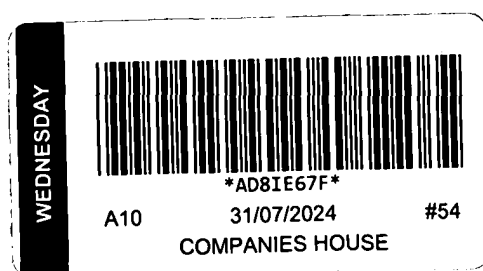


Mitie Security Limited

Annual report and financial statements

Registered number 01013210

31 March 2024



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Company information

Directors

P J G Dickinson
J M Towse

Secretary

Mitie Company Secretarial Services Limited

Registered office

Level 12
The Shard
32 London Bridge Street
London
SE1 9SG

Auditor

BDO LLP
Statutory Auditor
Two Snowhill
Birmingham
B4 6GA

Strategic report

Mitie Security Limited (the "Company") is an indirect subsidiary of Mitie Group plc. Mitie Group plc, together with its subsidiaries, comprise the "Group".

The directors of the Company (the "Directors"), in preparing this Strategic report, have complied with Section 414C of the Companies Act 2006.

Review of the business

The principal activity of the Company is security and intelligence led services, offering integrated, risk-based security solutions to fit client's needs, such as guarding, fire and security systems, front of house, vetting and intelligence services. The Company's focus on intelligence, technology and people ensures effective and efficient use of resources. There have not been any significant changes in the Company's principal activities in the year under review.

As shown in the income statement on page 18, the Company's revenue was £713,368,000 (2023: £707,586,000) and the profit for the year was £18,906,000 (2023: £20,746,000).

The Company has had another strong year broadly replacing the lost revenue from the completion of short-term Government contracts related to COVID-19, immigration and Brexit, with key wins in more traditional sectors and strong pricing uplifts to mitigate the impacts of inflation.

Key performance indicators

The Group manages its operations on a divisional basis. For this reason, the Directors do not believe further key performance indicators are necessary for an appropriate understanding of the performance and position of the Company. The performance of the Group's divisions is discussed in the Mitie Group plc annual report and accounts 2024, which does not form part of this report.

Principal risks and uncertainties

The Company is part of the Group and manages its risks in line with the Group's enterprise risk management framework. Details of this framework and information on the principal risks and uncertainties are given in the Mitie Group plc annual report and accounts 2024. The Directors have reviewed the Company's financial objectives alongside the risk profile for the Company and the significant risks and uncertainties have been detailed below.

Strategic report (continued)

Strategic risks

Economic and political uncertainties

The Company's performance may be affected by general economic conditions and other financial and political factors outside the Company's control. A sudden change in market conditions, such as an economic slowdown or significant political uncertainty, either nationally or globally, may result in decreased project work and discretionary spend or descope of services by customers, which can lead to an impact on the Company's financial performance.

During the financial year, there has been an increased net risk exposure due to an unstable external environment. The hazards stemming from economic and political uncertainties have intensified as a result of persistent inflationary issues, escalating geopolitical tensions and disputes, and government instability.

The Group, of which the Company is a part, derives most of its revenue from a client base in the United Kingdom, with limited exposure to the wider global economy in respect of demand for services. However, the costs of delivery are exposed to global inflationary impacts. The Group continues to monitor the impact of the current economic and political challenges on the cost of delivering its services to ensure mitigating actions, such as using contractual protections to pass on such cost increases, minimise the Group's exposure to this and associated risks.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- mix of long-term contract portfolio in both the public and private sectors;
- continual development of new and innovative solutions;
- focus on higher-margin growth opportunities;
- regular reviews of the sales pipeline;
- increasing spread of customer base, reducing reliance on individual customers;
- strategic account management programme;
- dedicated Finance, Risk and Intelligence Hub specialists scanning environment;
- utilising contract mechanisms to recharge cost increases;
- Coupa, the Group's digital supplier platform ("DSP"), providing greater visibility of and ability to manage supply chain; and
- leveraging buying power to help mitigate the increase in cost of goods and services.

Competitive advantage

The Company's performance could be impacted by a failure to preserve its competitive edge or capitalise on opportunities. This might result in the loss of key customers, excessive dependence on a specific sector, or the inability to generate financially sound bids with a measured approach to risk, which could have a significant effect on the Company's financial performance and reputation.

The year has witnessed many achievements for the Company, including but not limited to, a large number of high-profile contract wins.

Despite such achievements, the Company recognises the importance of staying focussed and continually reviewing ongoing challenges, such as the threats posed from new entrants, market saturation across the sectors, growing competition as well as the ongoing effects of geopolitical affairs, all of which have the potential to impact profit margins and disrupt the Company's operations.

In the next financial year, the Company will continue to monitor the changing external environment as well as market coverage. Furthermore, it will continue to target emerging markets and engage with opportunities that have scope for innovative solutions.

Strategic report (continued)

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- Bid Committee approval for complex bids;
- robust risk assessment of bids – Commercial, Legal and Operational;
- detailed contracting guidelines in place;
- clear delegated authorities register;
- strategic account management programme;
- KPI/service level agreement formal reviews with customers;
- sales and customer relationship management (“CRM”) teams focused on developing pipeline across all major sectors;
- improved CRM capabilities with active relationship management;
- focus on customer satisfaction (Net Promoter Score and soliciting feedback);
- review of any loss-making contracts to ensure learnings are identified and applied to future bids;
- sales and pipeline management information to track and measure growth, wins and losses;
- win/loss debriefing process to take learnings for future bidding activities;
- focus on high-margin opportunities with growth potential, for example technology-led solutions;
- development of new and innovative service offerings; and
- Sales Academy.

Climate change and social impact

The Company’s transition to a lower-carbon business could be hindered by an inability to quickly identify and effectively respond to the challenges posed by climate change, resulting in significant business interruption and/or compromise new opportunities for growth. Furthermore, a failure to appropriately consider the environmental and social impact of the Company’s business and its activities may create a negative perception with employees, customers, investors, government and the general public. This could lead to failures in securing and/or retaining contracts and sources of funding, as well as impacting negatively on the Company’s reputation. The Group’s Task Force on Climate-related Financial Disclosures are discussed in the Mitie Group plc annual report and accounts 2024, which does not form part of this report.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- Plan Zero;
- Environment, Social & Governance (“ESG”) Committee;
- Environmental Management System ISO 14001 and Energy Management System ISO 50001;
- climate change risk assessment maintained and approved by the ESG Committee;
- key policies and associated operating procedures in place;
- use of in-house subject-matter experts specialising in an array of topics, including energy, waste, biodiversity, procurement and fleet;
- ISO 22301 – regular testing of crisis management and business continuity plans;
- winter and summer preparedness planning at account level;
- ongoing reviews of Planned Preventative Maintenance lifecycles;
- continuous horizon scanning via the Group’s Intelligence Hub, with regular alerts to teams on potential threats and significant events;
- insurance cover in place to cover property damage and business interruption;
- targets in place for the Group’s social value framework pillars;
- The Mitie Foundation – Giving Back, the Group’s employee volunteering programme; and
- active apprenticeship scheme across the Group, training the Group’s colleagues to enhance operational delivery and address skills gaps.

Strategic report (continued)

Adoption of new and emerging technologies

The Company's long-term growth and profitability may be detrimentally impacted by a failure to capitalise on new and emerging technologies, along with an inability to implement vital infrastructure and systems.

With technological advancements rapidly transforming the business landscape, the Company must be proactive in adapting and benefiting from these changes. The associated risk lies in a failure to keep pace with evolving technologies, which may lead to a competitive disadvantage, poor customer experience, and operational inefficiencies. To address this risk, the Group, of which the Company is part, is ensuring a structured approach towards technology adoption with a focus on artificial intelligence ("AI") developments, monitoring trends, assessing the feasibility and benefit, and implementing these technologies effectively.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- Mitie Group Executive ("MGX") Objectives, Goals, Strategies and Plans on AI, data and customer facing technology in the course of finalisation;
- new Mitie Responsible and Ethical Use of Artificial Intelligence Policy;
- AI Executive Oversight Committee;
- AI Ethics Board; and
- Dedicated AI risk register.

Reputational damage

The Company's participation in politically sensitive activities draws media scrutiny and amplifies the risks associated with misinformation and disinformation, particularly in instances of perceived operational shortcomings. The combination of the Company's involvement and inaccuracies in external reporting could considerably damage the Company's reputation, resulting in the loss of customers' trust, financial setbacks and long-term challenges to the Company's stability, delivery and growth.

This risk reflects the increasing importance of preserving the Company's and the Group's brand reputation in an increasingly interconnected world. The risk encompasses the potential adverse impacts of the Group's actions on its credibility, client relationships, and overall brand value. The management team recognises the significance of this risk and have measures in place to mitigate against this, such as robust public relations strategies, ethical practices, and effective crisis management.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- weekly MGX meetings;
- proactive media outreach to ensure validity of reports, including correction methods via ongoing media campaigns;
- proactive monitoring of social media platforms;
- designated media liaisons;
- proactive engagement with key external stakeholders;
- daily media alerts;
- enhanced targeted monitoring on groups identified as posing an increased risk; and
- designated Corporate Affairs and Legal support.

Financial risks

Reliance on material counterparties

In accordance with Group policies, before accepting a new customer, the Company uses external credit scoring systems to assess the potential customer's credit quality and define an appropriate credit limit, which is reviewed regularly.

Strategic report (continued)

Operational risks

Third-party management

The Company's performance could be impacted by an inability to successfully manage strategic third-party relationships, or a failure involving a third-party partner could impact the Company's ability to deliver, resulting in financial losses owing to fines and in some circumstances significant reputational damage.

During the financial year, there has been no change in the net risk exposure owing to the same challenges facing the Company also impacting the supply chain, potentially impacting access to goods and services. The Company will continue to proactively monitor developments with both the internal and external landscapes, paying particular attention to the ongoing issues still being experienced.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- key policies and associated operating procedures, including Supplier Management Programme;
- dedicated Procurement and Commercial teams;
- Centre of Excellence and dedicated Risk & Compliance team embedded within Procurement and Supply Chain;
- 'Mitie First' approach adopted;
- optimisation of preferred suppliers framework;
- rigorous onboarding framework integrated into business utilising the DSP;
- defined service level agreements and KPIs;
- ongoing spending review;
- dedicated risk management and assurance procedures (including targeted Health, Safety and Environment ("HSE") assurance programme and internal audit) to ensure internal controls are operating effectively;
- ongoing review of third-party business continuity arrangements with regular reporting to Group Risk;
- DSP facilitating supplier health and risk checks (including insolvency risk) as well as invoice processing; and
- Procurement and Supply Chain Insights.

Change management

Fundamental to the Company's growth strategy is the ability to successfully undertake transformation projects and ensure all aspects of change management are correctly integrated. A failure to successfully manage the aggregated impact of simultaneously delivering transformation programmes could impact the delivery of planned business benefits.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- Executive sponsorship;
- deliverables agreed in advance by the Group's board and Mitie Group Executive;
- centralised Project Management Office function;
- subject-matter experts appointed early on with agreed roles and responsibilities;
- standardised programme governance framework, including risk management;
- contract management controls embedded for third-party support; and
- regular auditing with periodic reporting on key business activities to the Group's Audit Committee.

Regulatory risks

Regulatory

The Company's performance could be impacted by a failure to comply with applicable laws and regulations, which may lead to fines, prosecution and damage to the Company's reputation.

During the financial year, there was no change in the net risk exposure owing to uncertainties concerning several known legislative changes. The Company does not envisage the pace of legislative change altering and will continue to proactively scan the external operating environment as well as assess the impact of changes, as they arise.

Strategic report (continued)

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- specialist legal and HSE expertise aligned to business units;
- code of conduct for all employees;
- independent whistleblowing system available to all employees to report any concerns;
- Group-wide policies updated for changes to laws and regulations and maintained in the online information management system;
- regular and thorough internal and external regulatory audits;
- training and awareness materials communicated to employees via the Group's digital learning hub and monitoring of completion performed, especially for mandatory courses;
- regular monitoring of legal and regulatory changes by Group functions, including Company Secretariat, Legal and HSE;
- financial governance and controls in place;
- commercial governance and controls in place; and
- establishment of Internal Control Declaration framework ongoing to align with future corporate governance requirements.

Health, safety and environment

The Company's performance could be impacted by a failure to maintain appropriately high standards in health, safety and environmental management. This may result in catastrophic events, harm to employees, client staff or members of the public, consequential fines, prosecution and reputational damage.

The HSE performance incidents across the Company has improved, with a steady increase of leading metrics. Lagging metrics including lost time incidents are stable however there has been an increase in violence against security using weapons, which aligns to the British Retail Consortium reports. Priorities include targeted risk related safety interventions and initiatives including health and wellbeing enhancements. The Company is keen to ensure interruptions are kept to a minimum and productivity in a safe environment is maximised. Focus remains on ensuring that appropriate steps are taken to safeguard the physical and mental wellbeing of colleagues, suppliers and other stakeholders involved in the Company's operations.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- a comprehensive HSE strategy in place and under continual review for effectiveness;
- major cultural HSE programme, LiveSafe, continuing, with clear rules, engagement and training for staff;
- regular training and communication delivered throughout the Group; in accordance with the LiveSafe principles. LiveSafe eLearning training programme sets out HSE expectations, including 'stop the job' supported by key safety message from the Group's Chief Executive, Phil Bentley;
- H&S management system certified to ISO 45001 and environmental system to ISO 14001;
- fully integrated incident recording, monitoring and reporting system;
- regular HSE reviews conducted at Group and business unit level;
- clear and standardised KPIs to monitor progress and improvements;
- risk based audit programme embedded;
- themes and root causes monitored from the results of audits to target specific actions, including training;
- HSE function 'Plan Zero Champions' as part of the Plan Zero programme to promote strategy and good practice in environmental management;
- health and wellbeing framework integrated into the business;
- insurance cover in place to cover employers' liability, public liability and motor fleet insurance;
- focused zero harm weeks concentrating on pertinent subjects to further strengthen the Group's HSE culture; and
- ongoing review of HSE team, ensuring maintenance of competencies and correct provision of support and guidance across the Group.

Strategic report (continued)

People risks

Employees

The Company's performance could be impacted by an inability to recruit, retain and reward suitably talented employees, as well as failure to implement appropriate development plans and simple consistent processes across the business and cultivate a 'One Mitie' culture. This could result in employees being disengaged and negatively impact the Company's operational and financial performance.

During the financial year, there was no change in the net risk exposure. The Company will continue to proactively monitor developments in relation to the labour market.

Controls and mitigation plans have been put in place by the Group to mitigate such risks, including:

- consistent HR resourcing process and system across the Group;
- process in place for online training and development, with access to online learning for all colleagues;
- consistent process to manage both temporary and permanent recruitment;
- training and development programmes for senior leadership;
- developed talent identification, management and development framework;
- performance management framework;
- HR business partners aligned with business units;
- induction programme, mandatory for new starters;
- regular communications from leadership team – including Mitie Group Executive country-wide roadshows;
- specific plans developed to address results of employee survey;
- competitive remuneration, terms and conditions;
- regular employee offers;
- succession plans in place for critical roles, especially for senior leadership;
- attraction strategy developed and deployed;
- enhanced benefits such as free shares, life assurance, virtual GP and a salary advance scheme;
- careers website;
- Employee Value Proposition; and
- career band framework.

Financial risk management

The Company does not enter into any hedging instruments, or any financial instruments for speculative purposes.

Appropriate trade terms are negotiated with suppliers and customers. Management reviews these terms and the relationships with suppliers and customers and manages any exposure on normal trade terms. The Company's requirement for additional funding is managed as part of the Group's financing arrangements.

Strategic report (continued)**Section 172 statement**

The following disclosure describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) and forms the statement required under section 414CZA of the Companies Act 2006.

Stakeholders

The Directors consider the groups listed in the table below as its key stakeholders, which align with those of the Group. The Directors aim to understand the interests of each stakeholder through various methods, including information gathered and cascaded by both the divisional and senior leadership teams, and Group-wide engagement, both direct and indirect.

Stakeholder	Engagement activity	Important issues discussed
Customers	- Regular engagement by senior leadership with customers - Customers experience and satisfaction surveys - Management of customer relationships by divisional leadership - Contractual measurements through Key Performance Indicators ("KPIs")	- Customer satisfaction - Technology and innovation - Health, safety, and sustainability - Economic outlook - Labour market constraints - Governance and transparency - Social value
Shareholders	- Regular senior leadership meetings	- Financial performance - Introduction of the Facilities Transformation Three-Year Plan (FY25 – FY27) and new targets - Expanding the Company's suite of margin enhancement initiatives, incorporating the outsourcing of diverse functions. - Environmental, Social and Governance ("ESG") matters
Communities and the environment	- The Mitie Foundation programmes - Local community events - Employee volunteering	- Social value - Job and investment - Rising cost of living - ESG performance
Employees ¹	- All employee teams meetings - Internal communications updates through weekly Recap and monthly Download updates - Pulse surveys - Designated Group non-executive director, Jennifer Duvalier	- Reward and recognition - Systems, processes, and technology - Equality, diversity, and inclusion - Rising cost of living - Remuneration and benefits - Career opportunities and development
Suppliers	- Global supplier portal	- Responsible procurement

Note:

1. The Company's workforce is employed through another Group company.

Strategic report (continued)

Consequences of any decision in the long-term

The Directors are aware that strategic decisions can have long term implications for the Company and its stakeholders. These decisions are carefully considered to ensure sustainable growth and positive impact on the Company's stakeholders.

During FY24, the Group's board prioritised the agreement of the new Facilities Transformation Three-Year Plan (FY25 – FY27). This plan aims to enhance the built environment for the Group's customers by improving productivity, working conditions, security, and cleanliness, while also reducing carbon intensity. Throughout the development of the plan, the Board considered factors such as the UK Facilities Management market, margin enhancement initiatives, financial targets, and divisional growth strategies.

The Directors also continued to actively participate in expanding the Company's range of margin enhancement initiatives. During the year, the outsourcing of HR and Payroll, Finance and IT functions delivered significant cost savings and helped optimise the Company's organisation structure. Over the course of the new Facilities Transformation Three-Year Plan (FY25 – FY27), the focus for margin enhancement initiatives will shift towards contract efficiencies, including optimised organisational structure within customer accounts, improved contract productivity, and increased use of artificial intelligence analytics to drive efficiencies in resource deployment and enhance customer engagement.

Having regard to the interests of employees

The Group has several mechanisms to engage with employees and the Directors are committed to ensuring that the results are considered in decision making.

Throughout the year, the Directors actively engaged with employees, focusing on employee-related matters such as reward and recognition, learning and development as well as during the expansion of the Company's suite of margin enhancement initiatives. To ensure effective communication, multiple mechanisms were utilised, including an annual employee survey, regular pulse surveys, and the dedicated efforts of Jennifer Duvalier, as Group non-executive director assigned to oversee the workforce. These measures effectively contributed towards keeping the workforce updated.

Fostering business relationships with suppliers, customers and others

Suppliers

The Directors support the Group's responsibility targets which are focused on increasing the percentage of the Group's spend that goes to small and medium-sized enterprises, and voluntary, charity and social enterprise suppliers. During the year, the Group launched a new Preferred Supplier List aimed at minimising cost and risk across the supply chain and leveraging the Group's scale. The Supplier Management Programme, which all Preferred Suppliers will be inducted into over FY25, will focus on collaboration, operational performance, ESG, and Quality, Health, Safety, and Environment.

Customers

Customers are at the heart of the business and therefore the Directors consider that getting closer to customers and thus becoming more responsive to their needs, is important.

The Directors monitor the Net Promoter Score, a customer loyalty metric that measures how likely a customer is to recommend a product or service to a friend, to ensure customers' sentiment remains positive.

Impact of operations on the community and the environment

The Directors are supportive of the Group's initiatives to improve the impact of the Company's operations on the community and the environment. One of the Company's directors is a member of the Group's ESG Committee which provides oversight and governance on all ESG initiatives. This ensures alignment with the Group's purpose, promises, and values.

Strategic report (continued)

Maintaining a high standard of business conduct

Ethical business practice

The Company has a duty to act responsibly and to show the highest levels of ethical and moral stewardship. A Group ethical business practice policy is in place which applies to all employees in relation to dealings with its people, agents, clients, suppliers, subcontractors, competitors, government officials, the public and investors.

To support this, there are a wide range of policies and training modules available including modern slavery, whistleblowing, anti-bribery and anti-corruption, business expenses and entertaining and Mitie's employee handbook.

Good governance

The Company operates within a robust governance framework which includes processes and procedures set by the board of Mitie Group plc. This framework is applied throughout the Group and is adhered to by the directors of all of the Group's subsidiaries. This ensures consistency in decision-making which is crucial for achieving long-term success and creating sustainable value.

Details of how the Group complies with the UK Corporate Governance Code can be found in the Mitie Group plc annual report and accounts 2024.

The need to act fairly as between members of the company

The Company is a wholly owned subsidiary of the Group. The Directors operate within the governance framework for the Group and hold regular senior leadership meetings where items such as financial performance and people are discussed.

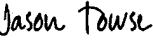
Subsequent events

Subsequent events have been disclosed in Note 23 to the financial statements.

Future developments

The Directors expect the general level of activity to remain consistent in the forthcoming year. This is a result of the completion of the immigration contracts being replaced by more traditional services in the key sectors of Retail, Central Government, Financial and Professional services, and Transport and Logistics, all of which have a strong new business pipeline and a robust retention strategy. The Company has a high degree of confidence of mitigating any inflation headwinds and expects pricing to increase to offset any cost inflation on an equal basis.

Approved by the Board and signed on its behalf by:

DocuSigned by:

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J M Towse
Director

Date: 27th July 2024

Directors' report

The Directors present the annual report and audited financial statements of Mitie Security Limited for the year ended 31 March 2024.

In preparing this Directors' report, the Directors have complied with Section 414C(11) of the Companies Act 2006 by including certain disclosures required by Section 416(4) within the Strategic report.

Going concern

The Company's business activities, and the factors likely to affect its future development and position have been set out in the Strategic report. The financial statements have been prepared on a going concern basis. See Note 1c to the financial statements.

Directors

The Directors who held office during the year and up to the date of signing the financial statements were as follows.

P J G Dickinson
J M Towse

Directors' indemnity

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of certain of the Directors listed above in respect of liabilities incurred as a result of their office to the extent permitted by law.

Dividends

Dividends of £50,000,000 were paid during the year (2023: £nil).

Employees

The Company recognises the importance of good communications and employee relationships. The Group communicates with employees via multiple channels, including: regular employee engagement surveys, regular pulse surveys and feedback on actions taken; communications platforms including Minet, Yammer, MitiePeople.com, and social media; Group-level board and management engagement including Townhall meetings and regular local site visits, and Voice of the People sessions led by a Group non-executive director; global company updates; promotion of improved share incentive plan through different communication channels, including Recap, Download and Minet; annual individual performance reviews and training; confidential whistleblowing service; and direct access to the Group's Chief Executive Officer.

The Company remains committed to developing a culture that encourages the inclusion and diversity of all of the Company's employees through respecting and appreciating their differences and promoting the continuous development of employees through skills enhancement and training programmes.

The Company's employment policies are designed to attract, retain, train, develop and motivate the very best people, recognising that this can be achieved only through offering equal opportunities regardless of gender, race, religion, age, disability, sexual orientation or any other aspect of diversity. Applications from disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. It is the policy of the Company that the training, career development and promotion of disabled persons (including those who become disabled whilst employees of the Company) should, as far as reasonably possible, be identical to that of other employees.

Further information on employees has been provided in the Section 172 statement in the Strategic report.

Other information

An indication of likely future developments in the business, discussion of financial risk management, and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic report.

Directors' report (continued)

Disclosure of information to auditor

Each Director in office at the date of approval of these financial statements confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

Auditor

Pursuant to Section 487 of the Companies Act 2006, BDO LLP have been appointed as the auditor.

Approved by the Board and signed on its behalf by:

DocuSigned by:

Jason Towse

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J M Towse

Director

Date: 27th July 2024

Statement of Directors' responsibilities in respect of the Annual report and financial statements

The Directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Mitie Security Limited

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mitie Security Limited (the "Company") for the year ended 31 March 2024 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the Notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

Independent auditor's report to the members of Mitie Security Limited (continued)

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual report and financial statements, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations

Based on:

- our understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, through discussion with management and our knowledge of the industry;
- we considered compliance with these laws and regulations through discussions with management, those charged with governance, the Group Audit Committee and in-house legal counsel; and
- obtaining and understanding of the Company's policies and procedures regarding compliance with laws and regulations

we considered the significant laws and regulations to be the Companies Act 2006, Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice), the Bribery Act 2010 and tax legislation.

The Company is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be taxation legislation and health and safety legislation.

Our procedures in respect of the above included:

- review of the Group Board and Group Audit Committee meeting minutes, and Group internal audit reports to identify any instances of non-compliance with laws and regulations;
- review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- review of financial statement disclosures and agreeing to supporting documentation;
- involvement of tax specialists in the audit;
- review of legal expenditure accounts to understand the nature of expenditure incurred.

Independent auditor's report to the members of Mitie Security Limited (continued)

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- enquiry with management, those charged with governance, the Group Audit Committee, in-house legal counsel and Group internal audit regarding any known or suspected instances of fraud;
- obtaining an understanding of the Group's policies and procedures relating to:
 - detecting and responding to the risks of fraud; and
 - internal controls established to mitigate risks related to fraud.
- review of minutes of Group Board and those charged with governance and the group Audit Committee meetings to identify any known or suspected instances of fraud;
- discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- involvement of forensics specialists in the audit during engagement team fraud discussions;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these;
- identifying areas at risk of management bias and challenging key estimates and judgements applied by Management in the financial statements to assess their appropriateness; and
- remaining alert to any indications of fraud or non-compliance with laws and regulations throughout the audit

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls in specific in relation to manual journal postings, unusual transactions and bias in accounting estimates. Further fraud risks have been identified in relation to improper application of IFRS 15 on new and modified contracts and the manipulation of revenue cut off through accrued income.

Our procedures in respect of the above included:

- testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- we have remained alert for any unusual one-off transactions identified throughout the course of the audit;
- we have challenged and assessed the reasonableness of managements estimates and judgements in relation to key estimates and provisions including but not limited to IFRS 9 expected credit losses, key judgements around variable consideration for revenue and right of use asset and liability assumptions;
- we have tested a sample of new and modified contracts during the year including reviewing Management's contract assessment template and ensuring revenue has been recognised in line with contractual terms and IFRS15; and
- testing a sample of accrued income for correct cut-off by agreeing to proof of service and assessing recoverability.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Jon Gilpin

Jonathan Gilpin (Senior Statutory Auditor)

for and on behalf of BDO LLP, Statutory Auditor

Birmingham

27 July 2024

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

Income statement for the year ended 31 March 2024

	Note	2024 £000	2023 £000
Revenue	2	713,368	707,586
Cost of sales		(641,827)	(634,484)
Gross profit		71,541	73,102
Administrative expenses		(50,752)	(52,517)
Operating profit	3	20,789	20,585
Finance income	7	5,692	5,426
Finance costs	8	(126)	(369)
Net finance income		5,566	5,057
Profit before tax		26,355	25,642
Tax	9	(7,449)	(4,896)
Profit for the year		18,906	20,746

The notes on pages 23 to 50 form an integral part of the financial statements.

The results for the year are wholly attributable to the continuing operations of the Company.

Statement of comprehensive income for the year ended 31 March 2024

	Note	2024 £000	2023 £000
Profit for the year		<u>18,906</u>	<u>20,746</u>
Items that will not subsequently be reclassified to profit or loss			
Remeasurement of net defined benefit pension schemes	18	24	29
Tax on items that will not subsequently be reclassified to profit or loss	16	<u>152</u>	<u>(165)</u>
Other comprehensive income/(expense) for the year		<u>176</u>	<u>(136)</u>
Total comprehensive income for the year		<u><u>19,082</u></u>	<u><u>20,610</u></u>

The notes on pages 23 to 50 form an integral part of the financial statements.

Statement of financial position as at 31 March 2024

	Note	2024 £000	2023 £000
Non-current assets			
Goodwill	10	3,004	3,004
Property, plant and equipment	11	3,667	4,355
Investment in subsidiaries	12	5,217	5,217
Other receivables	14	137	369
Deferred tax assets	16	3,159	2,671
Total non-current assets		15,184	15,616
Current assets			
Inventories	13	1,689	1,899
Trade and other receivables	14	258,777	306,075
Cash and cash equivalents		563	508
Total current assets		261,029	308,482
Current liabilities			
Trade and other payables	15	(165,048)	(189,104)
Deferred income		(6,866)	(9,243)
Current tax payable		(11,552)	(4,797)
Lease liabilities	19	(529)	(504)
Provisions	17	(420)	(698)
Total current liabilities		(184,415)	(204,346)
Net current assets		76,614	104,136
Non-current liabilities			
Trade and other payables	15	-	(422)
Deferred income		(314)	(9)
Lease liabilities	19	(2,373)	(2,863)
Provisions	17	(1,727)	(1,866)
Total non-current liabilities		(4,414)	(5,160)
Net assets		87,384	114,592

Statement of financial position as at 31 March 2024 (continued)

	Note	2024	2023
		£000	£000
Equity			
Share capital	20	19	19
Share premium	20	1	1
Retained earnings	20	87,364	114,572
Total equity		87,384	114,592

The notes on pages 23 to 50 form an integral part of the financial statements.

The financial statements of Mitie Security Limited, company number 01013210, were approved by the Board of Directors and authorised for issue on 27th July 2024 and were signed on its behalf by:

DocuSigned by:
Jason Towse
D7097651796243B...

J M Towse
Director

Statement of changes in equity for the year ended 31 March 2024

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 April 2022	19	1	90,496	90,516
Profit for the year	-	-	20,746	20,746
Other comprehensive expense	-	-	(136)	(136)
Total comprehensive income	-	-	20,610	20,610
Share-based payments	-	-	2,420	2,420
Tax on share-based payments	-	-	1,046	1,046
Total transactions with owners	-	-	3,466	3,466
At 31 March 2023	19	1	114,572	114,592
Profit for the year	-	-	18,906	18,906
Other comprehensive income	-	-	176	176
Total comprehensive income	-	-	19,082	19,082
Dividends paid	-	-	(50,000)	(50,000)
Share-based payments	-	-	2,681	2,681
Tax on shared-based payments	-	-	1,029	1,029
Total transactions with owners	-	-	(46,290)	(46,290)
At 31 March 2024	19	1	87,364	87,384

The notes on pages 23 to 50 form an integral part of the financial statements.

Notes to the financial statements

1 Accounting policies, judgements and estimates

a) General information

Mitie Security Limited (the "Company") is a private company limited by shares and is incorporated and domiciled in the United Kingdom. Details of the Company's activities are set out in the Strategic report. The Company's financial statements are presented in pounds sterling, which is the Company's functional and presentational currency. All amounts have been rounded to the nearest thousand pounds, unless otherwise indicated.

The Company is exempt, by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. The Company's ultimate parent undertaking, Mitie Group plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Mitie Group plc have been prepared in accordance with UK-adopted International Accounting Standards. They are available to the public and may be obtained from www.mitie.com.

b) Statement of compliance with FRS 101

These financial statements were prepared in accordance with FRS 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted International Accounting Standards, but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

c) Basis of preparation

Going concern

The financial statements have been prepared on a going concern basis. The Company participates in the centralised treasury arrangements and shared banking arrangements of Mitie Group plc, its ultimate parent, and of its fellow subsidiaries (together the "Group"). The Directors have received a letter of support from the directors of Mitie Group plc to confirm the provision of adequate financial resources to the Company for a period of not less than 12 months from the date of approval of the Company's statutory financial statements for the year ended 31 March 2024 to ensure that the Company can meet its liabilities as they fall due.

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

The Group's principal debt financing arrangements as at 31 March 2024 were a £250m revolving credit facility maturing in October 2027, which was undrawn as at 31 March 2024, and £150m of US private placement ("USPP") notes. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis.

In September 2023, the revolving credit facility was increased from £150m to £250m and its maturity date was extended to October 2027, on the same terms, with a further one-year extension option at the mutual agreement of all parties.

Of the USPP notes, £120.0m were issued in December 2022, split equally between 8, 10 and 12 year maturities, and with an average coupon of 2.94%. The Base Case Forecasts assume that the remaining £30.0m of USPP notes, which are due to mature in December 2024, will be replaced at higher interest rates (c. 6%).

The Group currently operates within the terms of its agreements with its lenders, with consolidated net cash (i.e. net cash adjusted for covenant purposes, primarily by the exclusion of lease liabilities) of £90.7m as at 31 March 2024. The Base Case Forecasts indicate that the Group will continue to operate within these terms and that the headroom provided by the Group's debt facilities currently in place is adequate to support the Group over the Going Concern Assessment Period.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

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

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

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

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

- all stress test scenarios would require a very severe deterioration compared to the Base Case Forecasts. Revenue is considered to be the key risk, as this is less within the control of management. Revenue would need to decline by approximately 39% in the 12 months to 30 September 2026 compared to the Base Case Forecasts, which is considered to be very severe given the high proportion of the Group's revenue that is fixed in nature and the fact that even in a Covid-hit year, the Group's revenue excluding Interserve declined by only 1.6% in the year ended 31 March 2021; and
- in the event that results started to trend significantly below those included in the Base Case Forecasts, additional mitigation actions within the Group's control have been identified that would be implemented, which are not factored into the stress test scenarios. These include the short-term scaling down of capital expenditure, overhead efficiency/reduction measures including cancellation of discretionary bonuses and reduced discretionary spend, asset disposals and reductions in cash distributions and share buybacks.

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

Based on this assessment, and their enquiries of the directors of Mitie Group plc, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of the Company's financial statements for the year ended 31 March 2024. Accordingly, the financial statements have been prepared on a going concern basis.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

FRS 101 exemptions

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliations for intangible assets, property, plant and equipment, and share capital;
- the statement of compliance with UK-adopted International Accounting Standards;
- certain disclosures required by IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15");
- disclosures in respect of capital management;
- the effects of new but not yet effective UK-adopted International Accounting Standards;
- disclosures in respect of the compensation of Key Management Personnel; and
- disclosures in respect of related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

As the consolidated financial statements of Mitie Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share-based Payment* in respect of Group settled share-based payments; and
- certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instruments: Disclosures*.

Accounting standards that are newly effective in the current year

There were no new and mandatorily effective standards nor amendments in the year that would have a material impact on the financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

d) Material accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Revenue recognition

The Company operates contracts with a varying degree of complexity across its service lines, so a range of methods is 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 year based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

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.

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

For all contracts with customers, the Company 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 contracts under IFRS 15 unless they specify 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 Company 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. Judgement is applied to assess the impact that such clauses have in determining the relevant contract term. The term of the contract affects the period over which amortisation of contract assets and revenue from performance obligations is recognised. 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

Where the Company's contracts are 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, change to the total transaction price is estimated.

Contract modifications, including contract renewals, 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 goods or services. If the price of additional distinct goods or services is not commensurate with the stand-alone selling prices for those goods or services, then this is considered a termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification. Where new goods or services are not distinct from those in the original contract, then these are considered to form part of the original contract with any update to pricing recognised as a cumulative catch up to revenue. 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.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Step 2 - Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Company to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers, judgement is applied to consider whether those promised goods or services are:

- distinct and accounted for as separate performance obligations;
- combined with other promised goods or services until a bundle is identified that is distinct; or
- part of a series of distinct goods or 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 Company 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 management expects the Company to be entitled and has rights under the contract. This includes the fixed price stated in the contract and an assessment of any variable consideration. Variation in revenue can arise from a number of factors, including discounts, rebates or 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.

Certain contracts incorporate indexation related adjustments to consideration, whereby pricing is adjusted based on an external metric (such as CPI or RPI). Variable consideration related to indexation adjustments are only recognised once these are confirmed.

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

The Company 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. It is necessary to estimate the stand-alone selling price when the Company does not sell equivalent goods or services in similar circumstances on a stand-alone basis. When estimating the stand-alone selling price, the Company maximises the use of external inputs by observing the stand-alone selling prices for similar goods and services using an industry recognised price list or cost indices in applying a cost-plus reasonable margin approach.

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

For each performance obligation, management determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Company applies the relevant output or input revenue recognition method for measuring progress that depicts the Company's performance in transferring control of the goods or 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 Company to recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or 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 Company's efforts in delivering the service.

Where deemed appropriate, the Company will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Company has the right to invoice, where that amount corresponds directly with the value to the customer of the Company's performance obligations 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 goods or services 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. Sales of goods are recognised when goods are delivered and control has passed to the customer.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Integrated facilities management arrangements

The Company 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 customer to identify and implement cost saving initiatives across the life of the contract.

Management considers the majority of services provided within integrated facilities management contracts meet the definition of a series of distinct goods or 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 Company treats the series of such services as one performance obligation.

Long-term complex contracts

The Company 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 Company has a legally enforceable right to remuneration for the work completed to date, and therefore revenue will be recognised in line with the associated transfer of control.

Repeat service-based contracts (single and bundled contracts)

The Company 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. 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 Company therefore treats the series of such services as one performance obligation.

Short-term service-based arrangements

The Company delivers a range of other short-term service based performance obligations and professional services work 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.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Accrued income and deferred income

The Company'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 year end date is more than amounts invoiced, the Company recognises accrued income for the difference. Where revenue recognised at the year end date is less than amounts invoiced, the Company recognises deferred income for the difference.

Where price step-downs are required in a contract and output is not decreasing, revenue is deferred from initial periods to subsequent periods 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 Company 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.

Finance income

Finance 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.

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 year in which they are incurred, using the effective interest method.

Notes to the financial statements (continued)**1 Accounting policies, judgements and estimates (continued)****Taxation**

Tax in the income statement represents the sum of current tax and deferred tax.

Current tax is based on taxable profit or loss for the year. Taxable profit or loss differs from the accounting profit or loss 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. Current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position 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 and does not give rise to equal taxable and deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 statement of financial position 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, when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Goodwill

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 year and is not subsequently reversed.

Property, plant and equipment

Property, plant and equipment are 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.

Land and buildings:	50 years or lease term if shorter
Plant and vehicles:	2-10 years

The Company 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.

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 is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Investments in subsidiaries

Investments in subsidiaries are shown at cost less any provision for impairment. Investments in subsidiaries are reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the investment's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying value of an asset exceeds its recoverable amount.

Inventories

Inventories are stated at the lower of cost and net realisable value and are mainly consumables in nature. 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 estimated selling costs. Provision is made for obsolete, slow moving or defective items where appropriate.

Financial instruments

Classification and measurement

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. The Company derecognises financial assets and liabilities only when the contractual rights and obligations are transferred, discharged or expire.

Financial assets principally comprise cash and cash equivalents, trade receivables, and certain other receivables. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Cash and cash equivalents include cash on 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. Cash and bank overdrafts are only offset where the overdraft is part of the Group's cash pooling arrangements and the Group intend to settle on a net basis at the period end through cash sweeping arrangements.

Cash where access is constrained is classified as restricted cash. Bank transactions are recorded on their settlement date. All of the Company's cash flows are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Company's revenue streams are therefore initially measured at their transaction price and are subsequently remeasured at amortised cost.

Financial liabilities principally comprise trade payables and certain other payables. These are measured at initial recognition at fair value and subsequently at amortised cost.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Company is party to financial guarantee arrangements to guarantee the indebtedness of certain other companies within the Group relating to private placement notes and a revolving credit facility. The financial guarantee contracts were previously accounted for under IFRS 4 *Insurance Contracts* ("IFRS 4") and disclosed as contingent liabilities unless it was probable that the Company would be required to make a payment under the guarantee. Following the introduction of IFRS 17 *Insurance Contracts*, which replaced IFRS 4, the Company has elected to measure the financial guarantee contracts in accordance with IFRS 9 *Financial Instruments*. This change in policy has been applied retrospectively and had no impact on the income statement for the year ended 31 March 2023 or the statement of financial position as at 31 March 2023 and 1 April 2022.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses ("ECLs") on all receivable balances from customers subsequently measured at amortised cost, using the simplified approach. Under this approach, the Company recognises a loss allowance based on lifetime ECLs at each reporting date. ECLs are calculated on the basis of historic credit loss experience, adjusted for forward-looking factors that incorporate macroeconomic conditions, for example changes in interest rates and inflation, and is applied to customers with common risk characteristics such as sector type. For other receivables, ECLs are measured using those expected to arise in the 12 months subsequent to the statement of financial position date. For cash and cash equivalents, the Company does not currently anticipate any future credit losses given the high-quality credit rating of the financial institutions with which balances are held.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Foreign currency

The financial statements are prepared in the functional currency applicable to the Company. 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 statement of financial position are reported at the rates of exchange prevailing at that date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Leases

The Company has various lease arrangements. At inception of a lease contract, the Company assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Company recognises a lease liability and a corresponding right-of-use asset with respect to all lease arrangements in which it is a lessee, except low-value leases and short-term leases of 12 months or less, costs for which are recognised as an operating expense within the income statement as they are incurred.

A right-of-use asset is capitalised on the statement of financial position at cost which comprises the present value of future lease payments determined at the inception of the lease adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred in addition to an estimate of costs to remove or restore the underlying asset. Where a lease incentive is receivable, the amount is offset against the right-of-use asset at inception. Right-of-use assets are depreciated using the straight-line method over the shorter of the estimated life of the asset or the lease term and are reviewed for impairment to account for any loss when events or changes in circumstances indicate the carrying value may not be fully recoverable.

The lease liability is initially measured at amortised cost using the effective interest method to calculate the present value of future lease payments and is subsequently increased by the associated interest cost and decreased by lease payments made. The effective interest rate is based on the rate implicit in the lease or, where not available, estimates of relevant incremental borrowing costs. Lease payments made are apportioned between an interest charge and a capital repayment amount. Lease payments comprise fixed lease rental payments and the associated fixed service charge is also included. Where the Company's lease contracts include inflationary linked rent review clauses, future increases or decreases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. Lease liabilities are classified between current and non-current on the statement of financial position.

The lease term comprises the non-cancellable period in addition to the determination of the enforceable period which is covered by an option to extend the lease, where it is reasonably certain that the option will be exercised, and the period covered by the option to terminate the lease to a point in time where no more than an 'insignificant penalty' is incurred. The Company assesses an insignificant penalty with reference to the wider economics of the lease including any investment in non-transferable leasehold improvements which may result in an impairment charge should the lease be terminated.

A modification to a lease which changes the lease payment amount (e.g. due to a renegotiation or market rent review) or amends the term of the lease, results in a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Provisions and contingent liabilities

Provisions are recognised when the Company 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 management 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 finance cost.

Contract specific cost provisions are made when the Company expects to incur future remedial and rectification costs required to meet customers' contractual terms. Costs are estimated using either the work of external consultants or internal experts. The amount recognised as a provision represents management's best estimate and is inherently uncertain and could change materially over time. The provision is reviewed at least on a bi-annual basis for changes in cost estimate. Any change in cost estimate is recognised as a charge or a release to the provision when it occurs.

No provisions are recognised and only a disclosure in the financial statements is made for contingent liabilities. Contingent liabilities are possible obligations dependent on whether some uncertain future event occurs, or where a present obligation exists but payment is not probable, or the amount of payment cannot be measured reliably.

Retirement benefit costs

The Company partakes in defined contribution retirement benefit schemes operated by another Group company for qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as the related service is provided.

In addition, the Company participates in defined benefit schemes. The Company 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 statement of financial position date by qualified actuaries. Actuarial gains and losses on obligations, the return on scheme assets (excluding interest) and the effect of the asset ceiling (if applicable, excluding interest) are recognised in the statement of comprehensive income in the period in which they occur.

Defined benefit pension costs (including curtailments) are recognised in the income statement, in administrative expenses, whilst the net interest cost is recognised in finance costs. The retirement benefit obligation recognised in the statement of financial position 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 Company's net obligation in respect of defined benefit schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount using market yield on a high-quality corporate bond and deducting the fair value of any scheme assets. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan, where the Company has the unconditional right to the surplus, or reductions in future contributions to the plan. Any asset recognised is net of tax as the associated tax is not considered to be an income tax.

Share-based payments

The Company participates in a number of Group 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 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 Company's estimate of shares that will eventually vest. Further details of the Group's share option schemes are contained in the Mitie Group plc annual report and accounts.

Notes to the financial statements (continued)

1 Accounting policies, judgements and estimates (continued)

Dividends

Dividends are recognised in the financial statements in the year in which the shareholder's right to receive payment of the dividend becomes unconditional.

e) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements under FRS 101 requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

Critical judgements in applying the Company's accounting policies

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

Revenue recognition

The Company's revenue recognition policies, which are set out under Revenue recognition in Note 1d are central to how the Company measures the work it has performed in each financial year.

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

Recoverability of trade receivables and accrued income

The Company has material amounts of billed and unbilled work outstanding at 31 March 2024. Receivables are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Company recognises a loss allowance for ECLs on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Company will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date which includes information about past events, current conditions and forecasts of the future economic condition of customers.

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

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

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

Notes to the financial statements (continued)

Key sources of estimation uncertainty

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

Measurement of defined benefit pension obligations

The net pension liability as at 31 March 2024 was £nil (2023: £nil), which comprised a retirement benefit asset of £7,396,000 (2023: £8,761,000) net of retirement benefit obligations of £4,972,000 (2023: £7,229,000) and an asset ceiling restriction of £2,424,000 (2023: £1,532,000). See Note 18 for further details.

2 Revenue

The Company derives all of its revenue from the provision of services to customers based in the United Kingdom and European Union countries.

	2024 £000	2023 £000
Geographical market		
United Kingdom	713,322	707,586
European Union	46	-
	<u>713,368</u>	<u>707,586</u>

3 Operating profit

Operating profit is stated after charging:

	2024 £000	2023 £000
Depreciation of property, plant and equipment (Note 11 and Note 19)	830	945

4 Auditor's remuneration

The auditor's remuneration was £500,000 (2023: borne by Mitie Group plc with no allocation or recharge made to the Company).

Fees paid to the Company's auditor and its associates in respect of services other than the statutory audit of the Company have not been disclosed as the information is required to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Mitie Group plc.

Notes to the financial statements (continued)**5 Staff numbers and costs**

There were no persons employed by the Company (including Directors) during the year ended 31 March 2024 and 31 March 2023. However, 14,567 employees worked for the Company but were employed by another Group company and the associated costs were allocated to the Company for cost recharging purposes (2023: 15,145). The aggregate payroll costs incurred by the Company for allocated employees were as follows.

	2024 £000	2023 £000
Wages and salaries	415,586	388,453
Share-based payments	3,074	2,420
Social security costs	39,557	38,194
Pension costs	8,006	7,540
	<u>466,223</u>	<u>436,607</u>

6 Directors' remuneration

	2024 £000	2023 £000
Directors' emoluments	595	599
Amounts receivable under long term incentive schemes	848	515
Company contributions to money purchase pension plans	25	25

Number of Directors	
2024	2023

Retirement benefits are accruing to the following number of Directors under:

Money purchase schemes	1	1
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The following Directors were also directors or employees of another Group company. They were remunerated by the company shown. It is not practicable to allocate their remuneration between their services as Directors of this company and as directors or employees of other Group companies.

Director	Remunerated by	Disclosed by
P J G Dickinson	Mitie Limited	Mitie Limited
J M Towse	Mitie Limited	Mitie Security Limited

Notes to the financial statements (continued)

7 Finance income

	2024 £000	2023 £000
Interest receivable from Group undertakings	5,692	5,426
	<u>5,692</u>	<u>5,426</u>

8 Finance costs

	2024 £000	2023 £000
Interest on working capital facility	-	216
Interest on lease liabilities (Note 19)	110	126
Unwinding of discounts on provisions (Note 17)	16	27
	<u>126</u>	<u>369</u>

Notes to the financial statements (continued)**9 Tax**

	2024 £000	2023 £000
<i>Analysis of charge/(credit) in the year</i>		
<i>UK corporation tax at 25% (2023: 19%)</i>		
Current tax on profit for the year	7,054	4,971
Adjustments in respect of prior periods	1,145	28
Total current tax charge	8,199	4,999
<i>Deferred tax (see Note 16)</i>		
Origination and reversal of temporary timing differences	81	(61)
Change in statutory tax rate	-	(83)
Adjustments in respect of prior periods	(831)	41
Total deferred tax credit	(750)	(103)
Total charge for the year	7,449	4,896
<i>Tax recognised directly in other comprehensive income and equity</i>		
Current tax credit	(1,443)	(167)
Deferred tax charge/(credit) (Note 16)	262	(714)
	(1,181)	(881)
<i>Tax reconciliation</i>		
Profit before tax	26,355	25,642
Tax using the UK corporation tax rate of 25% (2023: 19%)	6,589	4,872
Items not deductible for tax purposes	147	-
Adjustments in respect of employee share options	399	47
Capital allowances super deduction	-	(9)
Change in statutory tax rate	-	(83)
Adjustments in respect of prior periods	314	69
Total tax charge	7,449	4,896

The UK corporation tax rate increased from 19% to 25% on 1 April 2023.

Notes to the financial statements (continued)

10 Goodwill

	£000
Cost	
At 1 April 2023	10,461
At 31 March 2024	10,461
Amortisation and impairment	
At 1 April 2023	7,457
At 31 March 2024	7,457
Net book value	
At 1 April 2023	3,004
At 31 March 2024	3,004

11 Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	2024 £000	2023 £000
Owned property, plant and equipment	607	808
Right-of-use assets (Note 19)	3,060	3,547
	3,667	4,355

The table below relates to owned property, plant and equipment.

	Land and buildings £000	Plant and vehicles £000	Total £000
Cost			
At 1 April 2023	576	3,192	3,768
Additions	-	62	62
Disposals	-	(814)	(814)
At 31 March 2024	576	2,440	3,016
Accumulated depreciation and impairment			
At 1 April 2023	272	2,688	2,960
Charge for the year	57	197	254
Disposals	-	(805)	(805)
At 31 March 2024	329	2,080	2,409
Net book value			
At 1 April 2023	304	504	808
At 31 March 2024	247	360	607

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Notes to the financial statements (continued)

12 Investment in subsidiaries

	£000
Cost	
At 1 April 2022	5,231
At 31 March 2023	5,231
Disposals	(14)
At 31 March 2024	5,217
Provision for impairment	
At 1 April 2022	14
At 31 March 2023	14
Disposal	(14)
At 31 March 2024	-
Net book value	
At 31 March 2023	5,217
At 31 March 2024	5,217

Details of all investments in subsidiary undertakings have been disclosed below.

Country/registered address/company	Aggregate % of share class	Share class
United Kingdom		
Level 12, The Shard, 32 London Bridge Street, London, SE1 9SG, United Kingdom		
Esoteric Limited ¹	100	Ordinary
Mitie Aviation Security Limited ¹	99.9	Ordinary
Procius Limited ¹	100	Ordinary (all classes)
UK CRBS Limited ¹	100	Ordinary (all classes)

Note:

1. Held directly by the Company.

Notes to the financial statements (continued)

13 Inventories

	2024 £000	2023 £000
Raw materials and consumables	1,689	1,899
	<u>1,689</u>	<u>1,899</u>

14 Trade and other receivables

	2024 £000	2023 £000
Trade receivables	65,130	77,754
Amounts owed by Group undertakings	153,753	185,803
Prepayments	3,950	3,211
Accrued income	34,744	36,287
Other receivables	1,337	3,389
	<u>258,914</u>	<u>306,444</u>
Current	258,777	306,075
Non-current	137	369

Management considers that the carrying amount of trade and other receivables approximates their fair value. Trade and other receivables are interest-free except as noted below.

Amounts owed by Group undertakings are repayable on demand. Included within these amounts are £105,850,000 (2023: £127,750,000) relating to interest-bearing loans at 5% per annum (2023: 5% per annum).

15 Trade and other payables

	2024 £000	2023 £000
Trade payables	18,853	30,928
Amounts owed to Group undertakings	58,329	64,437
Other taxes and social security	30,060	28,705
Accruals	54,618	61,918
Other payables	3,188	3,538
	<u>165,048</u>	<u>189,526</u>
Current	165,048	189,104
Non-current	-	422

Trade and other payables are interest-free.

Amounts owed to Group undertakings are repayable on demand. Included within these amounts are £47,400,000 (2023: £47,400,000) relating to interest-free loans.

Notes to the financial statements (continued)

16 Deferred tax assets/(liabilities)

	Accelerated capital allowances £000	Retirement benefit liabilities £000	Share options £000	Short-term timing differences £000	Total £000
At 1 April 2022	767	-	798	289	1,854
Recognised in income statement	(320)	7	340	76	103
Recognised in other comprehensive income and equity	-	(165)	879	-	714
At 31 March 2023	447	(158)	2,017	365	2,671
Recognised in income statement	49	6	(168)	863	750
Recognised in other comprehensive income and equity	-	152	(414)	-	(262)
At 31 March 2024	496	-	1,435	1,228	3,159

Deferred tax has been calculated using tax rates that were substantively enacted at the statement of financial position date (see Note 9).

17 Provisions

	Contract specific costs £000	Insurance reserve £000	Dilapidation provision £000	Total £000
At 1 April 2023	62	1,590	912	2,564
Additional provisions	-	11	47	58
Utilised	(62)	(429)	-	(491)
Unwinding of, and changes in, discount rate	-	-	16	16
At 31 March 2024	-	1,172	975	2,147
Current	-	410	10	420
Non-current	-	762	965	1,727

The Company retains a portion of the exposure in relation to insurance policies for employer liabilities and motor and fleet liabilities. Judgement is involved in assessing outstanding liabilities, the ultimate cost and timing of which cannot be known with certainty at the statement of financial position date. The provision includes claims incurred but not yet reported and is based on information available at the statement of financial position date using advice from third party actuarial experts. The provision is expected to be utilised over five years.

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

Notes to the financial statements (continued)

18 Retirement benefit schemes

LGPS schemes

The Company makes contributions under Admitted Body status to clients' (generally local government or government entities) defined benefit schemes in respect of certain employees who transferred to the Company under The Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE"). The valuations of these schemes are updated by an actuary at each statement of financial position date.

For the Admitted Body schemes, which are largely sections of the Local Government Pension Scheme, the Company will only participate for a finite period up to the end of the relevant contract. The Company 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 Company will be required to pay any deficit (as determined by the scheme actuary) that is assessed for its notional section of the scheme.

The regulatory framework in the UK requires the Trustees of the fund to agree upon the assumptions underlying the funding target, and then to agree upon the necessary contributions required to recover any deficit at the valuation date.

This pension commitment has been valued for the purposes of FRS 101 by independent actuaries, using information projected from the pension fund's latest available triennial valuation.

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted by FRS 101, actuarial gains and losses are recognised outside profit or loss and presented in other comprehensive income. The liability recognised in the statement of financial position represents the Company's share of the fund's assets less the present value of its defined benefit obligations in the fund. The cost of providing benefits is determined using the projected unit credit method.

The Company made contributions of £nil in the year (2023: £80,000). The Company expects to make contributions of around a similar value for the year ending 31 March 2025. The weighted average duration of the defined benefit obligation at the end of the reporting period was around 14 years (2023: 17 years).

Risk management

This risk of the schemes are as follows.

Asset volatility

The scheme liabilities are calculated using a discount rate set with reference to corporate bond yields. If scheme assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of equities, which are expected to outperform corporate bonds in the long term while providing volatility and risk in the short term.

Changes in bond yields

Falling bond yields tend to increase the funding and accounting obligations.

Life expectancy

The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the scheme's liabilities.

Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the scheme against extreme inflation).

Notes to the financial statements (continued)**18 Retirement benefit schemes (continued)****Principal accounting assumptions at the statement of financial position date**

Key assumptions used for IAS 19 valuation	2024	2023
	%	%
Discount rate	4.80	4.75
CPI price inflation	2.80	2.50
RPI price inflation	3.20	3.25
General salary increases	3.20	3.25
Pension increase assumptions	2.80	3.25
Post-retirement life expectancy	2024	2023
	Years	Years
Male currently aged 65	86.1	86.2
Female currently aged 65	88.6	88.7
Male aged 65 in 20 years time	87.4	87.5
Female aged 65 in 20 years time	89.7	90.1

Sensitivity of defined benefit obligations to key assumptions

The sensitivity in the increase/(decrease) of the defined benefit obligations to changes in the principal actuarial assumptions is shown below.

	2024	2023
	£000	£000
0.25% (2023: 0.1%) increase in discount rate	(163)	(94)
0.25% (2023: 0.1%) increase in RPI inflation*	155	97
0.25% (2023: 0.1%) increase in CPI inflation (excluding pay)	155	97
1 year increase in life expectancy	214	217

*Including other inflation-linked assumptions (CPI inflation, pension increases, salary growth).

Notes to the financial statements (continued)

18 Retirement benefit schemes (continued)

Amounts recognised in the financial statements

Income statement before tax

	2024 £000	2023 £000
Current service cost	(24)	(109)
	<u>(24)</u>	<u>(109)</u>

Statement of comprehensive income before tax

	2024 £000	2023 £000
Actuarial gain from changes in financial assumptions	467	1,986
Actuarial (loss)/gain from liability experience	(39)	274
Actuarial gain from changes in demographic assumptions	-	165
Return/(loss) on scheme assets, excluding finance income	415	(1,764)
Movement in asset ceiling	(819)	(632)
	<u>24</u>	<u>29</u>

Statement of financial position

	2024 £000	2023 £000
Fair value of scheme assets	7,396	8,761
Present value of defined benefit obligations	(4,972)	(7,229)
	<u>2,424</u>	<u>1,532</u>
Surplus without restriction	(2,424)	(1,532)
Impact of asset ceiling	-	-
	<u>-</u>	<u>-</u>

Notes to the financial statements (continued)

18 Retirement benefit schemes (continued)

Movements in the present value of defined benefit obligations

	£000	£000
At 1 April 2023/2022	7,229	9,406
Current service cost	24	109
Finance cost	246	212
Actuarial gain from changes in financial assumptions	(467)	(1,986)
Actuarial loss/(gain) from liability experience	39	(274)
Actuarial gain from changes in demographic assumptions	-	(165)
Contributions from scheme members	8	21
Benefits paid	(97)	(94)
Contract transfer	(2,010)	-
	<u>4,972</u>	<u>7,229</u>
At 31 March 2024/2023	4,972	7,229

Movements in the fair value of scheme assets

	£000	£000
At 1 April 2023/2022	8,761	10,290
Finance income	319	228
Actuarial gain/(loss) on assets	415	(1,764)
Contributions from sponsoring companies	-	80
Contributions from scheme members	8	21
Benefits paid	(97)	(94)
Contract transfer	(2,010)	-
	<u>7,396</u>	<u>8,761</u>
At 31 March 2024/2023	7,396	8,761

Notes to the financial statements (continued)

18 Retirement benefit schemes (continued)

Movements in the asset ceiling

	2024 £000	2023 £000
At 1 April 2023/2022	1,532	884
Change in asset ceiling excluding interest	819	632
Interest cost on asset ceiling	73	16
At 31 March 2024/2023	2,424	1,532

Fair value of assets

	2024 £000	2023 £000
Equities	5,279	6,122
Corporate bonds	418	527
Property	1,479	1,901
Cash	220	211
	7,396	8,761

Notes to the financial statements (continued)**19 Leases****Right-of-use assets**

	Properties £000
At 1 April 2022	4,121
Depreciation	(574)
At 31 March 2023	3,547
Additions	42
Modifications to lease terms	47
Depreciation	(576)
At 31 March 2024	3,060

Lease liabilities

	£000	£000
At 1 April 2023/2022	3,367	3,794
Additions	42	-
Finance cost on lease liabilities	110	126
Repayment of lease liabilities (including financing)	(617)	(553)
At 31 March 2024/2023	2,902	3,367

Current	529	504
Non-current	2,373	2,863

Maturity analysis-contractual undiscounted cash flows

	2024 £000	2023 £000
Less than one year	621	613
Between one to five years	2,218	2,453
More than five years	343	686
	3,182	3,752

Amounts recognised in the income statement

	2024 £000	2023 £000
Depreciation	(576)	(574)
Short-term lease expense	(10)	-
Operating profit impact	(586)	(574)
Finance cost	(110)	(126)
Profit before tax impact	(696)	(700)

Notes to the financial statements (continued)

20 Equity

Share capital	2024 Number	2023 Number	2024 £000	2023 £000
Ordinary shares of £1 each	19,000	19,000	19	19

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium
Share premium represents the premium arising on the issue of equity shares.

Retained earnings
This comprises the retained profits and losses of the Company, less amounts distributed to the Company's shareholder.

Dividends
The following dividends were recognised during the year.

	2024 £000	2023 £000
£2,631.58 (2023: £nil) per qualifying ordinary share	50,000	-
	<u>50,000</u>	<u>-</u>

21 Contingent liabilities

The Company is party to guarantees in respect of performance bonds relating to certain Group contracts.

	2024 £000	2023 £000
Performance bonds	136	379

Notes to the financial statements (continued)

22 Related parties

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries within the Group.

23 Subsequent events

As part of the programme to optimise the Group's organisation structure, the Directors have identified a non-adjusting post balance sheet event. In April 2024 the trade and net assets of Mitie Security (First) Limited, Mitie Security (Knightsbridge) Limited, Global Aware International Ltd and Source Eight Limited were transferred to the Company. There are no significant adjustments to the carrying value of assets or liabilities of these entities as a result of these transfers.

24 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Mitie Limited, which is the immediate parent company incorporated in the United Kingdom. The ultimate controlling party is Mitie Group plc, a company incorporated in the United Kingdom with its registered office at 35 Duchess Road, Rutherglen, Glasgow, G73 1AU. Mitie Group plc is the parent company of the largest and smallest groups into which the accounts of the Company are consolidated. The consolidated financial statements of Mitie Group plc are available to the public and may be obtained from the Company Secretary at Level 12, The Shard, 32 London Bridge Street, London, SE1 9SG or from www.mitie.com.