combined with other promised goods or services until a bundle is identified that is distinct; or
iii. Part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Group treats the series as a single performance obligation.

Step 3 – Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which the Group expects to be entitled and has rights under the current contract. This includes the fixed price stated in the contract and an assessment of any variable consideration, up or down, resulting from e.g. discounts, rebates, service penalties. Variable consideration is typically estimated based on the expected value method and is only recognised to the extent it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal.

Step 4 – Allocate the transaction price to the performance obligations in the contract

The Group allocates the total transaction price to the identified performance obligations based on their relative stand-alone selling prices. This is predominantly based on an observable price or a cost plus margin arrangement.

Step 5 – Recognise revenue when or as the entity satisfies its performance obligations

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Group applies the relevant output or input revenue recognition method for measuring progress that faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

Certain long-term contracts use output methods based upon surveys of performance completed, appraisals of results achieved, or milestones reached which allow the Group to recognise revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract.

Under the input method, measured progress and revenue are recognised in direct proportion to costs incurred where the transfer of control is most closely aligned to the Group's efforts in delivering the service.

Where deemed appropriate, the Group will utilise the practical expedient within IFRS15, allowing revenue to be recognised at the amount which the Group has the right to invoice, where that amount corresponds directly with the value to the customer of the Group's performance completed to date.

If performance obligations do not meet the criteria to recognise revenue over time, revenue is recognised at the point in time when control of the good or service passes to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

Long-term complex contracts

The Group has a number of long-term complex contracts which are predominantly integrated facilities management arrangements. Typically, these contracts involve the provision of multiple service lines, with a single management team providing an integrated service. Such contracts tend to be transformational in nature where the business works with the client to identify and implement cost saving initiatives across the life of the contract.

The Group considers the majority of services provided within integrated facilities management contracts meet the definition of a series of distinct goods and services that are substantially the same and have the same pattern of transfer over time. The series constitutes services provided in distinct time increments (e.g. monthly or quarterly) and therefore the Group treats the series of such services as one performance obligation.

The Group also delivers major project-based services under long-term complex contracts that include performance obligations under which revenue is recognised over time as value from the service is transferred to the customer. This may be where the Group has a legally enforceable right to remuneration for the work completed to date, or at milestone periods, and therefore revenue will be recognised in line with the associated transfer of control or milestone dates.

Repeat service-based contracts (single and bundled contracts)

The Group operates a number of single or joint-service line arrangements where repeat services meet the definition of a series of distinct services that are substantially the same (e.g. the provision of cleaning, security, catering, waste, and landscaping services). They have the same pattern of transfer of value to the customer as the series constitutes core services provided in distinct time increments (e.g. monthly or quarterly). The Group therefore treats the series of such services as one performance obligation.

Short-term service-based arrangements

The Group delivers a range of other short-term service based performance obligations and professional services work across certain reporting segments for which revenue is recognised at the point in time when control of the service has transferred to the customer. This may be at the point when the customer obtains control of the service in a contract with customer-specified acceptance criteria e.g. the delivery of a strategic operating model or report.

Sales of goods are recognised when goods are delivered and control has passed to the customer.

Other revenue

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.

Contract assets

Pre-contract costs

The Group incurs pre-contract expenses (e.g. legal costs) when it is expected to enter into a new contract. The incremental costs to obtain a contract with a customer are recognised within contract assets if it is expected that those costs will be recoverable. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense in the period.

Contract fulfilment costs

Costs incurred to ensure that the project or programme has appropriate organisational, operational and technical infrastructures, and mechanisms in place to enable the delivery of full services under the contract target operating model, are defined as contract fulfilment costs. Only costs which meet all three of the criteria below are included within contract assets on the balance sheet:

i. the costs directly relate to the contract (e.g. direct labour, materials, sub-contrators);
ii. the Group is building an asset that belongs to the customer that will subsequently be used to deliver contract outcomes; and
iii. the costs are expected to be recoverable i.e. the contract is expected to be profitable after amortising the capitalised costs.

Contract fulfilment costs covered within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment are not capitalised as contract fulfilment assets but are treated according to the other standard.

Amortisation and impairment of contract assets

The Group amortises contract assets (pre-contract costs and contract fulfilment costs) on a systematic basis that is consistent with the entity's transfer of the related goods or services to the customer. The expense is recognised in profit or loss in the period.

A capitalised pre-contract cost or contract fulfilment cost is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

The Group is required to determine the recoverability of contract related assets at each reporting date. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the entity expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price which includes estimates around variable consideration. An impairment is recognised immediately where such losses are forecast.

Accrued income and deferred income

The Group's customer contracts include a diverse range of payment schedules which are often agreed at the inception of long-term contracts under which it receives payments throughout the term of the arrangement. Payments for goods and services transferred at a point in time may be at the delivery date, in arrears or part payment in advance.

Where revenue recognised at the period end date is more than amounts invoiced, the Group records accrued income for the difference. Where revenue recognised at the period end date is less than amounts invoiced, the Group recognises deferred income for the difference.

Certain arrangements with customers include a contractual obligation to make redundancies for which the Group is reimbursed for the costs incurred. Revenue is not recognised on these transactions. Instead, the Group expenses all redundancy costs in the period they are incurred and any reimbursement credit is matched against the associated cost included in the income statement up to the value of the redundancy cost incurred. Any cash payments received from the customer in excess of the reimbursement cost of redundancy are deferred over the contract term and unwound in line with the other services being delivered.

Where price step-downs are required in a contract and output is not decreasing, revenue is deferred from initial years to subsequent years in order for revenue to be recognised on a consistent basis.

Providing the option for a customer to obtain extension periods or other services at a significant discount may lead to a separate performance obligation where a material right exists. Where this is the case, the Group allocates part of the transaction price from the original contract to deferred income which is then amortised over the discounted extension period or recognised immediately when the extension right expires.

The following disclosures show the impact of the adoption of IFRS 15 on the Group's primary financial statements.

Consolidated balance sheet As at 31 March 2018		IFRS 15 adjustments £m								
	As reported £m	A	B	C	D	E	F	G	**Balances without adoption of IFRS 15 £m**	Restated 2017[1,2] £m
Non-current assets										
Goodwill	309.6	–	–	–	–	–	–	–	**309.6**	343.9
Other intangible assets	38.3	–	–	–	1.0	–	–	–	**39.3**	53.2
Property, plant and equipment	33.6	–	–	–	0.2	–	–	–	**33.8**	32.3
Interest in joint ventures and associates	0.8	–	–	–	–	–	–	–	**0.8**	0.6
Derivative financial instruments	6.1	–	–	–	–	–	–	–	**6.1**	–
Trade and other receivables	–	18.2	8.6	–	–	–	–	–	**26.8**	50.3
Contract assets	1.8	–	–	–	(1.8)	–	–	–	**–**	–
Deferred tax assets	36.7	–	–	–	–	–	–	(19.0)	**17.7**	22.2
Total non-current assets	426.9	18.2	8.6	–	(0.6)	–	–	(19.0)	**434.1**	502.5
Current assets										
Inventories	6.9	–	–	–	–	–	–	–	**6.9**	6.8
Trade and other receivables	386.0	20.0	11.9	(0.2)	–	31.1	–	–	**448.8**	395.6
Contract assets	0.4	–	–	–	(0.4)	–	–	–	**–**	–
Derivative financial instruments	–	–	–	–	–	–	–	–	**–**	35.8
Current tax assets	6.3	–	–	–	–	–	–	(2.8)	**3.5**	12.1
Cash and cash equivalents	59.8	–	–	–	–	–	–	–	**59.8**	129.1
Total current assets	459.4	20.0	11.9	(0.2)	(0.4)	31.1	–	(2.8)	**519.0**	579.4
							–			
Total assets	886.3	38.2	20.5	(0.2)	(1.0)	31.1	–	(21.8)	**953.1**	1,081.9

Current liabilities										
Trade and other payables	(496.8)	(0.7)	–	(38.0)	–	–	0.7	–	**(534.8)**	(574.5)
Deferred income	(46.2)	–	–	46.2	–	–	–	–	**–**	–
Financing liabilities	(0.8)	–	–	–	–	–	–	–	**(0.8)**	(310.8)
Provisions	(25.2)	–	–	–	–	–	–	–	**(25.2)**	(20.4)
Total current liabilities	(569.0)	(0.7)	–	8.2	–	–	0.7	–	**(560.8)**	(905.7)
Net current liabilities	(109.6)	19.3	11.9	8.0	(0.4)	31.1	0.7	(2.8)	**(41.8)**	(326.3)
Non-current liabilities										
Trade and other payables	–	–	–	–	–	–	–	–	**–**	(3.4)
Deferred income	(18.8)	–	–	18.8	–	–	–	–	**–**	–
Financing liabilities	(258.6)	–	–	–	–	–	–	–	**(258.6)**	(1.3)
Provisions	(6.3)	–	–	–	–	–	–	–	**(6.3)**	(6.4)
Retirement benefit liabilities	(56.8)	–	–	–	–	–	–	–	**(56.8)**	(74.2)
Deferred tax liabilities	(0.8)	–	–	–	–	–	–	–	**(0.8)**	(1.1)
Total non-current liabilities	(341.3)	–	–	18.8	–	–	–	–	**(322.5)**	(86.4)
Total liabilities	(910.3)	(0.7)	–	27.0	–	–	0.7	–	**(883.3)**	(992.1)
Net (liabilities)/assets	(24.0)	37.5	20.5	26.8	(1.0)	31.1	0.7	(21.8)	**69.8**	89.8

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.
2. The Group has restated 2017 income statement and balance sheet as per Note 1.

Consolidated income statement

For the year ended 31 March 2018

		IFRS 15 adjustments £m								
	As reported £m	A	B	C	D	E	F	G	**Balances without adoption of IFRS 15 £m**	Restated 2017[1,2] £m
Continuing operations										
Revenue	2,203.7	(7.6)	0.6	(3.1)	–	6.1	(0.6)	–	**2,199.1**	2,123.4
Cost of sales	(1,894.8)	–	(8.6)	(0.5)	(1.0)	(1.5)	(0.2)	–	**(1,906.6)**	(1,893.6)
Administrative expenses	(220.1)	–	3.6	0.3	–	–	–	–	**(216.2)**	(236.7)
Share of profit of joint venture and associates	0.8	–	–	–	–	–	–	–	**0.8**	0.6
Operating profit/(loss) before other items	89.6	(7.6)	(4.4)	(3.3)	(1.0)	4.6	(0.8)	–	**77.1**	(6.3)
Other items	(97.9)	(5.1)	–	–	–	–	–	–	**(103.0)**	(36.6)
Operating profit/(loss) after other items	(8.3)	(12.7)	(4.4)	(3.3)	(1.0)	4.6	(0.8)	–	**(25.9)**	(42.9)
Net finance costs	(16.4)	–	–	–	–	–	–	–	**(16.4)**	(15.3)
Tax	(1.3)	–	–	–	–	–	–	3.2	**1.9**	7.4
Total from continuing operations	(26.0)	(12.7)	(4.4)	(3.3)	(1.0)	4.6	(0.8)	3.2	**(40.4)**	(50.8)
Total from discontinued operations	–	–	–	–	–	–	–	–	**–**	(132.4)
Loss for the year	(26.0)	(12.7)	(4.4)	(3.3)	(1.0)	4.6	(0.8)	3.2	**(40.4)**	(183.2)

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.
2. The Group has restated 2017 income statement and balance sheet as per Note 1.

The following table details the impact on net assets as at 1 April 2017 and on the revenue and loss for the year recognised for the year ended 31 March 2018, as a result of the adoption of IFRS 15:

	Net assets £m	Revenue £m	Loss for the year £m
Balances without adoption of IFRS 15	89.8	2,199.1	(40.4)
IFRS 15 adjustments:			
A – POC accounting	(50.2)	7.6	12.7
B – Mobilisation assets	(24.9)	(0.6)	4.4
C – Design and development and other upfront fees	(30.1)	3.1	3.3
D – Contract assets	–	–	1.0
E – Work in progress	(26.5)	(6.1)	(4.6)
F – Contracted discounts including extension discounts	(1.5)	0.6	0.8
G – Tax	25.0	–	(3.2)
As reported total	(18.4)	2,203.7	(26.0)

Adjustment A – POC accounting

IFRS 15 introduces the concept of performance obligations which are the contractual promises by an entity to transfer goods or services to a customer. Under IFRS 15, revenue is recognised on a contract specific basis and in line with the satisfaction of performance obligations. This is a change from the Group's previous accounting policy and the use of a percentage of completion model to measure the proportion of contract costs incurred for work performed to date compared to the total estimated contract costs. Percentage of completion accounting does not provide an appropriate representation of the satisfaction of performance obligations on these long-term complex contracts and consequently, is no longer applied.

The impact of this is a decrease in reserves of £50.2m to derecognise the percentage of completion asset held as accrued income on long-term complex contracts at 1 April 2017 and a £12.7m credit to the loss for the year ended 31 March 2018 comprising £7.6m to reverse the unwind of the asset movement, and £5.1m to reverse a percentage of completion asset write-off included within other items. The reversal of the asset write-off follows the net impact of a write-off of £6.6m in relation to the loss of two contracts which was offset by a £1.5m credit to reinstate a previously written off asset. These balances, which were presented in Other Items, would not have been recognised under IFRS 15 as percentage of completion accounting would not have been applied.

Adjustment B – Mobilisation assets

IFRS 15 specifies that certain costs to fulfil a contract are to be capitalised as contract assets if relevant criteria are met. The Group has determined that the existing mobilisation asset, whilst appropriate under the previous accounting standard, does not meet the more stringent criteria under IFRS 15.

The Group has therefore derecognised the asset (including £3.9m recognised in prepayments within trade and other receivables) as at 1 April 2017 leading to a decrease in reserves of £24.9m.

The adjustment to the loss for the year ended 31 March 2018 is a credit of £4.4m to reverse additions and write back amortisation on the mobilisation balance written off.

Adjustment C – Design and development and other upfront fees

On certain contracts, the Group receives upfront, non-refundable payments from the customer to cover significant costs incurred by the Group during the initial phase of the contract. Under IFRS 15, costs incurred from these transition and mobilisation activities, which are more than administrative in nature, are assessed to determine whether they form a separate performance obligation. Where such costs do not form a separate performance obligation under the contract, any upfront payments received from the customer are allocated to the performance obligations of the contract, deferred and recognised over the life of the other services.

The Group has determined that £30.1m of revenue previously recognised should be presented as deferred income at 1 April 2017 leading to a decrease in reserves by the same amount. The adjustment to the loss for the year ended 31 March 2018 is a £3.3m credit following the rephasing of upfront payments.

Following the adoption of IFRS 15, the Group has presented deferred income from contracts with customers separately on the balance sheet. The balance of pre-IFRS 15 current deferred income amounting to £46.2m has been reclassified as a result.

Adjustment D – Contract assets

IFRS 15 specifies that certain costs to fulfil a contract are to be capitalised as contract assets if relevant criteria are met. The Group capitalised a balance of £1.2m during the year ended 31 March 2018 (comprising £1.0m and £0.2m that would otherwise have been recorded in other intangible assets and property, plant and equipment respectively) that related to resources to allow it to deliver services under its contracts for which control had passed to the customer on installation. This amount has been recognised on the balance sheet as an addition to contract assets under IFRS 15.

During the year ended 31 March 2018, the Group capitalised costs of £1.0m that were previously expensed and which relate to assets to be used to deliver future contract outcomes.

Adjustment E – Work in progress

Under IFRS 15, revenue is only recognised when control has passed to a customer and it can be reliably measured. Income which was previously recognised under IAS 11 and IAS 18 has been remeasured against the more stringent criteria in IFRS 15, resulting in an amount being derecognised where it cannot be reliably measured.

The Group has therefore derecognised the asset held on balance sheet within accrued income leading to a reduction in reserves of £26.5m at 1 April 2017. The impact to the loss for the year ended 31 March 2018 is a debit of £4.6m.

Adjustment F – Contracted discounts including extension discounts

Where a contract provides the option for a customer to obtain an extension period at a significant discount, this may lead to a separate performance obligation where a material right exists. If a separate performance obligation exists then there would be an allocation of the transaction price from the original contract through the option period. A balance is therefore adjusted in reserves and recognised in deferred income with the unwind recognised over the extension period (or immediately if the option expires).

The Group has recorded a reduction of £1.5m in reserves at 1 April 2017 to reflect the material right with the balance recognised in deferred income, which will be unwound as future services are delivered. The impact to the loss for the year ended 31 March 2018 is a credit of £0.8m.

Adjustment G – Tax

Due to the changes in the pattern and timing of revenue recognition under IFRS 15, an additional deferred income liability is recognised on the balance sheet from 1 April 2017, via a charge to the opening balance of equity at 1 April 2017. Further, certain assets previously held in accrued income and recognised through the income statement in earlier periods have been derecognised from
1 April 2017, again via a charge to the opening balance of equity at 1 April 2017.

A tax deduction is available at 1 April 2017 for the one-off transitional adjustments recognised in opening equity. This tax deduction gives rise to tax losses at 1 April 2017, creating a deductible temporary difference for which a deferred tax asset of £25.0m is recognised at 1 April 2017, leading to an increase in reserves by the same amount. The tax impact of the IFRS 15 impacts on the loss for the year ended 31 March 2018 is a charge of £3.2m, of which £1.0m arises on the adjustment to other items.

b) Significant accounting policies

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.

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.

All inter-company balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated
in full.

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 equity holders of the parent.

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

In the financial statements the Group has elected to provide some further disclosures and performance measures, reported as 'before other items', in order to present its financial results in a way that demonstrates the performance of continuing operations excluding the results from restructuring and acquisition related costs, and the amortisation or write-off of acquired intangible assets and goodwill. Results before other items is a non-statutory measure.

'Other items' are defined as items of income or expenditure which, in the opinion of the Directors, are material or unusual in nature or of such significance that they require separate disclosure on the face of the income statement in accordance with IAS 1 'Presentation of financial statements'. Should these items be reversed disclosure of this would also be as other items.

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

Further detail of other items is set out in Note 4 to the financial statements.

In addition, following the guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authorities (ESMA), the Group has included an APM appendix to the financial statements in Appendix 1. These APMs are measures which disclose the adjusted performance of the Group without the adoption of IFRS 15 and excluding specific items which are regarded as non-recurring. The Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance as the Group has applied IFRS 15 in the 2018 financial statements using the cumulative effect method through an adjustment to the opening balance of equity as 1 April 2017 and not restating the comparative information for the 2017 financial year and there were a number of significant restatements recorded in the 2017 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 the income statement 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 is recognised in the income statement.

Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs are recognised in the income statement in the period in which they are incurred, with the finance charges relating to the direct cost of debt issue spread over the period to redemption using the effective interest method.

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.

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

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 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 acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

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 the income statement 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.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, of an investment in an associate or a joint venture.

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 the income statement for the period 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. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the 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

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 any impairment loss. 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.

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.

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.

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 includes internally generated intangible assets and are amortised over their useful lives of between five and ten years, once they have been brought into use.

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.

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.

The Group uses a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Group's relationship banks. The trade receivables are sold without recourse to the Group, and therefore the trade receivable balance is derecognised.

Financial liabilities comprise trade payables, financing liabilities, bank and other borrowings, 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.

Included within the Group's trade creditors balance are amounts relating to payments due to UK suppliers who make use of bank provided supply chain finance arrangements to allow supplier early payment. Amounts are settled in accordance with each suppliers' normal payments terms and payments continue to be classified within cash generated by operations. The Group does not receive any additional guarantees and does not pay any interest in relation to these amounts.

Equity instruments issued by the Group 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 the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

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 the income statement 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 the income statement 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 the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line 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 the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

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 the income statement. Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in equity are reclassified to the income statement 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 to the income statement.

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.

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.

Onerous contract provisions (OCPs) arise when the unavoidable costs of meeting contractual obligations exceed the remuneration

expected to be received. Unavoidable costs include total contract costs together with a rational allocation of shared costs that can be

directly linked to fulfilling contractual obligations which have been systematically allocated to OCPs on the basis of key cost drivers except where this is impracticable, where contract revenue is used as a proxy to activity. The provision is calculated as the lower of the termination costs payable for an early exit and the expected net cost to fulfil the Group's unavoidable contract obligations. Where a customer has an option to extend a contract and it is likely that such an extension will be made, the expected net cost arising during the extension period is included within the calculation. However, where a profit can be reasonably expected in the extension period, no credit is taken on the basis that such profits are uncertain given the potential for the customer to either not extend or offer an extension under lower pricing terms.

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 grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes model, Monte Carlo model or the share price at grant date, 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. Restricted shares are issued attached with a condition that the relevant recipient continues their employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

Own shares

Own share relate to shares gifted to the Employee Trust by the Company. The cash cost of own shares creates an own share reserve. When options issued by the Employee Trust are exercised the own share reserve is reduced and a gain or loss is recognised in reserves based on proceeds less weighted-average cost of shares initially purchased now exercised.

Included in the own shares reserve are restricted shares which are issued as part of acquisitions made by the group. The restricted shares are issued attached with a condition that the relevant recipient continues their employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

Retirement benefit costs

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.

In addition, 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.

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 on obligations, the return on scheme 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 in the statement of comprehensive income.

Current service cost and past service cost (including curtailments) are recognised in the income statement, in either administrative expenses or other items, whilst the net interest cost is recognised in finance costs.

The retirement benefit liability 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.

The Group participates in four multi-employer pension schemes. For three of these schemes the Group’s share of the assets and liabilities is minimal. The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme) a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. The size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. Consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

For schemes where sufficient information is not available to use defined benefit accounting, no liability is recognised on the balance sheet, however, the obligations are disclosed as contingent liabilities in Note 18.

Revenue under IAS 11 and IAS 18 in relation to prior year

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.

Costs incurred, after the confirmation of preferred bidder, that are specific costs incurred to ensure that the project or programme has appropriate organisational, operational and technical infrastructures and mechanisms in place to enable the delivery 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. These are contracts which are transformational in nature and usually five years in initial duration.

In this context, transformational means that the cost to the client over the life of the contract is reduced as a result of significant transformations in service provision. Typically, these contracts are priced to average the annual charge to the client over the contract period and involve the provision of multiple service lines, with a single management team providing an integrated service.

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 using the percentage of completion methodology.

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 similar in nature to mobilisation costs under repeat service-based contracts. Transition costs are expenses 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; no profit margin is recognised for these transition costs.

Contract costs also include transition costs arising when there is a subsequent change in the scope of contracted services and include budgeted cost savings. 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 milestone 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.

2. Critical accounting judgements and key sources of estimation uncertainty

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

The judgements and estimates which have the most significant effect on the reported result for the period and upon the carrying value of assets and liabilities of the Group as at 31 March 2018 are described below.

Revenue recognition

The Group's revenue recognition policies, which are set out under IFRS 15 in Note 1(a) for the financial year ended 31 March 2018 and under IAS 18 and IAS 11 in Note 1(b) in respect of prior years, are central to how the Group measures the work it has performed in each financial year.

The Group's current policy under IFRS 15

Due to the size and complexity of the Group's contracts, management is required to form a number of key judgements and assumptions in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise (refer to Note 1(a)). This includes an assessment of the costs the Group incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised.

In addition, for certain contracts, key assumptions are made:

i. concerning contract extensions and amendments which, for example, directly impact the phasing of upfront payments from customers which are recognised in deferred income and unwound over the expected contract term; or
ii. where options are granted to customers leading to the recognition of a material right.

These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

The Group's prior year policy under IAS 18 and IAS 11

The revenue recognised for certain long-term complex project-based services was based on the stage of completion of the contract activity. This was measured by comparing the proportion of costs incurred, which include transition costs reflecting costs incurred in the performance of transitioning services, against the estimated whole-life contract costs. This required significant judgements to be made in forecasting the outcomes of the long-term contracts.

Particular judgement was 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 was taken of potential deductions from and increments to revenue arising from the application of performance related measures under contracts.

This required management to apply judgements and estimates that drew on the knowledge and experience of the Group's project managers and delivery teams together with the Group's commercial and finance professionals. Whilst there may have been a broad range of possible outcomes based on the relevant circumstances of the individual contract, the Group had controls in place whereby all significant contracts were reviewed on a monthly basis and reforecast quarterly.

The amounts recognised as revenue, profit and contract assets were sensitive to changes in assumptions, for example:

- Revenue measurement – in line with the Group's revenue recognition policy for long-term complex contracts, revenue was recognised on these contracts to the extent that the outcome of the project could be reliably measured. For long-term complex contracts this required judgements to be made on which elements of the contract could be accurately forecast. These contracts would usually comprise fixed revenue streams, variable works and project works. Project works were not included as part of a long-term complex contract on the basis that these amounts were discretionary and consequently could not be reliably forecast. Therefore, these projects were accounted for separately. The revenue streams that could be reliably forecast comprised the fixed elements (for example for ongoing cleaning and security services) and variable works.
- Contract profitability and costs to complete – long-term complex contracts are transformational in nature and there is a commitment to work in partnership with the client from the outset of the contract to drive significant cost savings and efficiencies throughout the life of the contract. During the mobilisation of a contract a target operating model is developed. This target operating model shows how the services that are part of the contract will be delivered during the contract and is subject to a continuous review/improvement process throughout the duration of the contract. The target operating model, cost saving initiatives identified and revenue pipeline were combined into a financial plan for the individual contract. Only cost saving initiatives that were considered to be reasonably certain in terms of timing and scale were included in the plan. Management's ability to accurately forecast the costs to complete the contract involved judgements around cost savings to be achieved over time, anticipated profitability of the contract, as well as contract specific performance KPIs. Where a contract was anticipated to make a loss, these judgements were also relevant in determining whether or not an onerous contract provision was required and how this was to be measured.
- Renegotiation of terms – the Group often entered into renegotiations of existing contract terms such as the timing or the specifications of the services to be delivered. Depending on the outcome of such negotiations, the timing and amount of revenue recognised may have been different.
- Recoverability of contract related assets – linked to the profitability of contracts above, management was also required to determine the recoverability of contract related assets, accrued income and accounts receivable. Judgement was required in determining whether or not the future economic benefits from contracts were sufficient to recover these contract assets.

Profit before other items

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

Other items after tax of £87.2m (2017: £153.5m) were charged to the income statement for the year ended 31 March 2018. An analysis of the amounts included in other items is detailed in Note 4.

Key sources of estimation uncertainty

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units (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 calculate the present values of those cash flows.

The carrying value of goodwill at 31 March 2018 was £309.6m (2017: £343.9m); see Note 8. A sensitivity analysis has been performed and the Board has concluded, with the exception of the Property Management CGU, that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill.

Due to a deterioration in market conditions which is expected to impact the performance of the Property Management CGU further sensitivity testing was performed. On the basis of this review the Board concluded that a further impairment of £34.6m was required and this has been recorded during the year as outlined in Note 8. The impacts of changes in key assumptions underpinning the assessment of the carrying value of the Property Management goodwill are set out in Note 8.

Recoverability of aged debtors and accrued income

The Group has material amounts of billed and unbilled work outstanding at year end as outlined in Note 10 . Where balances become aged or subject to dispute the risk of recoverability increases. As a consequence there is significant management judgement involved in assessing the recoverability of these balances which involves consideration of Group contractual rights, work performed as well as the status of ongoing commercial negotiations. In the current year the Group has recognised a valuation allowance of £17.3m (2017: £16.2m) in respect of aged and disputed balances.

Provisions and contingent liabilities

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

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Group recognised provisions at 31 March 2018 of £31.5m (2017: £26.8m). Further details are included in Note 15.

Measurement of defined benefit pension obligations

The net pension liability at 31 March 2018 was £56.8m (2017: £74.2m).

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

The Group also participates in four multi-employer defined benefit pension schemes, including the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Plumbing Scheme). The Group has a potential exposure to Section 75 employer debts in respect of the Plumbing Scheme. Due to the inherent uncertainly regarding the amount of any liability this has been disclosed as a contingent liability, see Note 18 and Note 19.

3. Business segment information

The Group manages its business on a service division basis. At 31 March 2018, the Group has the following seven strategic divisions which are its reportable segments and the information, as reported, is consistent with information presented to the Board. Revenue, operating profit before other items and operating profit margin before other items are the primary measures of performance that are reported to and reviewed by the Board, who is the Group's chief operating decision maker.

The information presented for the year ended 31 March 2017 has been restated to reflect changes in management reporting, implemented in 2018, of certain business unit activities transferring between Engineering Services, Security, Professional Services and Cleaning & Environmental Services and the splitting of Public Services into Care & Custody and Property Management.

	2018			Restated 2017[1,4]		
	Revenue £m	**Operating profit/(loss) before other items[2] £m**	**Operating Margin %**	Revenue £m	Operating profit/(loss) before other items[2] £m	Operating Margin %
Engineering Services	**840.7**	**45.8**	***5.4***	789.1	(4.5)	*(0.6)*
Security	**432.0**	**27.5**	***6.4***	403.7	17.8	*4.4*
Professional Services	**90.2**	**6.5**	***7.2***	96.6	6.7	*6.9*
Cleaning & Environmental Services	**406.4**	**21.5**	***5.3***	395.6	6.5	*1.6*
Care & Custody	**59.9**	**1.9**	***3.2***	46.4	2.2	*4.7*
Catering	**137.1**	**5.6**	***4.1***	134.3	4.7	*3.5*
Property Management	**237.4**	**7.3**	***3.1***	257.7	(4.5)	*(1.7)*
Corporate centre	**–**	**(26.5)**	**–**	–	(35.2)	–
Total from continuing operations	**2,203.7**	**89.6**	***4.1***	2,123.4	(6.3)	*(0.3)*
Healthcare	**–**	**–**	**–**	59.2	(12.0)	*(20.3)*
Total from discontinued operations	**–**	**–**	**–**	59.2	(12.0)	*(20.3)*
Total	**2,203.7**	**89.6**	***4.1***	2,182.6	(18.3)	*(0.8)*

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.
3. No single customer accounted for more than 10% of external revenue in 2018 or 2017.
4. The Group has restated 2017 income statement and balance sheet as per Note 1.

A reconciliation of segment operating profit/(loss) before other items to total loss before tax is provided below:

	2018 £m	2017[1] £m
Operating profit/(loss) before other items	**89.6**	(6.3)
Other items[2]	**(97.9)**	(36.6)
Net finance costs	**(16.4)**	(15.3)
Total from continuing operations	**(24.7)**	(58.2)
Operating loss before other items	**–**	(12.0)
Other items[2]	**–**	(123.2)
Total from discontinued operations	**–**	(135.2)
Loss before tax	**(24.7)**	(193.4)

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.

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

Geographical segments

	2018			Restated 2017[1]		
	Revenue £m	**Operating profit before other items[1] £m**	**Operating Margin %**	Revenue £m	Operating (loss) before other items[1] £m	Operating Margin %
United Kingdom	**2,093.7**	**89.3**	***4.3***	2,015.2	(4.8)	*(0.2)*
Other countries	**110.0**	**0.3**	***0.3***	108.2	(1.5)	*(1.4)*
Continuing operations	**2,203.7**	**89.6**	***4.1***	2,123.4	(6.3)	*(0.3)*
United Kingdom	**–**	**–**	**–**	59.2	(12.0)	*(20.1)*
Other countries	**–**	**–**	**–**	–	–	–
Discontinued operations	**–**	**–**	**–**	59.2	(12.0)	*(20.1)*
Total	**2,203.7**	**89.6**	***4.0***	2,182.6	(18.3)	*(0.8)*

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4.

Disaggregated revenue

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

	2018[1]					
	Sector[2]			Contract duration for timing of revenue recognition		
	Government £m	Non-government £m	Total £m	Less than 2 years £m	More than 2 years £m	Total £m
Engineering Services	**330.6**	**510.1**	**840.7**	**87.6**	**753.1**	**840.7**
Security	**83.9**	**348.1**	**432.0**	**55.7**	**376.3**	**432.0**
Professional Services	**8.0**	**82.2**	**90.2**	**6.1**	**84.1**	**90.2**
Cleaning & Environmental Services	**89.8**	**316.6**	**406.4**	**–**	**406.4**	**406.4**
Care & Custody	**59.9**	**–**	**59.9**	**–**	**59.9**	**59.9**
Catering	**4.6**	**132.5**	**137.1**	**1.6**	**135.5**	**137.1**
Property Management	**194.4**	**43.0**	**237.4**	**144.2**	**93.2**	**237.4**
Continuing operations	**771.2**	**1,432.5**	**2,203.7**	**295.2**	**1,908.5**	**2,203.7**

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and is therefore not presented as part of this analysis. See Note 1.
2. Sector is defined by the end customer on any contract e.g. if the Group is a sub-contractor to a construction company for the building of a public hospital, then the contract would be classified as government.

Transaction price allocated to the remaining performance obligations

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

	Less than 1 year £m	More than 1 year £m	Total secured revenue £m
Engineering Services	**383.3**	**1,680.9**	**2,064.2**
Security	**300.1**	**340.7**	**640.8**
Professional Services	**21.8**	**53.7**	**75.5**
Cleaning & Environmental Services	**279.0**	**382.3**	**661.3**
Care & Custody	**100.8**	**569.3**	**670.1**
Catering	**8.2**	**26.5**	**34.7**
Property Management	**107.7**	**241.0**	**348.7**
Total	**1,200.9**	**3,294.4**	**4,495.3**

4. Other items

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

The Group separately reports the impairment of goodwill, the cost of restructuring programmes, acquisition and disposal costs including the write-off and amortisation of acquisition related intangible assets, the results of and costs associated with disposals, and other exceptional items and their related tax effect as Other Items:

	2018				
Continuing operations	Impairment of goodwill £m	Restructure costs £m	Acquisition & disposal related costs £m	Other exceptional items £m	Total £m
Administrative expenses	**(34.6)**	**(47.3)**	**(8.4)**	**(7.6)**	**(97.9)**
Other items before tax	**(34.6)**	**(47.3)**	**(8.4)**	**(7.6)**	**(97.9)**
Tax	**–**	**8.8**	**0.4**	**1.5**	**10.7**
Other items after tax	**(34.6)**	**(38.5)**	**(8.0)**	**(6.1)**	**(87.2)**

Continuing operations	Impairment of goodwill £m	Restructure costs £m	Acquisition & disposal related costs £m	Healthcare disposal £m	2017 Total £m
Administrative expenses	(15.0)	(14.9)	(6.7)	–	(36.6)
Other items before tax	(15.0)	(14.9)	(6.7)	–	(36.6)
Tax	–	3.0	1.1	–	4.1
Other items after tax	(15.0)	(11.9)	(5.6)	–	(32.5)
Discontinued operations					
Other items after tax	(81.1)	(0.3)	(9.2)	(30.4)	(121.0)
Total	(96.1)	(12.2)	(14.8)	(30.4)	(153.5)

Impairment of goodwill

Management has assessed the recoverability of the goodwill allocated to the Property Management CGU and has recognised an impairment charge of £34.6m (2017: £15.0m). See Note 8 for further details.

Impairment of goodwill from discontinued operations relates to the impairment of the remaining carrying value of goodwill for the Healthcare CGU of £nil (2017: £81.1m).

Restructure costs

The restructure costs relate to costs of organisational change associated with the Group's Project Helix transformation programme including the transition costs associated with the outsourcing of certain back-office transactional processes.

These costs are analysed below:

	2018 Total[6] £m	Continuing operations £m	Discontinued operations £m	2017 Total £m
Redundancy payments (including those in respect of Project Helix transformation projects)[1]	**(4.8)**	(9.2)	(0.3)	(9.5)
Cost of change team[2]	**(5.5)**	(3.4)	–	(3.4)
Expenditure and provisions in respect of property closure[3]	**(4.8)**	(2.3)	(0.1)	(2.4)
Expenditure in respect of Project Helix transformation projects[4]	**(21.8)**	–	–	–
Impairment of intangible assets[5]	**(10.4)**	–	–	–
Restructuring costs	**(47.3)**	(14.9)	(0.4)	(15.3)
Taxation	**8.8**	3.0	0.1	3.1
Restructuring costs net of taxation	**(38.5)**	(11.9)	(0.3)	(12.2)

Notes:

1. Costs in respect of roles made redundant as a result the Project Helix transformation and other projects to restructure the Group's activities.
2. Incremental costs of teams involved in the design and excecution of Project Helix transformation projects
3. Costs in respect of property dilapidations, lease termination, and asset impairments crystalised following decisions vacate certain of the Group's properties as part of the overall Project Helix transformation.
4. Expenditure in respect of Project Helix transformation projects includes £0.6m of recruitment costs in respect of achieving the new target operating model, £8.2m related to dual running and knowledge transfer costs as part of the transfer of the transactional back-office activities to a third-party provider and £13.0m of professional fees in respect of advice and consultancy activities associated with the design and exectution of the Project Helix transformation
5. Impairment of intangible assets relate to systems and processes which are redundant due to the changes to the Group's strategy including the outsourcing of transactional back-office activities. See Note 9.
6. Includes £34.7m in respect of the Project Helix transformation activities.

Acquisition and disposal related costs

Acquisition and disposal related costs from continuing operations include the impairment and amortisation charge for acquisition related intangibles £2.6m (2017: £5.5m), the charge for restricted shares issued of £3.4m (2017: £nil), the accrual of contingent consideration that is required to be treated as remuneration £nil (2017: £0.9m), other acquisition costs £nil (2017: £0.3m), costs of £2.2m (2017: £nil) relating to the aborted disposal of the Property Management business, and £0.2m (2017: £30.4m – included within discontinued operations) related to the disposal of the Healthcare divison.

Acquisition related costs from discontinued operations relate to the impairment and amortisation of acquisition related intangibles of £nil (2017: £9.2m).

Other exceptional items

Other exceptional items are analysed below:

	2018 £'m	2017 £'m
Contract termination receipt[1]	**2.0**	–
Settlement of contractual dispute[2]	**(3.3)**	–
Pension scheme past service costs (including curtailments)[3]	**(1.9)**	–
Regulatory investigation[4]	**(2.3)**	–
IFRS 15 adoption project[5]	**(0.8)**	–
Property dilapidations[6]	**(1.3)**	–
Other exceptional items	**(7.6)**	–
Taxation	**1.5**	–
Other exceptional items net of taxation	**(6.1)**	–

Notes:

1. The loss of two major contracts in the year ended 31 March 2018 resulted in a one-off receipt of termination payments amounting to £2.0m. These amounts are disclosed separately due to the size of the payments received and the fact that the loss of contracts of this size is an unusual event for the Group.
2. The settlement of a long standing contractual dispute for which a provision of £0.7m was made in the year ended 31 March 2017, which will result in a cash outflow of £4m during the year ending 31 March 2019. This amount is disclosed separately due to the size of the settlement and the fact that the contract ended several years ago and so has not contributed to the results in either the current or prior year. In the Interim Financial Statements for the six months ended 30 September 2017 this amount was not separately disclosed as Other items within the "Loss from discontinued operations". Following the decision not to proceed with the disposal of the Property Management division the results of this activity have been reclassified as continuing operations and consequently separate disclosure of this amount as Other Items is considered appropriate to enable understanding of the continuing results of the Group.
3. As a result of the closure of the Mitie Group Plc Pension Scheme to future accrual, a past service cost (including curtailments) charge of £1.9m has been incurred. See Note 19 for further details.
4. Legal and professional costs of £2.3m have been incurred in respect of the now closed FRC investigation into the Company's treatment of healthcare goodwill and accrued income in the Company's audited accounts for the year ended 31 March 2016, the ongoing FCA investigation in connection with the timeliness of a profit warning announced by the Company on 19 September 2016, the manner of preparation and content of the Company's financial information, position and results for the period ended 31 March 2016, and regarding the Company's own investigation into the same matters, facts and circumstances which are subject to FCA and FRC investigation.
5. Professional fees and interim staff costs of £0.8m have been incurred in respect of the project to adopt IFRS 15 'Revenue from contracts with customers'.
6. As part of the rationalisation of the Group's property portfolio a review of the potential liabilities for leasehold property dilapidation costs has been carried out. This review has resulted in a one-off £1.3m charge.

Healthcare disposal

During the year ended 31 March 2017 the Group decided to withdraw from the domiciliary healthcare market and completed the sale of the Healthcare division on 28 February 2017.

5. Tax

Continuing and discontinued operations	2018 £m	2017[1] £m
Current tax	**(5.6)**	(0.9)
Deferred tax (Note 12)	**6.9**	(9.3)
Tax charge/(credit) for the year	**1.3**	(10.2)
Continuing operations	**1.3**	(7.4)
Discontinued operations	**–**	(2.8)
Tax charge/(credit) for the year	**1.3**	(10.2)

Corporation tax is calculated at 19% (2017: 20%) of the estimated taxable profit for the year. A reconciliation of the tax charge to the elements of loss before tax per the consolidated income statement elements is as follows:

	2018			2017[1]		
Continuing and discontinued operations	Before other items £m	Other items £m	Total £m	Before other items £m	Other items £m	Total £m
(Loss)/profit before tax	**73.2**	**(97.9)**	**(24.7)**	(33.6)	(159.8)	(193.4)
Tax at UK rate of 19% (2017: 20%)	**13.9**	**(18.6)**	**(4.7)**	(6.7)	(32.0)	(38.7)
Reconciling tax charges for:						
Non-tax deductible charges	**0.5**	**1.1**	**1.6**	0.4	0.3	0.7
Share-based payments	**(0.1)**	**–**	**(0.1)**	0.8	–	0.8
Loss on disposal of business	**–**	**–**	**–**	–	6.1	6.1
Impairment of goodwill	**–**	**6.6**	**6.6**	–	19.2	19.2
Overseas tax rates	**(0.3)**	**–**	**(0.3)**	0.1	–	0.1
Impact of change in statutory tax rates	**0.1**	**0.2**	**0.3**	1.2	0.1	1.3

Prior year adjustments	**(2.1)**	**–**	**(2.1)**	0.3	–	0.3
Tax charge/(credit) for the year	**12.0**	**(10.7)**	**1.3**	(3.9)	(6.3)	(10.2)
Effective tax rate for the year	**16.4%**	**10.9%**	**(5.3)%**	11.5%	3.9%	5.3%

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

In addition to the amounts charged to the consolidated income statement, tax relating to retirement benefit costs amounting to a £3.4m charge (2017: £5.5m credit) has been taken directly to the statement of comprehensive income together with a £0.1m credit relating to share-based payments and hedged items (2017: £0.3m credit).

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. However, as losses were incurred in 2018 and 2017 the effective rate is lower than the statutory tax rate due to permanent differences such as those described above. In addition the 2018 figure was impacted by prior year adjustments, whilst the 2017 figure was impacted by a change in tax rates.

The UK corporation tax rate reduced from 20% to 19% from 1 April 2017 and will reduce to 17% from 1 April 2020. This will reduce the Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 31 March 2018 have been adjusted to reflect these changes. A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation.

6. Dividends

	2018 £m	2017 £m
Amounts recognised as distributions in the year:		
Final dividend for the year ended 31 March 2017 of nil (2016: 6.7p) per share	**–**	23.3
Interim dividend for the year ended 31 March 2018 of 1.33p (2017: 4.0p) per share	**4.8**	14.1
Amounts paid in 2018 and 2017	4.8	37.4
Proposed final dividend for the year ended 31 March 2018 of 2.67p (2017: nil) per share	**9.8**	–

7. Earnings per share

Basic and diluted earnings per share have been calculated in accordance with IAS 33 'Earnings per share'.

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

From continuing operations	**2018 £m**	2017[1] £m
Net profit/(loss) before other items attributable to equity holders of the parent	**60.1**	(19.1)
Other items net of tax	**(87.2)**	(32.5)
Net loss attributable to equity holders of the parent	**(27.1)**	(51.6)

From continuing and discontinued operations	**2018 £m**	2017[1] £m
Net profit/(loss) before other items attributable to equity holders of the parent	**60.1**	(30.5)
Other items net of tax	**(87.2)**	(153.5)
Net loss attributable to equity holders of the parent	**(27.1)**	(184.0)

Number of shares	**2018 million**	2017 million
Weighted average number of ordinary shares for the purpose of basic EPS	**357.9**	351.0
Effect of dilutive potential ordinary shares: share options	**1.9**	3.7
Weighted average number of ordinary shares for the purpose of diluted EPS	**359.8**	354.7

	2018 p	2017[1] p
From continuing operations:		
Basic earnings/(loss) before other items per share[2]	**16.8**	(5.5)

Basic loss per share	**(7.6)**	(14.7)
Diluted earnings/(loss) before other items per share[2,3]	**16.8**	(5.5)
Diluted loss per share	**(7.6)**	(14.7)
From continuing and discontinued operations:		
Basic earnings/(loss) before other items per share[2]	**16.8**	(8.7)
Basic loss per share	**(7.6)**	(52.4)
Diluted earnings/(loss) before other items per share[2,3]	**16.8**	(8.7)
Diluted loss per share	**(7.6)**	(52.4)

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Other items are as described in Note 4
3. Prior year diluted loss per share have been restated to exclude the effects of anti-dilutive potential ordinary shares.

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

The dilutive potential ordinary shares relate to instruments that could potentially dilute basic earnings per share in the future, such as share options. The loss for the year means that the identified potentially dilutive shares are anti-dilutive for the purposes of calculating dilluted earnings per share.

8. Goodwill

	£m
Cost	
At 1 April 2016	465.5
Change in consideration C&C Health	(0.1)
Disposal of subsidiary	(107.1)
Impact of foreign exchange	0.6
At 1 April 2017	358.9
Impact of foreign exchange	0.3
At 31 March 2018	**359.2**
Accumulated impairment losses	
At 1 April 2016	26.0
Impairment of healthcare goodwill	81.1
Impairment of property goodwill	15.0
Disposal of subsidiary	(107.1)
At 1 April 2017	15.0
Impairment of property goodwill	34.6
At 31 March 2018	**49.6**
Carrying amount	
At 31 March 2018	**309.6**
At 31 March 2017	343.9
At 1 April 2016	439.5

Impairment of Mitie Property Management goodwill

Taking into account the current and forecast market conditions of the Property Management business, the Group has further impaired the Property Management goodwill by £34.6m in the 2018 financial year.

Further detail on the impairment, including sensitivity analysis is presented below.

Impairment of Healthcare goodwill

In 2017 the Group undertook an impairment review of the goodwill and intangible assets associated with the Healthcare business. This reassessment of the estimate of the recoverable amount of the Healthcare cash-generating unit (CGU) resulted in impairment of the remaining carrying value of goodwill and acquisition related intangible assets for the Healthcare CGU in the 2017 financial year.

Goodwill impairment testing

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination.

Goodwill has been allocated to CGUs, which align with the business segments, as this is how goodwill is monitored by the Group internally. The goodwill allocated to the Public Services CGU, which consisted of the Property Management and Care & Custody activities, in the prior year related only to Property Management and has been assigned as such in the table below. The Group tests goodwill at least annually for impairment or more frequently if there are indicators that goodwill may be impaired.

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

	Pre-tax discount rate %	**Post-tax discount rate %**	**Goodwill 2018 £m**	Goodwill 2017 £m
Engineering Services	**9.8**	**8.2**	**107.8**	107.5
Security	**9.8**	**8.2**	**101.7**	101.7
Professional Services	**11.0**	**9.2**	**15.7**	15.7
Cleaning & Environmental Services	**9.8**	**8.2**	**33.1**	33.1
Catering	**10.4**	**8.7**	**15.7**	15.7
Property Management	**13.0**	**10.6**	**35.6**	70.2
Total			**309.6**	343.9

Key assumptions

The recoverable amounts for each CGU are determined by the value in use which is derived from discounted cash flow 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 forecast 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 long-term growth rates are based on forecast inflation. Changes in revenue and direct costs are based on past performance and expectations of future changes in the market, operating model, and cost base.

Growth rates and terminal values

For all CGUs excluding Property Management the Group prepares cash flow forecasts derived from the most recent budgets for the year ending 31 March 2019 which have been approved by the Board, extrapolated for four future years by an expected growth rate of 1% and a terminal value using a long-term growth assumption of 1.75%.

The assumptions for Property Management are set out below.

Discount rates

The pre-tax discount rates used to assess the forecast cash flows from CGUs are derived from the Company's post-tax Weighted Average Cost of Capital, which was 7.7% at 31 March 2018 (2017: 7.3%), and is adjusted for the risks specific to the business being assessed and the market in which the CGU operates. All CGUs have the same access to the Group's treasury functions and borrowing lines to fund their operations.

Sensitivity analysis

A sensitivity analysis has been performed and 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 Group's CGUs with the exception of the Property Management CGU which is described below. In particular a 1% increase in the discount rate or a 1% decrease in the terminal value growth rate would not result in any change to the impairment conclusions in any of the CGUs.

Review of the carrying value of goodwill for the Property Management CGU

During the 2018 financial year the Group was engaged in a process to sell the Property Management CGU, by the half-year this process was sufficiently well advanced for the division to be reported as a discontinued operation. Subsequently, due to market conditions, this process was terminated on 5 December 2017 and consequently the division was reclassified as a continuing operation. As noted in the Operating review the Property Management business has had a difficult year with market conditions, particularly in social housing, leading to a reduction in revenue and continued pressure on operating margins.

In this context the Directors have taken a conservative approach to forecasting the future performance of Property Management, with an assumption of no growth in revenue during the period to 31 March 2023, and an improvement in margins of only 25bps compared to the budget for the year ending 31 March 2019 over the period to 31 March 2023. An improvement in market conditions is anticipated after 31 March 2023, with growth in the terminal value period being in line with inflation at 1.75%.

Having considered this scenario alongside a range of other scenarios, the Directors concluded that a further impairment of £34.6m should be made against the Property Management goodwill, resulting in a goodwill carrying value of £35.6m at 31 March 2018.

The impairment testing described above in respect of the Property Management CGU is dependent upon the accuracy of the assumptions made in respect of future performance, the discount rate, and the growth during the terminal value period.

The table below shows how the impairment test would be impacted, all other factors being equal, by:

- an increase or decrease in the discount rate of 100bps;
- a change in market conditions such that year on year revenue growth increases or decreases by 100bps between 31 March 2020 and 31 March 2023;
- a change in projected profitability such that EBIT margin as a percentage of revenue increases or decreases by 100bps between 31 March 2020 and 31 March 2023;
- an increase or decrease of 100bps in the growth rate in the terminal value period.

	Increase/(decrease in impairment	
	Increase of 100bps £m	Decrease of 100bps £m
Discount rate	(5.1)	6.5
Year on year revenue growth FY20 to FY23	1.7	(1.7)
EBIT as a percentage of revenue FY20 to FY23	14.4	(14.4)
Terminal value growth rate	4.7	(3.7)

9. Other intangible assets

	Acquisition related				
	Customer relationships £m	Other £m	**Total acquisition related £m**	Software and development expenditure £m	**Total £m**
Cost					
At 1 April 2016	88.4	10.9	**99.3**	73.1	**172.4**
Additions	–	–	**–**	12.4	**12.4**
Disposal of subsidiary	–	–	**–**	(2.9)	**(2.9)**
Reclassifications from property, plant and equipment	–	–	**–**	14.5	**14.5**
Impact of foreign exchange	–	–	**–**	0.2	**0.2**
At 1 April 2017	88.4	10.9	**99.3**	97.3	**196.6**
Additions	–	–	**–**	9.0	**9.0**
At 31 March 2018	88.4	10.9	**99.3**	106.3	**205.6**
Amortisation					
At 1 April 2016	66.9	9.2	**76.1**	31.7	**107.8**
Charge for the year	6.4	0.4	**6.8**	17.0	**23.8**
Impairment of software and development expenditure	–	–	**–**	3.0	**3.0**
Impairment of acquisition related intangible assets	10.1	–	**10.1**	–	**10.1**
Disposal of subsidiary	–	–	**–**	(1.4)	**(1.4)**
Impact of foreign exchange	–	–	**–**	0.1	**0.1**
At 1 April 2017	83.4	9.6	**93.0**	50.4	**143.4**
Charge for the year	2.2	0.4	**2.6**	10.9	**13.5**
Impairment of software and development expenditure	–	–	**–**	10.4	**10.4**
At 31 March 2018	85.6	10.0	**95.6**	71.7	**167.3**
Carrying amount					
At 31 March 2018	2.8	0.9	**3.7**	34.6	**38.3**
At 31 March 2017	5.0	1.3	**6.3**	46.9	**53.2**
At 1 April 2016	21.5	1.7	**23.2**	41.4	**64.6**

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.

During the 2018 financial year the Group has undertaken a reassessment of the useful economic life of software and development expenditure related intangible assets. As a result of the establishment of a new central database and the outsourcing of finance transactional processes, the decision was taken to impair software and development assets that will no longer be in use going forward. An impairment of £10.4m was recognised within restructure costs in other items in the financial year (see Note 4).

Following the decision to withdraw from the domiciliary healthcare market, the customer relationships relating to the healthcare business were impairment tested and an impairment of £10.1m was recognised within acquisition and disposal related costs in other items in the 2017 financial year (see Note 4).

Reclassifications from property, plant and equipment in 2017 relate to completed software and development expenditure which was held in plant and vehicles whilst being developed.

10. Trade and other receivables

	2018 £m	Restated 2017[1,5] £m
Amounts receivable for the sale of services	**222.3**	201.8
Provision for doubtful debts	**(17.3)**	(16.2)
Trade receivables[4]	**205.0**	185.6
Accrued income[2]	**131.4**	142.5
Accrued income on long-term complex contracts	**–**	50.2
Amounts recoverable on construction contracts	**–**	0.1
Mobilisation costs	**–**	21.0
Prepayments	**21.3**	22.7
Other debtors	**28.3**	23.8
Total	**386.0**	445.9
Included in current assets	**386.0**	395.6
Included in non-current assets[3]	**–**	50.3
Total	**386.0**	445.9

Notes:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.
2. Accrued income relates to revenue recognised, but unbilled at the year end.
3. Non-current trade and other receivables comprise accrued income on long-term complex contracts of £nil (2017: £40.8m) and mobilisation costs of £nil (2017: £9.5m).
4. As in the prior year the Group has made use of a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Group's relationship banks. The Group reduced the amount of invoice discounting from £110.7m as at 31 March 2017 to £76.3m as at 31 March 2018. As these trade receivables are sold without recourse the Group has derecognised them, and so they are not included in trade receivables.
5. The Group has restated 2017 income statement and balance sheet as per Note 1.

Ageing of trade receivables:

	2018 £m	2017[1] £m
Neither impaired nor past due	**163.6**	159.4
Not impaired and less than three months overdue	**37.4**	26.8
Not impaired and more than three months overdue	**21.3**	15.4
Impaired receivables	**–**	0.2
Provision for doubtful debts	**(17.3)**	(16.2)
Total	**205.0**	185.6

Movement in the provision for doubtful debts:

	2018 £m	2017 £m
At 1 April	**16.2**	4.6
Impairment losses recognised	**2.3**	13.9
Amounts written off as uncollectable	**(1.2)**	(0.8)
Disposal of business	**–**	(1.5)
At 31 March	**17.3**	16.2

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

The average credit period taken on sales of services was 28 days (restated 2017: 26 days).

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

11. Contract assets

	2018 £m
Contract assets	
At 1 April	–
Additions	**2.3**
Amortised in the year	**(0.1)**
At 31 March	**2.2**

Included in current assets	**0.4**
Included in non-current assets	**1.8**
Total	**2.2**

Contract assets amounting to £2.2m have been recognised at 31 March 2018. Contract assets are amortised on a straight-line basis over the contract life which is consistent with the transfer of services to the customer to which the asset relates.

To determine whether future economic benefits from contracts are sufficient to recover the contract assets, management has performed an assessment of the costs to complete the contract. In comparing the carrying amount of the asset to the remaining amount of consideration expected to be received less the costs to provide services under the relevant contract, management has determined no impairment is required at 31 March 2018.

12. 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:

	Losses £m	Accelerated tax depreciation £m	Retirement benefit liabilities £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	Total £m
At 1 April 2016	–	1.4	6.4	(4.4)	1.3	1.3	**6.0**
(Charge)/credit to income	0.8	5.1	0.7	3.3	(0.3)	(0.3)	**9.3**
(Charge)/credit to equity and the statement of comprehensive income	–	–	5.5	–	(0.3)	0.6	**5.8**
At 1 April 2017	0.8	6.5	12.6	(1.1)	0.7	1.6	**21.1**
Impact of change to IFRS 15	25.0	–	–	–	–	–	**25.0**
(Charge)/credit to income	(7.0)	(0.3)	0.3	0.3	(0.1)	(0.1)	**(6.9)**
(Charge)/credit to equity and the statement of comprehensive income	–	–	(3.4)	–	0.1	–	**(3.3)**
At 31 March 2018	18.8	6.2	9.5	(0.8)	0.7	1.5	**35.9**

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:

	2018 £m	2017 £m
Deferred tax assets	**36.7**	22.2
Deferred tax liabilities	**(0.8)**	(1.1)
Net deferred tax asset	**35.9**	21.1

The Group has unutilised income tax losses of £94.9m (2017: £14.2m) that are available for offset against future profits. In addition, the Group has £0.8m (2017: £0.8m) of capital losses.

A deferred tax asset has been recognised in respect of certain unutilised losses and allowances to the extent that it is probable that taxable profits will be generated in the future and available for utilisation. Deferred tax has been calculated using the corporation tax rates disclosed in Note 5.

13. Deferred income from contracts with customers

	2018[1] £m
Deferred income	
Included in current liabilities	**(46.2)**
Included in non-current liabilities	**(18.8)**
Total deferred income	**(65.0)**

Note:

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 1.

14. Financial instruments

Classification

The Group's principal financial assets are cash and cash equivalents, trade receivables and derivative financial instruments. 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 and financing liabilities. With the exception of derivative financial instruments and deferred contingent consideration, all financial liabilities are held at amortised cost.

Derivative financial instruments are measured initially at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through the income statement unless they are designated as hedges for which hedge accounting can be applied.

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.

Risk management objectives

The Group's treasury department 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 to not 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.

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. All financial liabilities, other than financing liabilities, are interest free.

If underlying 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 2018 and reserves would decrease/increase by £0.7m (2017: £0.8m).

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 overseas. The Group considers the need to hedge its exposures as appropriate 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 2018 £9.3m (2017: £6.9m) of cash and cash equivalents were held in foreign currencies. Included in bank loans were £15.7m (2017: £17.1m) 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 loans under committed facilities, which allow for appropriate headroom in the Group's daily cash movements, are then arranged..

The tables below summarise the maturity profile (including both undiscounted interest and principal cash flows) of the Group's financial liabilities:

Financial liabilities at 31 March 2018	**Within one year £m**	**In the second to fifth years £m**	**After five years £m**	**Total £m**
Trade creditors	**191.3**	**–**	**–**	**191.3**
Other creditors	**29.2**	**–**	**–**	**29.2**
Financing liabilities	**65.6**	**198.9**	**31.5**	**296.0**
Financial liabilities*	**286.1**	**198.9**	**31.5**	**516.5**

* Financing liabilities maturity profile is exclusive of the £6.1m derivative asset which would naturally offset the settlement value of maturing private placement notes.

Financial liabilities at 31 March 2017	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	244.7	–	–	244.7
Other creditors	24.5	–	–	24.5
Financing liabilities	106.2	70.2	181.2	357.6
Deferred contingent consideration	0.3	–	–	0.3
Financial liabilities*	375.7	70.2	181.2	627.1

* Financing liabilities maturity profile is exclusive of the £35.8m derivative asset which would naturally offset the settlement value of the maturing private placement notes.

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 external 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 provisions for doubtful debts.

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 provision 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 16 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 ended 31 March 2017, the Group bought back 9.1m shares at a cost of £24.4m and subsequently cancelled these shares. The Group has ceased its practice of buying back shares to offset shares issued under the Mitie Model or future LTIP arrangements and nil shares were bought back in the year ended 31 March 2018.

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 on US$153.0m of PP notes. Biannual fixed interest cash flows denominated in US dollars arising over the periods to December 2022 from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. All cash flow hedges were assessed as being highly effective as at 31 March 2018.

Fair value hedges

As at 31 March 2017 the Group held a number of cross-currency interest rate swaps designated as fair value hedges on US$48.0m of PP notes. Fixed interest cash flows denominated in US$ from the US Private Placement market were exchanged for floating interest cash flows denominated in sterling. These fair value hedges were assessed as being highly effective as at 31 March 2017 and up until their maturity date in December 2017.

Hedge of net investment in foreign operations

Included in bank loans at 31 March 2018 was a borrowing of €9.5m (2017: €9.5m) which has been designated as a hedge of the net investment in the Republic of Ireland business of Dalkia FM, 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:

	Assets 2018 £m	Assets 2017 £m
Cross-currency interest rate swaps designated as cash flow hedges	**6.1**	27.0
Cross-currency interest rate swaps designated as fair value hedges	**–**	8.8
Derivative financial instruments hedging private placement notes	**6.1**	35.8

Derivative financial instruments	**Assets 2018 £m**	Assets 2017 £m
Included in current assets	**–**	35.8
Included in non-current assets	**6.1**	–
Total	**6.1**	35.8

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.

During the year ended 31 March 2018, a number of cashflow hedges were settled and all fair value hedges were settled.

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

15. Provisions

	Legal costs £m	Healthcare provision £m	Restructuring £m	Deferred contingent consideration £m	Insurance reserve £m	Contract specific costs £m	Dilapidations £m	**Total £m**
At 1 April 2017	2.0	6.0	–	0.3	12.5	6.0	–	**26.8**
Impact of change in accounting policy	–	–	–	–	–	(0.2)	–	**(0.2)**
Amounts recognised in the balance sheet	–	–	–	–	–	–	3.4	**3.4**
Amounts recognised in the income statement	3.2	–	1.2	–	4.0	(1.3)	–	**7.1**
Utilised within captive insurance subsidiary	–	–	–	–	(0.1)	–	–	**(0.1)**
Unwinding of discount	–	–	–	–	–	–	0.2	**0.2**
Utilised in the period	(1.1)	(1.1)	–	(0.3)	(1.1)	(2.1)	–	**(5.7)**
At 31 March 2018	4.1	4.9	1.2	–	15.3	2.4	3.6	**31.5**
Included in current liabilities	4.1	4.9	1.2	–	9.0	2.4	3.6	**25.2**
Included in non-current liabilities	–	–	–	–	6.3	–	–	**6.3**
Total	4.1	4.9	1.2	–	15.3	2.4	3.6	**31.5**

The provisions balance includes the following items:

The legal costs provision relates to professional fees payable and the potential cost of settlement of outstanding claims against the Group.

The Healthcare provision relates to the anticipated costs of separation of the Healthcare business from the Group, that are anticipated to crystallise during the year ending 31 March 2019.

The restructuring provision relates to costs of organisational change associated with the Group's Project Helix transformation programme including the transition costs associated with the outsourcing of certain back-office transactional processes.

The insurance reserve provides for the self-insured element of fleet and liability claims that will typically settle over three to five years. This includes a provision for claims that are expected but have not yet been reported.

Contract specific cost provisions relate to various obligations arising in the ordinary course of providing services in line with commercial contracts.

The provision for dilapidations relates to the legal obligation for a leased property to be returned to the landlord in the contracted condition at the end of the lease period. This cost would include repairs of any damage and wear and tear.

16. Analysis of net debt

	2018 **£m**	2017 £m
Cash and cash equivalents	**59.8**	129.1
Bank loans	**(54.3)**	(15.3)
Private placement notes	**(203.8)**	(294.0)
Derivative financial instruments hedging private placement notes (Note 14)	**6.1**	35.8
Net debt before obligations under finance leases	**(192.2)**	(144.4)
Obligations under finance leases	**(1.3)**	(2.8)
Net debt	**(193.5)**	(147.2)

Net debt excludes amounts in respect of customer invoice discounting referred to in Note 10 and amounts in respect of supply chain financing.

17. Acquisitions

Current year acquisitions – purchase of non-controlling interests

On 19 July 2017, the Company purchased the minority 49% shareholding in Source Eight Limited. The consideration paid was £4.0m, satisfied with £3.0m in cash and £1.0m in unrestricted shares. A further £5.1m of shares were issued which were subject to sale restrictions related to continuing employment. Regarding shares issued, 2,196,708 ordinary shares were issued, with a nominal value of 2.5p per share in Mitie Group plc (Mitie shares) at a fair value of 278.8p, of which 1,838,028 Mitie shares were subject to sale restrictions related to continuing employment.

In addition, on 20 October 2017 the Company purchased the remaining minority shareholdings in five Mite Model companies. The consideration paid was £3.4m, satisfied through the issue of unrestricted shares. A further £3.0m of shares were issued which were subject to sale restrictions related to continuing employment. Regarding shares issued, 2,396,381 Mitie shares were issued at a fair value of 266.3p, of which 1,139,697 Mitie shares were subject to sale restrictions related to continuing employment. The shareholdings purchased, primarily held by certain of the employees and senior management of the relevant subsidiary companies, are detailed below:

- Mitie Care and Custody Limited (MCCL) – 6.86% of the issued share capital, comprising 42,505 B ordinary shares of £0.01 each, for a consideration of £0.4m satisfied by the issue of 169,328 Mitie shares;
- Mitie Events & Leisure Services Limited (MELSL) – 24.08% of the issued share capital, comprising 205,000 B ordinary shares of £0.01 each, for a consideration of £0.4m satisfied by the issue of 144,555 Mitie shares;
- Mitie Facilities Management Limited (Ireland) (MFML) – 5.63% of the issued share capital, comprising 146,000 B ordinary shares of €0.01 each, for a consideration of £0.2m satisfied by the issue of 72,228 Mitie shares;
- Mitie Catering Services Limited (MCSL) – 18.55% of the issued share capital, comprising 333,677 D ordinary shares of £0.01 each, for a consideration of £2.9m satisfied by the issue of 1,072,416 Mitie shares; and
- Mitie Waste & Environmental Services Limited (MWESL) – 27.71% of the issued share capital, comprising 332,500 B ordinary shares of £0.01 each, for a consideration of £2.5m satisfied by the issue of 937,854 Mitie shares;

The above acquisitions have been completed based on transfer of consideration of the fair value of the shareholdings of the respective entities. As part of the above transactions Mitie Group issued unrestricted and restricted shares. The restricted shares are attached with a condition that the relevant recipient continues in employment with the Group for a fixed vesting period of time. Restrictions will remain attached to the shares if the recipient leaves employment with the Group prior to completion of the vesting period of the shares.

As a result of the acquisitions outlined above Mitie Group owns 100% of the issued share capital of all of the above entities.

Prior year acquisitions – purchase of non-controlling interests

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

The total maximum consideration for all three purchases amounted to £16.1m. This was satisfied with £1.4m in cash and as to the remaining £14.7m by the issue of 6,015,255 Mitie shares valued at 244.38 p per share. This was the average of the closing middle market price for the five banking days immediately preceding 26 July 2016. Earlier in that financial year ended 31 March 2017, the Company purchased its own shares in the market to offset this share issue. The purchased shares were cancelled following their acquisition.

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

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

18. Contingent liabilities

Contractual disputes, guarantees and indemnities

The Company and various of its subsidiaries are, from time to time, party to contractual disputes that arise in the ordinary course of business. There is an ongoing contractual dispute with a client of Mitie's Property Management business which is potentially of a material nature (although formal legal proceedings have not been commenced). Discussions are ongoing between the Company and the counterparty to determine both liability and potential quantum. The Directors do not anticipate that the outcome of this dispute will have a material adverse effect on the Group's financial position, other than as already provided for in the accounts. In appropriate cases, a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions (which may be subject to potentially material revision from time to time) will result in an accurate prediction, due to the uncertainty of the actual costs and liabilities that may be incurred. The Directors will continue to monitor events as matters progress.

In addition, the Company and its subsidiaries have provided guarantees and indemnities in respect of performance, issued by financial institutions on its behalf, amounting to £21.7m (2017: £23.8m) in the ordinary course of business. These are not expected to result in any material financial loss.

Multi-employer pension schemes

The Group participates in several industry multi-employer defined benefit schemes, including the Plumbing & Mechanical Services (UK) Industry "Pension Scheme" (Plumbing Scheme). The total contributions to these schemes for the financial year ended 31 March 2019 are anticipated to be £0.1m. The size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. Consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

When the Group (or a subsidiary of the Group) exits such schemes (typically by ceasing to have any active employees in the scheme), pension legislation may require the Group to fund the Group's share of the total amount of net liabilities with a one-off cash payment (a Section 75 debt under the Pensions Act 1995).

On 27 March 2018, the trustee of the Plumbing Scheme provided participating employers with a summary of the draft actuarial valuation of the Plumbing Scheme as at 5 April 2017. That summary detailed the results of the valuation on three measures:

- technical provisions - the amount of money the Plumbing Scheme needs to meet all its obligations and pay benefits in respect of past service as they fall due, based on the scheme assets and the economic position as at 5 April 2017. This measure showed a surplus of £45m on liabilities of £1.885bn;
- Pension Protection Fund (PPF) - the amount used to set the Plumbing Scheme's PPF levies. The benefits under this basis are lower that the scheme's own benefits and the assumptions are prescribed by the Pension Regulator. This measure showed a deficit of £412m on liabilities of £2.342bn; and
- solvency – this is an estimate of the cost of insuring all of the Plumbing Scheme's benefits as at 5 April 2017 with an insurer and is the basis required for Section 75 debt calculations. This measure showed a deficit of £658m on liabilities of £2.588bn.

The trustee of the Plumbing Scheme has recently conducted an employer consultation regarding the allocation of Section 75 debts including orphan liabilities (i.e. liabilities in respect of Plumbing Scheme members whose employers or former employers are no longer members of the Plumbing Scheme or are insolvent). This is the second employer consultation carried out by the Plumbing Scheme in respect of the allocation of Section 75 debts. The trustee has stated that it is unlikely that any Section 75 debt

notices will be issued before early 2019, as the Plumbing Scheme's actuary cannot be instructed in this regard until the calculation methodology has been agreed.

Given these uncertainties it has not been possible to estimate its potential exposure to Section 75 employer debts in respect of the Plumbing Scheme within a reasonable range and so the issue is disclosed as a contingent liability as set out in Note 19.

Employment claims

There are currently two enquiries being carried out by HMRC in respect of the Group's compliance with the National Minimum Wage: both enquiries are at an early stage. At this time due to the nature and complexity of assessing compliance, it is not possible to estimate the potential exposure. In common with other UK businesses with a large number of employees operating near the minimum wage, the Group is at risk of potential deficiency in respect of current and past employees. Work is ongoing to enhance the Group's payroll systems and processes to reduce the risk of non-compliance in future.

In addition to specific enquiries in respect of compliance with the National Minimum Wage, the Company and its subsidiaries are, from time to time, party to employment disputes, claims, and other potential liabilities which arise in the ordinary course of business. The Directors do not anticipate that any of the current matters will give rise to settlements, either individually or in aggregate, which will have a material adverse effect on the Group's financial position.

Financial Conduct Authority

On 29 August 2017 the Company announced that the Financial Conduct Authority (FCA) had informed the Company of its investigation in connection with i) the timeliness of a profit warning announced by the Company on 19 September 2016, and ii) the manner of preparation and content of the Company's financial information, position and results for the period ended 31 March 2016.

The Company continues to fully co-operate with the FCA during their ongoing investigation. At this time, the Directors have not received any notification from the FCA that they will exercise their regulatory enforcement powers against the Company. Accordingly, the Directors are unable to determine whether the investigation will lead to the imposition of any fine or other penalties against the Company.

19. Retirement benefit schemes

The Group has a number of pension arrangements for employees:

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

The Group operates a number of defined contribution pension schemes for qualifying employees. The 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 these contributions have been paid. Members' benefits are determined by the amount of contributions paid, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to take at retirement. As a result, actuarial risk (that pension will be lower than expected) and investment risk (that the assets invested in do not perform in line with expectations) are borne by the employee.

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

The Group operates 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 £9.0m (2017: £8.9m) and contributions to the auto-enrolment scheme of £4.3m (2017: £4.3m), 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 Group scheme closed to new members in 2006, with new employees able to join one of the defined contribution schemes. The main Group scheme has now been closed as of October 2017.

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 Trustee is responsible for ensuring that the scheme is sufficiently funded to meet current and future benefit payments. Plan assets are held in trust and are governed by pension legislation. If investment experience is worse than expected or the actuarial assessment of the scheme's liabilities increases, the Group's financial obligations to the scheme rise.

The nature of the relationship between the Group and the Trustee is also governed by regulations and practice. The Trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (which are determined by the Trustee with advice from the scheme actuary). The most recent triennial valuation was carried out as at 31 March 2017 and is pending approval.

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

Other defined benefit schemes

Grouped together under Other schemes are a number of schemes to which the Group makes contributions under Admitted Body status to clients' (generally local government or government entities) defined benefit schemes in respect of certain employees who transferred to 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.

Multi-employer schemes

As a result of historic acquisition activity and staff transfers following contract wins, the Group participates in four multi-employer pension schemes. The total contributions to these schemes for the financial year ended 31 March 2019 are anticipated to be £0.1m. For three of these schemes, the Group's share of the assets and liabilities is minimal.

The fourth scheme is the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the 'Plumbing Scheme') a funded multi-employer defined benefit scheme. The Plumbing Scheme was founded in 1975 and to date has had over 4,000 employers, with circa 400 remaining. The size and complexity of the Plumbing Scheme has meant the trustee is unable at this time to identify the assets and liabilities of the scheme which are attributable to the Group. Consequently, the Group accounts for its contributions as if they were paid to a defined contribution scheme.

The April 2014 valuation of the Plumbing Scheme indicated a surplus on a technical provisions basis of £19m liabilities of £1.47m. The Annual Member update issued by the Plumbing Scheme in October 2017 stated that an interim valuation prepared as at April 2016 indicated a deficit, however the draft triennial valuation as at 5 April 2017 continues to show a surplus on a technical provisions basis. Details of the draft triennial valuation as at 5 April 2017 are set out in Note 18.

As set out in Note 18 the Group has a potential exposure to s75 employer debts in respect of the Plumbing Scheme, which has been disclosed as a contingent liability.

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 2017.

The Group made a total contribution to the Group scheme of £4.4m during the year (2017: £2.0m), including an additional payment of £3.0m in relation to payment on a letter of credit against the funding deficit. The Group expects to make contributions of around £5.6m to the Group scheme in the year ending 31 March 2019, including £4.2m against the funding deficit. Employees' contribution to the cost of the scheme is generally settled through a salary sacrifice arrangement.

The Group made contributions to the Other schemes of £0.3m in the year (2017: £0.3m). The Group expects to make contributions of around £nil to the Other schemes in the year ending 31 March 2019.

Details of latest funding valuation

	Group scheme
Date of latest funding valuation	31 March 2017
Assets at valuation date	£178.7 million
Funding liabilities at valuation date	£225.3 million
Deficit at valuation date	£46.6 million

The total contribution rate is between 40.5% and 44.9% of annual pay for the remaining active members. The employer contribution rate is the balance of the total cost after the deducting the employee rate, which ranges depending on status and earnings. The total contribution excludes any allowances for expenses met by the scheme.

To eliminate the funding deficit the Trustee and the Group agreed that additional contributions (i.e. over and above those required to cover benefits being accrued) will be paid into the scheme of £58.0m by 31 March 2027, of which £11.9m are due by

31 March 2020. On 27 November 2017, the Group paid the first of these additional contributions amounting to £3.0m. Under this recovery plan, if the assumptions made are borne out in practice, the deficit would be eliminated by 31 March 2027.

The following table sets out details of the membership of the Group scheme at 31 March 2017:

	Group scheme
Active members – by number	182
Active members – by proportion of funding liability	20.4%
Total pensionable salary roll p.a.	£8.4m
Deferred members – by number	853
Deferred members – by proportion of funding liability	52.0%
Total deferred pensions p.a. (at date of leaving scheme)	£4.6m
Pensioner members – by number	640
Pensioner members – by proportion of funding liability	27.6%
Total pensions in payment p.a.	£2.7m

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	
	2018 %	2017 %	**2018 %**	2017 %
Key assumptions used for IAS 19 valuation:				
Discount rate	**2.60**	2.65	**2.60**	2.65
Expected rate of pensionable pay increases	**3.10**	2.00	**3.10**	3.40
Retail price inflation	**3.10**	3.40	**3.10**	3.40
Consumer price inflation	**2.10**	2.40	**2.10**	2.40
Future pension increases	**3.40**	3.40	**3.40**	3.40

	Group scheme	
	2018 Years	2017 Years
Post retirement life expectancy:		
Current pensioners at 65 – male	**88.0**	88.0
Current pensioners at 65 – female	**89.0**	90.0
Future pensioners at 65 – male	**89.0**	89.0
Future pensioners at 65 – female	**90.0**	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.

Sensitivity of defined benefit obligations to key assumptions

	Impact on defined benefit obligations		
	Change in assumption	Increase/(decrease) in obligations %	Increase/(decrease) in obligations £m
Increase in discount rate	0.1%	(2.0)%	(5.0)
Increase in RPI inflation*	0.1%	1.5%	3.8
Increase in CPI inflation (excluding pay)	0.1%	0.7%	1.8
Increase in salary growth	0.1%	0.0%	–
Increase in life expectancy	1 year	3.9%	9.8

* Including other inflation-linked assumptions (CPI inflation, pension increases and 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 22 years for the Group scheme.

Amounts recognised in financial statements

The table below outlines where the Group's post-employment amounts are included in the financial statements.

			2018			2017
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Current service cost	**(1.7)**	**(0.3)**	**(2.0)**	(3.2)	(0.3)	(3.5)
Total administration expense	**(1.1)**	**–**	**(1.1)**	(0.8)	–	(0.8)
Amounts recognised in operating profit	**(2.8)**	**(0.3)**	**(3.1)**	(4.0)	(0.3)	(4.3)
Past service cost (including curtailments)	**(1.9)**	**–**	**(1.9)**	–	–	–
Net interest cost	**(1.9)**	**(0.1)**	**(2.0)**	(1.3)	–	(1.3)
Amounts recognised in profit before tax	**(6.6)**	**(0.4)**	**(7.0)**	(5.3)	(0.3)	(5.6)

The past service cost (including curtailments) is as a result of an increase in liabilities driven by the closure of the main Group scheme.

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

			2018			2017
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Actuarial (losses)/gains arising due to changes in financial assumptions	**8.6**	**0.8**	**9.4**	(52.5)	(3.7)	(56.2)
Actuarial (losses)/gains arising from liability experience	**(1.1)**	**0.8**	**(0.3)**	0.8	–	0.8
Actuarial gains due to changes in demographic assumptions	**5.9**	**0.2**	**6.1**	–	–	–
Effect of asset ceiling	**–**	**(0.5)**	**(0.5)**	–	–	–
Return on scheme assets, excluding interest income	**4.6**	**0.4**	**5.0**	18.7	1.3	20.0
	18.0	**1.7**	**19.7**	(33.0)	(2.4)	(35.4)

The amounts included in the balance sheet in respect of the Group's defined benefit retirement benefit schemes are as follows:

			2018			2017
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	**182.3**	**12.1**	**194.4**	177.8	11.3	189.1
Present value of defined benefit obligations	**(237.1)**	**(14.1)**	**(251.2)**	(248.5)	(14.8)	(263.3)
Net pension liability	**(54.8)**	**(2.0)**	**(56.8)**	(70.7)	(3.5)	(74.2)

All figures above are shown before deferred tax.

Movements in the present value of defined benefit obligations in the year in respect of both the Group and other schemes were as follows:

			2018			2017
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	**248.5**	**14.8**	**263.3**	191.3	10.6	201.9
Current service cost	**1.7**	**0.3**	**2.0**	3.2	0.3	3.5
Interest cost	**6.5**	**0.4**	**6.9**	6.8	0.4	7.2
Contributions from scheme members	**–**	**0.1**	**0.1**	0.1	0.1	0.2
Actuarial (gains)/losses arising due to changes in financial assumptions	**(8.6)**	**(0.8)**	**(9.4)**	52.5	3.7	56.2
Actuarial losses/(gains) arising from experience	**1.1**	**(0.8)**	**0.3**	(0.8)	–	(0.8)

	2018			2017		
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Actuarial gains due to changes in demographic assumptions	**(5.9)**	**(0.2)**	**(6.1)**	–	–	–
Effect of asset ceiling	**–**	**0.5**	**0.5**	–	–	–
Benefits paid	**(8.1)**	**(0.2)**	**(8.3)**	(4.6)	(0.3)	(4.9)
Past service cost (including curtailments)	**1.9**	**–**	**1.9**	–	–	–
At 31 March	**237.1**	**14.1**	**251.2**	248.5	14.8	263.3

The defined benefit obligations of the Group scheme are analysed by participant status below:

	2018 £m	2017 £m
Active	**48.3**	85.0
Deferred	**123.3**	103.1
Pensioners	**65.5**	60.4
At 31 March	**237.1**	248.5

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

	2018			2017		
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
At 1 April	**177.8**	**11.3**	**189.1**	156.9	9.5	166.4
Interest income	**4.6**	**0.3**	**4.9**	5.5	0.4	5.9
Actuarial gains on assets	**4.6**	**0.4**	**5.0**	18.7	1.3	20.0
Contributions from the sponsoring companies	**4.4**	**0.3**	**4.7**	2.0	0.3	2.3
Contributions from scheme members	**–**	**–**	**–**	0.1	0.1	0.2
Expenses paid	**(1.0)**	**–**	**(1.0)**	(0.8)	–	(0.8)
Benefits paid	**(8.1)**	**(0.2)**	**(8.3)**	(4.6)	(0.3)	(4.9)
At 31 March	**182.3**	**12.1**	**194.4**	177.8	11.3	189.1

The history of experience adjustments is as follows:

	Group scheme				
	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Fair value of scheme assets	**182.3**	177.8	156.9	162.2	143.8
Present value of defined benefit obligations	**(237.1)**	(248.5)	(191.3)	(197.1)	(160.8)
Deficit in the scheme	**(54.8)**	(70.7)	(34.4)	(34.9)	(17.0)
Experience (losses)/gains on scheme liabilities	**(1.1)**	0.8	3.1	1.2	0.1
Percentage of scheme liabilities	**0.5%**	(0.3)%	(1.6)%	(0.6)%	(0.1)%
Experience gains/(losses) on scheme assets	**4.6**	18.7	(6.2)	13.0	3.6
Percentage of scheme assets	**2.5%**	10.5%	(4.0)%	8.0%	2.5%

	Other schemes				
	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Fair value of scheme assets	**12.1**	11.3	9.5	9.5	16.2
Present value of defined benefit obligations	**(14.1)**	(14.8)	(10.6)	(10.4)	(18.3)
Deficit in the scheme	**(2.0)**	(3.5)	(1.1)	(0.9)	(2.1)
Experience gains/(losses) on scheme liabilities	**0.8**	–	–	(0.1)	0.3
Percentage of scheme liabilities	**(5.6)%**	–	–	0.9%	(1.8)%
Experience gains/(losses) on scheme assets	**0.4**	1.3	(0.6)	0.8	(0.3)
Percentage of scheme assets	**3.3%**	11.5%	(6.1)%	8.4%	(1.9)%

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

	2018			2017		
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Equities	**66.3**	**7.0**	**73.3**	66.4	7.6	74.0
Government bonds	**26.9**	**–**	**26.9**	26.8	1.6	28.4
Corporate bonds	**22.0**	**3.8**	**25.8**	21.7	0.8	22.5
Property	**9.5**	**0.9**	**10.4**	16.2	0.8	17.0
Diversified growth fund	**45.6**	**–**	**45.6**	46.6	–	46.6
Cash	**12.0**	**0.4**	**12.4**	0.1	0.5	0.6
Total fair value of assets	**182.3**	**12.1**	**194.4**	177.8	11.3	189.1

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 67% (2017: 73%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long term.

£nil (2017: £7m) of the property assets represent freehold property; the rest are quoted property investments.

Risks and risk management

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

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

Risk	Description
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation for accounting is calculated using a discount rate set with reference to corporate bond yields. The Group scheme holds a large proportion of its assets (67%) in equities and other return-seeking assets (principally diversified growth funds (DGFs) and property). The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level has the potential to be volatile in the short term, potentially resulting in short-term cash requirements or alternative security offers, which are acceptable to the Trustee and an increase in the net defined benefit liability recorded on the Group's balance sheet. Equities and DGFs are considered to offer the best returns over the long term with an acceptable level of risk and hence the scheme holds a significant proportion of these types of asset. However, the scheme's assets are well-diversified by investing in a range of asset classes, including property, government bonds and corporate bonds. The Group scheme holds 25% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.
Changes in bond yields	Falling bond yields tend to increase the funding and accounting obligations. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting obligations. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	The majority of the scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the scheme's obligations are to provide a pension for the life of the member, so increases in life expectancy will result in an increase in the obligations.

Areas of risk management

Although investment decisions in the 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.

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. At present there is an inequality of benefits between male and female members who have GMP. The Government intends to implement legislation to equalise benefits, which could result in an increase in the value of GMP for males. This would increase the defined benefit obligations. At this stage, it is not possible to quantify the impact of this change, and therefore no provision has been made.

Certain benefits payable on death before retirement are insured.

20. 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 (2017: £0.2m) of revenue from contracts with joint ventures and associated undertakings and received £0.6m (2017: £0.6m) of dividends. At 31 March 2018 trade and other receivables of £0.2m (2017: £nil) were outstanding and loans to joint ventures and associates of £nil (2017: £nil) were included in financing assets.

Mitie Group plc has a related party relationship with the Mitie Foundation, a charitable company. During the year, the Group made donations and gifts in kind of £0.3m (2017: £0.3m) to the Foundation. At 31 March 2018 £nil (2017: £nil) was due to the Foundation and the Foundation had £nil (2017: £nil) held within creditors as an amount owed 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 include the Executive Directors, Non-Executive Directors and the Executive Leadership team. The underlying remuneration for other key management personnel, including the share-based payments charge is £5.6m (2017: £4.1m).

In the Annual Report and Accounts for the year ended 31 March 2017, the Company noted that, as a consequence of prior year adjustments to the accounts for the financial year ended 31 March 2016, the Remuneration Committee would determine what rights might be available to the Company to recover the bonus and other awards made to each of Ruby McGregor-Smith and Suzanne Baxter in respect of FY16. The matters which gave rise to the prior year adjustments are now the subject to the on-going investigation by the Financial Conduct Authority (the FCA), which the Company disclosed in its announcement on 29 August 2017. In that announcement, the Company reported that the FCA had commenced an investigation in connection with the timeliness of a profit warning announced by the Company on 19 September 2016 and the manner of preparation and content of the Company's financial information, position and results for the period ending 31 March 2016. The Company has been advised by its external lawyers that as any claim against Ruby McGregor-Smith and Suzanne Baxter would cover the same matters, facts and circumstances which are the subject of the FCA investigation, any formal steps to recover bonuses or other awards should be deferred until after the FCA have reached their findings. It is currently anticipated that the FCA will conclude its investigation during the course of FY19.

Details of transactions with Mitie Group plc Pension Scheme, and other smaller pension schemes, are given in Note 19.

21. Events after the reporting period

There are no material post balance sheet events that require adjustment or disclosure in the annual report.

Appendix 1 – Alternative Performance Measures (APMs)

The Group presents APMs as the Group has applied IFRS 15 in the 2018 financial statements using the cumulative effect method through an adjustment to the opening balance of equity at 1 April 2017 and not restating the comparative information for the 2017 financial year and there were a number of significant restatements were recorded in the 2017 financial statements. The Group presents various APMs as the Directors believe that these are useful for users of the financial statements in helping to provide a balanced view of, and relevant information on, the Group's financial performance. These APMs are measures which disclose the adjusted performance of the Group without the adoption of IFRS 15 (see Note 1 (a)) and excluding specific items which are regarded as non-recurring. The Group separately reports acquisition costs, the amortisation of acquisition related intangible assets, exceptional items and other specific items in the income statement which, in the Directors' judgement, need to be disclosed separately (see Notes 3 and 4) by virtue of their nature, size and incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

APMs presented	**2018 £m**	2017 £m
Revenue		
Adjusted revenue	2,199.1	2,140.0
Impact as a result of the adoption of IFRS 15	4.6	–
One-offs:		
Adjustment to accrued income on long-term complex contracts	–	(20.4)
Accrued income, debtors, prepayments included in trade & other receivables	–	(7.4)
Effects of foreign currency	–	11.2
Other one-off items	–	–
Before other items	**2,203.7**	2,123.4
Other items	**–**	–
Total revenue as reported	**2,203.7**	2,123.4

Operating profit		
Adjusted operating profit	**77.1**	82.0
Impact as a result of the adoption of IFRS 15	**12.5**	–
One-offs:		
Impairment and amortisation of intangible assets (Note 9)	**–**	(10.5)
Adjustment to accrued income on long-term complex contracts	**–**	(20.4)
Accrued income, debtors, prepayments included in trade & other receivables	**–**	(36.4)
Impairment of mobilisation asset	**–**	(5.7)
Other provisions & accruals	**–**	(4.6)
Other one-off items	**–**	(10.7)
Before other items	**89.6**	(6.3)
Adjusted other items	**(103.0)**	(36.6)
Impact as a result of the adoption of IFRS 15	**5.1**	–
Other items as reported	**(97.9)**	(36.6)
Total operating profit as reported	**(8.3)**	(42.9)

The total adjustments presented above impact business segments as follows:

Adjustments to revenue	**2018 £m**	2017 £m
Engineering Services	**(6.9)**	14.6
Security	**(0.3)**	–
Professional Services	0.6	—
Cleaning & Environmental Services	**(0.9)**	3.6
Care & Custody	2.4	–
Catering	–	(1.6)
Property Management	0.5	–
Total adjustments	**(4.6)**	16.6

Adjustments to operating profit	**2018 £m**	2017 £m
Engineering Services	**(10.3)**	37.5
Security	**(2.3)**	3.8
Professional Services	0.5	2.6
Cleaning & Environmental Services	**(1.7)**	14.4
Care & Custody	1.3	0.7
Catering	**(0.6)**	0.6
Property Management	0.6	16.8
Corporate Centre	–	11.9
Total adjustments	**(12.5)**	88.3

		2018			2017		
Adjustments to cash flows		**As reported £m**	**Impacts of IFRS 15 £m**	**Adjusted cash flows £m**	As reported £m	One-off items £m	Adjusted cash flows £m
Operating loss	– continuing operations	**(8.3)**	**(17.6)**	**(25.9)**	(42.9)	88.3	45.4
	– discontinued operations	**–**	**–**	–	(135.2)	–	(135.2)
Adjustments for non-cash and non-operating items		**75.5**	**–**	**75.5**	187.2	(88.3)	98.9
Operating cash flows before movements in working capital		**67.2**	**(17.6)**	**49.6**	9.1	–	9.1
(Increase)/decrease in inventories		**(0.1)**	**–**	**(0.1)**	3.2	–	3.2
(Increase)/decrease in receivables		**(43.2)**	**13.1**	**(30.1)**	60.2	–	60.2
(Increase)/decrease in contract assets		**(2.3)**	**2.3**	–	–	–	–
(Decrease)/increase in deferred income arising on contracts		**(12.8)**	**12.8**	–	–	–	–
(Decrease)/increase in payables		**(21.2)**	**(9.1)**	**(30.3)**	73.0	–	73.0
(Decrease)/increase in provisions		**4.5**	**(0.2)**	**4.3**	5.6	–	5.6

Cash (used in)/generated by operations	**(7.9)**	**1.3**	**(6.6)**	151.1	–	151.1
Income taxes, interest and acquisition costs received/(paid)	**(1.9)**	**–**	**(1.9)**	(28.3)	–	(28.3)
Net cash (outflow)/inflow from operating activities	**(9.8)**	**1.3**	**(8.5)**	122.8	–	122.8
Investing activities						
Purchase of property, plant and equipment	**(15.8)**	**(0.2)**	**(16.0)**	(14.5)	–	(14.5)
Purchase of other intangible assets	**(9.0)**	**(1.1)**	**(10.1)**	(12.4)	–	(12.4)
Other investing activities	**(7.3)**	**–**	**(7.3)**	–	–	–
Net cash outflow from investing activities	**(32.1)**	**(1.3)**	**(33.4)**	(26.9)	–	(26.9)
Net cash inflow from financing activities	**(27.8)**	**–**	**(27.8)**	(60.3)	–	(60.3)
Net (decrease)/increase in cash and cash equivalents	**(69.7)**	**–**	**(69.7)**	35.6	–	35.6

Adjustments to the balances sheet are shown in Note 1.