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MITIE

MITIE GROUP PLC Annual Report 2004

MITIE GROUP PLC

is a unique organisation because of its motivational culture of share ownership and the range of its services.

WORKING TOGETHER

The business of outsourcing services and working in partnership is a given in today's marketplace – but the key to achieving success through it, is to respond quicker than anyone else in a tailored, cost-efficient way.

MITIE provides an unrivalled, flexible range of services. It's because we can quickly switch from managing a fit-out project to providing single, bundled or managed support services, that our customers are able to realise the true benefit of outsourcing.

our work

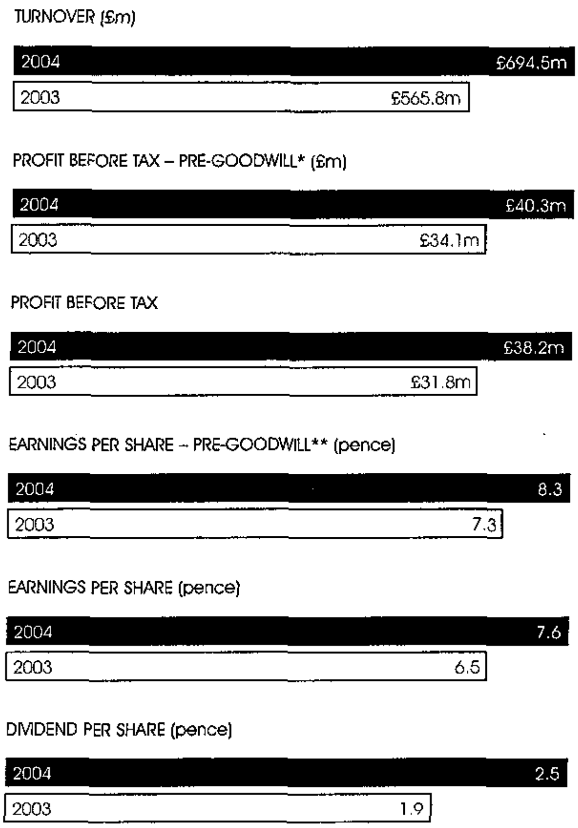
Knowing that their projects and services are in trusted hands gives our customers the opportunity to focus fully on their core business. Their reputation is our responsibility. *It's why our work is not done until our customers' goals are achieved.*

our customers' goals

MITIE succeeds because it creates the conditions that enable its management to support their customers. The management team is motivated by the chance to manage *their own business, which they are incentivised to grow.* They are rewarded in proportion to their ability to do so. This reward may come from converting founding equity in one of our traditional start-up companies into MITIE shares, or it may be in the form of performance incentives and career opportunity. The opportunity to succeed is available to all.

"MITIE has continued to make good progress and I am pleased that we have produced a good set of results this year. The prospects for the future are promising."

Ian R Stewart CHIEF EXECUTIVE



*See Group Profit and Loss Account

**See Note 7 for reconciliation of basic earnings per share

FINANCIAL HIGHLIGHTS	2004	2003	
Turnover	£694.5m	£565.8m	up 23%
Profit before tax – pre-goodwill*	£40.3m	£34.1m	up 18%
Profit before tax –	£38.2m	£31.8m	up 20%
Earnings per share – pre-goodwill**	8.3p	7.3p	up 14%
Earnings per share	7.6p	6.5p	up 17%
Dividend per share	2.5p	1.9p	up 32%

"The Board is confident that MITIE is well placed for the future."

MITIE Group PLC ("MITIE") has had a successful year. It has been a year of change but it has also been a year of progress. The Company continues to achieve a good rate of growth and is consolidating its position as a leader in the provision of Building and Support Services.

Working together as a team

Results

Turnover rose to £694.5 million, an increase of 22.7%, and profit before tax, goodwill amortisation and impairment* rose by 18.3% to £40.3 million. Profit before tax rose by 20.1% to £38.2 million. Headline earnings per share rose by 14.1% to 8.3p (Note 7).

*See Group Profit and Loss Account

Dividend

The Board is recommending a final dividend of 1.4p per share, making a total of 2.5p for the year, an increase of 31.6%. We will continue to review our dividend policy on a regular basis.

Share Buyback Programme

The Board today announces that it intends to make market purchases of shares in the Company pursuant to the authority granted to it by Shareholders at the last Annual General Meeting of up to 30 million shares.

Board Changes

MITIE's founding Chairman, David Telling, died on 31 October 2003 after a long struggle with cancer. David was the inspiration behind MITIE and it was his drive and personal philosophy that created the conditions for MITIE's success. David was passionate about providing opportunities for people to realise their full potential. The 'Management Incentive Through Investment Equity' business model enabled MITIE to grow rapidly. He attracted a large number of the high calibre people into MITIE and they have grown the business into a major UK support services group.

I was appointed to succeed David as your Non-Executive Chairman on 25 September 2003. I was delighted to accept this challenge and I am determined to reinforce his vision and values, while taking MITIE forward. I believe that there is still considerable potential in the MITIE model and we have continued to initiate new start-ups. This will be accompanied by select strategic acquisitions, where appropriate.

People

In the past six months I have had the privilege of meeting many members of the MITIE management team and I have been impressed with their commitment and enthusiasm. They are united by a determination to grow the business. I am confident that they have the vision that will enable MITIE to continue to achieve its growth targets.

MITIE employees are passionate about providing quality services to their customers and this attitude is apparent at all levels of the Group.

I would like to thank each and every employee for their considerable efforts during the past year. I also owe a debt to my Non-Executive colleagues, Sir John Jennings, Manish Chande and Cullum McAlpine, and thank each of them for their support. During the year, Donald Macpherson, our Senior Independent Non-Executive Director, retired after 11 years' service. Donald brought immense experience to the MITIE Board and I would like to thank him for his valuable contribution to the Company during its formative years.

Corporate Governance

An effective system of Corporate Governance is fundamental to fulfilling the Group's corporate responsibilities. By its statements and actions, the Board emphasises a culture of integrity, competence, fairness and responsibility. The policy of the Board of MITIE is to manage its affairs in accordance with the Principles of Good Governance and the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance incorporated into the UK Listing Authority Listing Rules issued by the Financial Services Authority.

Outlook

MITIE has thrived on a spirit of entrepreneurial energy. That spirit burns brightly throughout the Group. We have a team of Directors who bring considerable experience, knowledge and skill to the decision making process.

We will continue to expand the business by making further strategic acquisitions and by maintaining the culture of starting new businesses to provide opportunities for quality people.

The Board is confident that MITIE is well placed for the future.

David C Ord CHAIRMAN

"We have made good progress."

MITIE has continued to make good progress and I am pleased that we have produced a good set of results this year. The prospects for the future are promising.

Rolls-Royce

Working in partnership with Rolls-Royce, MITIE provides a full range of facilities services to its aerospace manufacturing and maintenance operations across the UK. It is a bundled service with seven MITIE disciplines working together to provide a flexible, responsive service that includes infrastructure maintenance, catering, security, cleaning and business services.

Working together for business success

Contract Highlights

Our approach has always been to focus on our customers, identify their goals and work together with our colleagues to deliver quality services. I am delighted that we are seeing some excellent examples of our success in doing that.

Our contract with Rolls-Royce goes from strength to strength. We have continued to expand the range of services that we are providing to them. This contract is an example of our bundled service offering. In January 2004, we started work on another bundled services contract with Nissan Motor Manufacturing United Kingdom ("Nissan") at their Sunderland plant. This is a further case of MITIE working together to support the customer's sole focus, which in this case is on the production of cars.

We have also secured a further extension to our contract with Land Securities Trillium. The contract covers the Department for Work and Pensions and runs until 2018. I look forward to seeing this partnership develop further.

The MCI contract is another good example of MITIE providing many of our services to one customer. Since our acquisition of Executive Holdings Ltd we now provide engineering maintenance, security, grounds maintenance and business services to their Reading facility.

We have also recently started a facilities contract for the Office of the Deputy Prime Minister ("ODPM") in Whitehall. The estate covers 55,837 square metres and we will be providing cleaning, catering, security, facilities management and business services. The mission statement of the ODPM is 'Creating Sustainable Communities'. This is a goal with which MITIE readily identifies, as our aim is to have a positive impact on the communities in which we all live and work.

Progress

Our markets are always changing. Whether we are operating in Support or Building Services, our customers are looking to reduce costs and improve efficiency. Streamlined supply chains, partnerships, framework agreements and one-stop shops are the order of the day. To ensure MITIE's share of this market, a more flexible and integrated approach to our customers was needed.

We therefore announced in March 2004 that we would be reshaping Support Services to ensure that it is able to continue its rapid progress as markets change. The trend towards customers wanting combinations of our services, or bundled services, is increasing and this has led us to appoint Colin Hale as Head of Support Services to ensure that we are positioned to meet this demand.

We have recognised that, in order to keep pace with the market, we must constantly review the way in which we sell MITIE at the highest corporate level. In addition, we must make strategic acquisitions as well as continuing with our start-up model. In order to give these objectives a higher profile, Roger Goodman was recently appointed Group Corporate Development Director.

Acquisitions and New Companies

The progress of Support Services was boosted by three strategic acquisitions during the year.

On 2 July 2003 we acquired Trident Safeguards Ltd ("Trident") and on 3 July 2003 Eagle Pest Control Services UK Ltd ("Eagle"). On 4 November 2003 we acquired Executive Holdings Ltd ("Executive").

The acquisitions of Trident and Executive have enabled us to increase significantly our presence in the manned guarding market, giving us wider geographical cover.

Executive also operates in several niche cleaning markets and these operations have been incorporated into our existing cleaning business. This has enabled us to enter new markets.

Eagle is a national pest control business and will provide significant opportunities for growth in this fragmented market.

I am particularly pleased with the way in which the staff in these acquired companies are embracing the MITIE culture.

The MITIE model continues to flourish. We started five new companies during the year under review and three more since the year-end. Start-ups include two niche cleaning businesses, which will concentrate on the retail and transportation sectors, together with an industrial cleaning company and a landscape business. In addition, Engineering has expanded its national coverage with three new start-ups and we have also established a new catering company in London.

Strategy

As I stated last year, we continue to review our strategy to ensure that the solutions we offer meet the needs of existing and potential clients. This year has seen more emphasis placed on the development of our niche businesses and our ability to work together across disciplines.

Niche businesses: We are finding that many of our customers require a service that is specifically tailored to the sector in which they operate and where we need to demonstrate an understanding of their culture. We are seeing good levels of success in the niche businesses that we have started, in areas such as retail, transport and technology, where previously we have not operated.

Working together (bundled services): Forecasts indicate that customers will be buying more than 25% of their services in a bundle by 2006, compared with 10% today. This is a significant change. In the Contract Highlights section I have given some examples of where we are working well across our disciplines. This is now gathering momentum and is presenting us with a number of interesting opportunities.

Single service: There are still opportunities to develop all of our existing businesses in their traditional markets on a single service basis.

Overseas: Increasingly, our customers are asking for us to be involved in overseas contracts. We have established an arrangement with providers across Europe to provide similar services.

Start-up businesses: Start-up businesses have been the foundation of our growth model and we will continue to start businesses with quality management teams that are complementary to our existing operations.

All these services will be underpinned by the MITIE philosophy of focusing on the customer and providing a quality service. The changes we have made in the Support Services division will provide a greater degree of operational clarity and customer responsiveness. To assist in this process we are continuing to locate our companies in the same buildings wherever possible. We now have six regional centres.

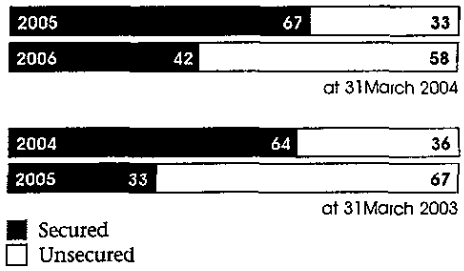
Second Generation Equity in Cleaning

MITIE Cleaning started in 1987 as one company. After the Company 'earned out', Cleaning was structured regionally. Apart from MITIE Cleaning (Midlands) Ltd, there have been no additional Cleaning companies started on the MITIE model. Since its formation, Cleaning has grown rapidly and we have recruited management at all levels who have never had any equity participation. In order to give this new management the opportunity to share in MITIE equity the Board have agreed, in principle, and subject to all the necessary professional advice, to launch a Second Generation Equity Plan. This makes available additional equity in MITIE Cleaning, allowing minority shareholders to share in the additional value they create.

Revenue visibility

We see increased visibility of our future earnings. We feel that this is an appropriate mix of short-term and long-term work.

PERCENTAGE OF REVENUE SECURED



Arcadia Group

MITIE has performed an extensive makeover of Arcadia's Oxford Circus headquarters. Over a ten-month period we transformed the PR showroom that is used to entertain the media, to stage fashion shows and to display the latest styles. We have consolidated reception areas and improved the building's open plan offices. The projects have created a crisp and modern head office environment with clean edges, light colourings and comfort cooling.

Working together to achieve your goals

Review of Support Services operations
Support Services has had a good year and has made excellent progress. We are pleased with the way this is moving forward and are excited about its future growth.

Business Services has performed above expectations this year continuing, not only to secure new contracts but, more importantly, to retain existing contracts, which include Merrill Lynch, Network Rail and The London Stock Exchange.

Working in close partnership with other MITIE companies, Business Services was able to branch out from its traditional client base. It was awarded the mail services contract at Rolls-Royce across the UK and the document and business support services contract for MCI in Reading and London. Both contracts are delivered within a bundled service offering with other participating MITIE companies.

It was also very successful in expanding its portfolio of clients in the City of London with the addition of two large reprographics services contracts at the Financial Services Authority and ABN Amro.

Catering has retained and expanded its contract with the Ministry of Defence for the Gloucestershire and Cotswold district. It is now a multi-activity contract and supports in excess of 5,000 service and civilian personnel. The contract encompasses a package of domestic services ranging from hotel services, catering and cleaning to laundry and pest control.

Bookham Technology awarded us a long-term contract to provide a broad range of catering-led support services at its three UK locations in Towcester, Abingdon and Paignton. The new contract encompasses a package of domestic services including catering, vending, reception, security, cleaning, mail-room and reprographics. In support of this diverse contract, we have brought together the individual specialist MITIE companies to deliver each service line. This provides the clients with one point of contact at each location.

Since the year-end, we have started MITIE Catering Services (London) Ltd, which will focus on providing quality commercial catering services in the Capital.

Manchester Airport

The window cleaning contract at Manchester Airport requires a permanent site team to keep the glass pristine. The wide range of buildings means that we have to use a variety of ways to access the glass surfaces, including cradles, ladders, tuckerpoles and even abseiling.

Cleaning has retained a number of important contracts during the year, as well as winning several prestigious new contracts across the country. It was successful in being re-awarded the Palaces of Westminster for a second term and has also secured the new Scottish Parliament, which will start later this year. Other new contract awards include the headquarters of Clifford Chance at Canary Wharf, Nissan in Sunderland and a national contract with Centrica.

The niche business strategy is developing satisfactorily. Our retail cleaning business has won contracts with Marks & Spencer, John Lewis and Boots and has been awarded a significant addition to the existing contract with Tesco.

The existing business within environmental management, food hygiene, healthcare and transport is being developed. Since the year-end we have started MITIE Transport Services Ltd.

The quality of Cleaning was publicly recognised with the receipt of two major awards: a Kimberley Clark Golden Service Award for the best-cleaned premises in the education sector for our work at South Downs College in Hampshire, and a Green Apple Environmental Award for our work at HBOS in Aylesbury.

Engineering Maintenance continues to develop, providing services to our clients who benefit from the high levels of management and engineering expertise within this business.

Due to the increasingly sophisticated technical and commercial demands of our clients, Engineering Maintenance has taken the lead role in bundling services on contracts such as MCI, Nokia, Dell and Microsoft. We have conducted 'best value' audits and successfully extended contracts with Alliance & Leicester and Rampton Hospital Nottinghamshire Healthcare Trust. We have negotiated and extended our contracts with The Trafford Shopping Centre, Tesco and the Railway Technical Centre Business Park in Derby, where we have been the preferred service provider for over 14 years.

We have expanded our client base with new contracts at the Bullring Shopping Centre in Birmingham, London County Courts, University of London, National Blood Service, Nissan in Sunderland, Merseycare NHS Trust and Ashworth Hospital and Newsquest in Scotland.

Working together across disciplines

We have increased our existing portfolio of Ministry of Defence airbases, securing new contracts at RAF Cosford, RAF Cottesmore and RAF Wittering.

Engineering Maintenance has continued to lead our bundled services contract with Rolls-Royce. The contract is continually delivering a pioneering approach to innovation and partnering.

Landscape has made good progress, including the formation of a new company in the North of England. We secured a national contract with Annington Homes, working together with MITIE Scotgate Ltd. Landscape was also awarded contracts with three NHS Trusts and BOC in Windlesham, as well as with Staffordshire Police Authority and North Tyneside Council, where we have a contract to maintain the public cemeteries.

Managed Services has had an excellent year. We successfully mobilised and started contracts for the National Probation Service in the North and West of England. Our contract with Land Securities Trillium was expanded to include the Employment Services buildings. This enlarged contract has been extended until 2018. Our relationship with Land Securities has developed with full service contracts on their Landflex sites in London.

The facilities contract for the Office of the Deputy Prime Minister was awarded in March 2004.

Pest Control commenced with the acquisition of Eagle Pest Control Services UK Ltd in July 2003. This gave MITIE a presence in a market that had been a strategic target for many years. The integration of Eagle has gone smoothly and the business is well placed for future growth. Contracts have been secured with T-mobile and Gate Gourmet. Our contract with the Royal Mail has been expanded and now includes half of its UK sites.

Progress has been made with an increase in regional clients and niche market contracts. Pest control is now an integral part of our service range and is a valuable addition to our bundled services offering.

Security has grown significantly during the year, principally as a result of the acquisition of Trident Safeguards Ltd in July 2003 and the security operations of Executive Holdings Ltd in November 2003. Our security business is now ranked in the top ten security companies nationally and in the top five in the London marketplace. The year also saw the award of two significant new security contracts for Nissan and OTTO UK and the continued provision of security at Rolls-Royce as part of the overall MITIE services contract.

The strategy for the year ahead is to further develop MITIE Security as a security solutions provider. In order to achieve this we will need to enhance the technology element of our security service and make additional strategic acquisitions. It is also anticipated that there will be start-ups in key locations to enhance service delivery on a national basis.

Review of Building Services operations

Building Services have found trading conditions challenging this year. The turnover levels have been high but market sector changes have resulted in margin pressures. There are encouraging signs and order books are high but, in the present climate of deferred start dates, it is taking longer than anticipated for these to result in improved performance.

Engineering Services has increased its focus on public sector procurement and collaborative working. This has resulted in major opportunities in defence, education and healthcare, as well as involvement in the Job Centre Plus Framework.

Strategic positioning of new businesses in the social housing, utilities infrastructure and process sectors has strengthened our Mechanical and Electrical Engineering Services offering. The national expansion of these businesses will provide further growth potential.

The public sector provided opportunities to work for PFI consortia on schools projects in North Tyneside, Northampton and Ealing, as well as inclusion in the Ministry of Defence Prime contract for the South West region. Other notable contracts were secured for University College London, Oxford, Bristol, Cardiff and Birmingham universities, Crosshouse Hospital in Glasgow and St George's Hall in Liverpool.

In the private sector, projects completed for clients included those for the Royal Automobile Club, Woolworths and GlaxoSmithKline.

MITIE Engineering Services has been part of the integrated project team on the first demonstration project for the Strategic Forum at the AA Training Academy in Leicester.

The indications of recovery have continued and, although not all the work was completed during this financial year, it has resulted in a healthy order book for next year. Two of our new businesses, MITIE Engineering Projects Ltd and MITIE Scotgate Ltd, have done particularly well in the social housing and utilities/process sectors.

Property Services, which had a slow start to the year, has shown improvement in the second half of the year, winning a steady flow of contracts and continuing to develop its national service capability with new branches in Stevenage, Basingstoke, Middlesbrough and Nuneaton.

Contracts were secured from Britannia Building Society, Brent ALMO, Homebase, The Home Office and Royal Mail. The refurbishment and fit-out capability of the discipline continues to develop, with contracts successfully completed at the BBC, Arcadia and The City of Westminster.

We have entered partnering contracts with Grampian Housing, Fife Special Housing, Homezone Housing and Bradford West Community Housing. These help underpin security of earnings and employment opportunities for our people in the longer term.

Generation, our business that hires and sells scaffolding and access equipment, has continued to trade satisfactorily. It has opened a new branch in Northampton as planned and relocated its branch in the East of Scotland from Rosyth to Broxburn, west of Edinburgh city centre.

BBC

We completed this prestigious project at the BBC for Land Securities Trillium. These rooms are reserved for the superstars who visit and record at the White City Television Centre. The dressing room fit out utilises contemporary finishes including back-painted glass walls, American black walnut veneers and natural stone. We have also refurbished the greenroom.

Working together for a brighter future

Quality
The quality of our services enables MITIE's customers to achieve their business goals. This year our Chairman's Quality Award is based on 'Excellence in Customer Service'. Customer retention and our ability to provide additional services to our existing client base are two of our major themes this year. This award was launched in 1993 at a time when MITIE was working towards achieving BS 5750 accreditation. However, David Telling considered that this was only the start of a drive for continuous improvement in quality and hence he launched The Chairman's Quality Award scheme. These Awards are presented at the Annual General Meeting. We have received recognition from the European Quality Foundation for our commitment to excellence across the Group. This commitment will help to maintain our success in the future.

Conclusion
I would like to thank my Executive Team for their support during the year and to congratulate all of our employees for their efforts in achieving such an excellent set of results.

We have made good progress in the year. Our markets are always demanding but they offer considerable opportunity.

MITIE people are focused on providing flexible, quality services to our customers. I am confident that through our determination to work together for our customers we will achieve our goals and ensure a bright future.

Ian R Stewart CHIEF EXECUTIVE

Turnover increased by 23.5% on continuing operations and 22.7% on total operations. Profit on ordinary activities before tax, goodwill amortisation and impairment* increased by 18.3%.

MCI

MITIE has a team of over 40 *people supporting MCI at its UK* headquarters in Reading. The range of services we supply has grown steadily and now includes maintenance, landscaping, business services and security. Our support allows them to concentrate on their business of telecommunication. In addition to the buildings and car parks the *contract involves looking after a* lake and a nature reserve.

Working together to deliver results

Ruby McGregor-Smith
GROUP FINANCE DIRECTOR

Highlights

- Profit on ordinary activities before tax, goodwill amortisation and impairment* up to £40.3 million (18.3% growth)
- Profit on ordinary activities before tax up to £38.2 million (20.1% growth)
- Net funds of £49.3 million down from £58.8 million (16.1% reduction)
- Earnings per share (before goodwill amortisation and impairment**) of 8.3p (14.1% growth)
- Earnings per share of 7.6p (16.9% growth)

Turnover

Total turnover increased by 22.7% to £694.5 million (2003: £565.8 million).

Profit on Ordinary Activities before Tax, Goodwill Amortisation and Impairment*

Profit on ordinary activities before tax and goodwill amortisation and impairment* was £40.3 million (2003: £34.1 million), an increase of 18.3%.

Also included in the profit for the year are integration costs of £1.0 million relating to the acquisitions in the year. The net profit margin before these integration costs and goodwill amortisation and impairment*** was 6.0% (2003: 6.0%).

Goodwill

The increase in the goodwill amortisation charge to £2.2 million (2003: £1.2 million) reflects goodwill amortisation on the acquisition of three companies in the year and the acquisition of the minority shares in the businesses that earned out during the year.

In the previous year we reviewed the carrying value of the investment in the MITIE Lindsay Ltd business and, as a consequence, an impairment of £1.1 million was added to the goodwill amortisation charge, resulting in an overall charge of £2.3 million.

* See Group Profit and Loss Account for reconciliation

** See Note 7 for reconciliation of basic earnings per share

*** See Note 1 Segmental Analysis

Acquisitions

There were three acquisitions during the year. In July 2003 we acquired Trident Safeguards Ltd ("Trident") and Eagle Pest Control Services UK Ltd ("Eagle"). In November 2003 we acquired Executive Holdings Ltd ("Executive"). In each case we have acquired 100% of the equity. Each of these businesses has performed well since acquisition. In total, we have spent £1.0 million on integrating these three businesses. Further details of each acquisition are shown below.

TRIDENT SAFEGUARDS LIMITED

On 2 July 2003, the Group acquired Trident, a security business. The consideration comprised an initial cash payment of £8.4 million on completion and a further £1.0 million, which was paid in December 2003. Further additional consideration will become due according to future profitability, payable in cash and bank-guaranteed loan notes. The additional consideration is split as follows:

- £2.0 million payable at any time between 2006 and 2010 if an agreed primary profit threshold is met.
- If the second profit threshold is exceeded then an additional amount will become payable, with the total consideration capped at £20.0 million.

EAGLE PEST CONTROL SERVICES UK LIMITED

On 3 July 2003, the Group acquired Eagle, a pest control business. The consideration comprised an initial cash payment of £2.9 million with additional consideration based on future profitability, also payable in cash as follows:

- £1.2 million payable at any time between 2008 and 2013 if an agreed profit threshold is met.
- If this profit threshold is exceeded then an additional amount will become payable, with the total consideration capped at £6.0 million.

EXECUTIVE HOLDINGS LIMITED

On 4 November 2003, the Group acquired Executive, a security and cleaning business, for £10.0 million. Executive's audited accounts for the 52 weeks to 6 October 2003 showed turnover of £43.3 million (including discontinued operations of £4.0 million) and operating profit before amortisation of £0.6 million. There was limited benefit in the current financial year, but targeted cost savings of at least £1.3 million are expected in 2004/05.

Taxation
The tax charge for the year was £12.3 million, a rise of 20.7% on last year's charge of £10.2 million.

The effective tax rate is 32.2% (2003: 32.0%). The increased level of goodwill amortisation, which is not allowable for tax purposes, will continue to have an impact on our effective tax rate in future years.

Interest
Interest income for the year increased to £1.7 million (2003: £1.5 million).

Earnings Per Share
Earnings per share before goodwill amortisation and impairment grew by 14.1% from 7.3p in 2003 to 8.3p this year (see Note 7 for reconciliation to basic earnings per share).

Earnings per share post-goodwill amortisation grew by 16.9% to 7.6p (2003: 6.5p).

Net Funds
Net funds fell £9.5 million during the year from £58.8 million to £49.3 million. The total cash outflow in the year was £7.8 million (2003: inflow of £29.8 million):

- The Group has generated £43.9 million (2003: £48.5 million) from operating activities.
- Tax paid in the year was £12.4 million (2003: £10.7 million) and net capital expenditure increased to £12.7 million (2003: £8.0 million).
- In total we have spent £22.7 million on acquisitions of subsidiaries, including £1.2 million of overdrafts acquired. In the previous year we had a net inflow of £6.6 million from acquisitions and disposals.

Pensions
The Group operates three defined benefit pension schemes and a defined contribution scheme for its employees as described in Note 26. The total pension charge for the year was £4.5 million (2003: £3.3 million) with the defined benefit schemes accounting for £3.6 million of this (2003: £3.2 million).

The Group continues to apply SSAP 24 in accounting for retirement benefits. The introduction of the accounting standard *FRS 17: Retirement Benefits* has been delayed by the Accounting Standards Board until 2005. The Group has continued to apply the transitional rules and disclosures as detailed in Note 26. At 31 March 2004, the actuary's estimate was that there was a net deficit of £5.0 million (2003: £7.8 million) in relation to the defined benefit schemes.

The defined benefit schemes have a Minimum Funding Requirement ("MFR") cover of 115%. Contribution rates remain at 7.5% (2003: 7.5%) for employees and at 10% (2003: 10%) for the Group Scheme.

Working together for a better investment

Treasury Policies

Treasury management: Group Treasury has responsibility for managing and reducing financial risk and ensuring sufficient liquidity is available to meet foreseeable needs. It operates within policies and procedures approved by the Board, which have not changed during the year. Borrowings are arranged centrally by Group Treasury and made available to operating subsidiaries on commercial terms. The Board's ongoing policy is to finance the Group through retained earnings and borrowings.

Interest rate risk: The Group's exposure to interest rate fluctuations is currently limited to the performance due to our net funds position. A portfolio of AAA-rated funds, money market deposits and corporate deposit accounts is used to maximise returns from funds while minimising overall exposure to any one financial institution.

The maturity profile of banking facilities is reviewed regularly and the facilities are extended and replaced as appropriate, well in advance of their expiry.

Further details on financial assets and liabilities are given in Note 15 to the Accounts.

Accounting Developments

FRS5 Application Note G

The Group has adopted FRS 5 Application Note G during the year as this is the first year for which it is applicable. It is considered appropriate under this Application Note that the Group now recognises revenue in respect of its performance under contracts as they progress where, in prior periods, revenue on certain contracts was only recognised for contract work completed in the year. The Directors do not consider that the effect of implementing the Application Note is material in either period, with the consequence that the prior-year Profit and Loss Account has not been restated. Where appropriate, contract work in progress, amounts recoverable on contracts and trade debtors have been restated in respect of the prior-year in order to make them comparable with the classifications being used this year.

International Financial Reporting Standards

The introduction of International Financial Reporting Standards will impact the Group financial statements for the year ended 31 March 2006. Work has been undertaken during the year in preparation for this transition to identify the main areas of change, assess the impact that adoption will have and to determine and initiate the work necessary to meet reporting requirements under the new standards. Pending the results of our implementation work, the main areas of impact on the Group financial statements are expected to be in the accounting treatment of defined benefit pension schemes and of goodwill. The Group anticipates being able to give a further update to Shareholders later in 2004.

Ruby McGregor-Smith GROUP FINANCE DIRECTOR

CORPORATE SOCIAL RESPONSIBILITY

One of our key objectives is to make a positive impact on the communities in which we live and work. MITIE recognises that our actions can make a difference and we are committed to acting responsibly to our people, the environment and the wider community.

Bull Ring Birmingham

MITIE provides on-site planned and reactive maintenance to mechanical, electrical and fabric services. These include a wide range of state-of-the-art equipment such as computerised emergency lighting control, security surveillance equipment and the spectacular futuristic glass roof and façade. The team adopts a flexible working approach to servicing over 150 retail units and public areas with a constant flow of visitors.

Working together for the environment

People
We want all of our employees to have the opportunity to maximise their potential. In order to achieve this we adopt robust Human Resources policies and procedures that are fair and inclusive.

We recruit, train and retain quality people by adopting best practice in every phase of the employment life-cycle.

MITIE is an Investor in People. IiP provides us with a benchmark for communicating with and developing our people throughout their career with us. Structured induction programmes are in place across the Group and all employees are given regular opportunities to discuss their performance with their line manager.

Current training programmes in place across MITIE range from Craft Apprenticeships to an MBA Programme. We provide in-house training in the areas of Health & Safety, Employee Relations and Management Development.

During the year more than 80 managers participated in the four levels of Management Development Programme that are available:

- Institute of Leadership and Management, Certificate in Management
- Chartered Management Institute, Diploma in Management
- Business Leadership Programme
- Master of Business Administration (MBA)

Managers are encouraged to develop continually their leadership and motivation skills so that they are competent to build teams and develop individuals.

We support our people with a proactive HR strategy. We spend a lot of time evaluating skills and potential for the future. Succession plans are put in place across the business to ensure that we will have the appropriate skills in place in order to meet MITIE's future challenges.

Ethics
MITIE operates according to business values and principles that guide the Company and its employees.

We have a Code of Ethics that is communicated to our employees and is displayed on the Group's website. We have a responsibility to all of the groups with whom we interface: employees, customers, suppliers, investors, competitors and the wider community. We have a duty to act responsibly and to show appropriate levels of care in delivering quality services. Our reputation and the trust and confidence of the people with whom we deal are among our most important assets. The protection of these assets is highly important. MITIE maintains the highest standards of professionalism, integrity, openness, honesty and diligence.

MITIE adopts the highest ethical standards when we do business and we will not allow any behaviour that is not in accordance with our Code of Ethics. The Board regularly reviews this code as well as our ethical performance.

MITIE employees are made aware of this code and our aim is to create an atmosphere in which employees feel able to voice concerns about behaviour or decisions that they perceive to be unethical.

Health and Safety
The success of the business relies on the suitability and availability of our employees. We therefore take seriously our responsibility for managing and maintaining their health and safety.

While Board-level responsibility for health and safety rests with the Chief Executive, the MITIE systems ensure responsibility exists throughout all of the MITIE businesses. All subsidiary company directors have received appropriate training in health and safety in order to meet their responsibilities. They are supported by specialist safety advisors who are either company or regionally based.

In particular, during the year we have made improvements to our Accident Reporting database. As a result, we now have a better claims management and accident investigation ability.

MITIE companies will occasionally engage the services of a specialist subcontractor. We manage these using the Contractor Health and Safety Assessment Scheme, coupled with close review of their performance.

Environment

Board-level responsibility for the Environment sits with the Chief Executive, who receives appropriate support and advice from MITIE's Head of Health, Safety and Environment.

We endeavour to identify all of our environmental impacts and, wherever possible, manage them. During 2002/03 we carried out an initial exercise to identify where and what our impacts were. That exercise identified greenhouse gas emissions, primarily related to our vehicle fleet, as being our most significant impact. We monitor the level of CO_2 emissions that our vehicle fleet produces and we have seen a reduction during the period under review.

Community

In the year under review, MITIE's Charities of the Year were the NSPCC and Children 1st in Scotland. We selected these charities because we felt that their focus on helping children matched our goal of providing opportunities for people to fulfil their potential.

A wide range of fundraising activities has taken place across the country, promoted by MITIE charity champions. The activities ranged from quiz nights, Christmas fundraisers, parachute jumps, marathons, mobile phone and computer sales to dress down days and horse racing events. The most notable fundraiser was performed by Anj Moorhouse from Cleaning who was part of a sponsored expedition to climb Mount Kilimanjaro in Tanzania.

In addition to our national work on behalf of the NSPCC there have been several local initiatives. These include our Scottish employees raising money for the neurosurgery department of South Glasgow University Hospital, our Property Services business in Colchester decorating the Keats Way aged persons scheme in Wickford in conjunction with Thurrock and Basildon College, and our sponsorship of Stoke Lane AFC, a community junior football club in Bristol.

Wherever possible we encourage our people to get involved with their community.

Achieving your goals

Anj Moorhouse's inspirational determination to achieve her goals of climbing Mount Kilimanjaro and of fundraising for the NSPCC was key to her success. Her love of challenges and adventure, coupled with her selflessness and spirit, helped to raise over £16,000 for charity.

David C Ord*†‡
NON-EXECUTIVE CHAIRMAN
Aged 55, he was appointed to the Board in October 2002 and became Chairman on 25 September 2003. He is also Managing Director of The Bristol Port Company.

Sir John Jennings CBE, FRSE*†‡
NON-EXECUTIVE DEPUTY CHAIRMAN, CHAIRMAN OF THE NOMINATION COMMITTEE AND SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR
Aged 67, he became a Director in 1998 and is a member of the International Advisory Boards of the Bechtel and Toyota Corporations, a Director of Bechtel Group International and Chancellor of Loughborough University. He was previously Chairman of the Shell Transport and Trading Company plc.

Manish J Chande*†‡
NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE REMUNERATION COMMITTEE
Aged 48, he was appointed to the Board in July 2002. Chief Executive of Mountgrange Capital plc. He is also Chairman of National Car Parks Ltd and a Director of Property Fund Management Plc. He was previously Chief Executive of Land Securities Trillium Ltd and a board member of Land Securities plc.

Cullum McAlpine*†
NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE AUDIT COMMITTEE
Aged 57, he was appointed to the Board on 1 April 2003. He is also a Director of Sir Robert McAlpine Ltd and Chairman of Renewable Energy Systems Ltd.

* Member of the Remuneration Committee
† Member of the Audit Committee
‡ Member of the Nomination Committee

Ian R Stewart
CHIEF EXECUTIVE
Aged 62, he was appointed to the Board in January 1990 and became Chief Executive in August 2001.

Ruby McGregor-Smith ACA
GROUP FINANCE DIRECTOR
Aged 41, she joined the Group and was appointed to the Board in December 2002. She was previously at Babcock International Group plc and Serco Group plc.

Colin S Acheson
DIRECTOR RESPONSIBLE FOR ENGINEERING SERVICES
Aged 53, he joined the Group in December 1989 and was appointed to the Board in August 2001. He is also a Director of The Platform Company (Holdings) Ltd and The Platform Company (UK) Ltd.

N Roger Goodman
GROUP CORPORATE DEVELOPMENT DIRECTOR
Aged 57, he joined the Group in June 1993 and was appointed to the Board in August 2001.

Colin S Hale
HEAD OF SUPPORT SERVICES
Aged 47, he joined the Group in April 1998 and was appointed to the Board in August 2001.

Bill Robson
DIRECTOR RESPONSIBLE FOR PROPERTY SERVICES
Aged 53, he joined the Group in January 1992 and was appointed to the Board in August 2001.

DIRECTORS' REPORT
as at 31 March 2004

The Directors submit their Report together with the audited financial statements for the year ended 31 March 2004.

Principal Activity
The principal activity of the Group is the provision of services to buildings and infrastructure. The principal activity of the Company is to provide management services to the Group.

Results and Dividends
The Group profit on ordinary activities before tax amounted to £38.2 million (2003: £31.8 million), which, after tax and minority interest, gives profits attributable to Shareholders of £23.4 million (2003: £19.5 million). The Directors recommend a final dividend of 1.4p per share, which, together with the interim dividend of 1.1p per share paid on 31 March 2004, results in a total dividend of 2.5p (2003: 1.9p) per share. If approved, the final dividend will be paid on 30 September 2004 to those Shareholders registered on 3 September 2004. The retained profit for the year is £15.5 million (2003: £13.7 million).

The reviews of the year's operations and future developments are contained in the Chairman's Statement, the Chief Executive's Statement and the Finance Director's Review.

Donations
Charitable contributions made during the year amounted to £36,415 (2003: £13,930). As a matter of policy, no political contributions were made during the year (2003: £Nil).

Share Capital
Details of changes in the share capital during the year and the number of Ordinary Shares in issue at the year-end are given in Note 17 to the Accounts.

Directors
Details of the Board of Directors are given on page 19.

Cullum McAlpine was appointed a Non-Executive Director on 1 April 2003. David C Ord, already a Non-Executive Director, was appointed Chairman on 25 September 2003.

Donald C Macpherson retired as a Non-Executive Director on 31 October 2003.

David M Telling stood down as Executive Chairman on 25 September 2003 and resigned as a Non-Executive Director on 10 October 2003.

N Roger Goodman, Colin S Hale and Bill Robson retire by rotation and, being eligible, offer themselves for re-appointment at the Annual General Meeting.

Details of the Directors' interests in the share capital of the Company are shown in the Directors' Remuneration Report.

Going Concern
The Directors have formed a judgement that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Accounts.

Payment of Creditors
The Group's policy is to comply with the terms of payment agreed with suppliers. Where terms are not negotiated, the Group endeavours to adhere to the suppliers' standard terms. At 31 March 2004, the Company had 3 days' purchases outstanding (2003: 42 days).

Other Interests in Shares
The Company has been notified of the following interests in 3% or more of the issued share capital of the Company as at 3 June 2004:

	NUMBER OF ORDINARY SHARES OF 2½P EACH	% OF SHARE CAPITAL
Fidelity Corp. and Fidelity International Ltd	43,859,225	14.18
Prudential plc	31,313,080	10.12
Aviva plc	12,578,037	4.07

DIRECTORS' REPORT
as at 31 March 2004

Employee Involvement
The Group offers equal opportunities to all applicants for employment whatever their sex, race or religion. Disabled persons are considered for employment, training, career development and promotion on the basis of their aptitudes and abilities in common with all employees, providing the disability does not make the particular employment impractical, or the employee is unable to conform to the stringent regulations that apply to the operations of the trading companies.

The Directors acknowledge the importance of good communications and employee relationships. In each trading company, there is a direct relationship between the Managing Director and individual employees of the company. In these conditions, complex consultative procedures are seldom required to ensure that there is an understanding of the purpose of the business and the commercial realities of success.

The Directors believe that employees should be encouraged to become Shareholders. The Savings Related Share Option Schemes, established in 1991 and 2001, currently have a total of 1,828 contributing employees.

Auditors
On 1 August 2003 Deloitte & Touche, the Company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent was given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of Section 26(5) of the Companies Act 1989. A Resolution to re-appoint Deloitte & Touche LLP, who have expressed their willingness to continue in office as auditors, as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting
The Annual General Meeting will be held at 12 noon on Thursday, 29 July 2004 at The Merchants' Hall, The Promenade, Clifton Down, Bristol.

The Resolutions to be proposed at the Annual General Meeting are contained in the Notice of Meeting.

Resolution 8 renews the Directors' authority to allot new Ordinary Shares, not exceeding 5% of the issued share capital, for cash without first being required to offer them to existing Shareholders in the proportion of their holdings.

Resolution 9 renews the Company's authority to purchase its own shares, not exceeding 10% of the issued share capital. The Directors would only exercise this authority if satisfied that to do so would result in an increase in the Group's earnings per share and would be in the interests of Shareholders generally.

Statement of Directors' Responsibilities
United Kingdom company law requires the Directors to prepare financial statements that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors have responsibility for ensuring that the Company keeps accounting records that disclose with reasonable accuracy the financial position of the Company and that enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors also have general responsibility for the system of internal controls, for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

This Report was approved by the Board of Directors on 4 June 2004 and signed on its behalf.

Corina K Ross
Company Secretary

DIRECTORS' REMUNERATION REPORT

This Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002, which introduced new statutory requirements for the disclosure of Directors' remuneration in respect of periods ending on or after 31 December 2002. The Report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. As required by the Regulations, a Resolution to approve the Report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the Auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the Report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The Report has therefore been divided into separate sections for audited and unaudited information.

Information Not Subject to Audit

Remuneration Committee
The Committee consists of four of the Company's Non-Executive Directors, Manish J Chande (Chairman), Cullum McAlpine, Sir John Jennings, and David C Ord. Donald Macpherson was a member and Chairman of the Committee until shortly prior to his retirement on 31 October 2003. The Committee consults the Chief Executive about its proposals and has access to professional advice from outside the Company. During the year, the Committee did not receive any material assistance from any external professional advisers.

Remuneration Policy
The basic salaries and other benefits of the Executive Directors are determined by the Committee in the light of the need to attract, retain and motivate Directors of the calibre needed and to reward them for enhancing value to Shareholders. The Committee has regard to executive remuneration packages of similar jobs in comparative groups of companies. There are no current plans to significantly alter this package for future years.

Executive Directors are entitled to accept appointments outside the Company, provided permission is sought from the Chief Executive.

Components of Remuneration
Components of remuneration are:

- Basic salary determined by the Committee and reviewed annually on 1 April.
- Performance-related bonus based on improvements in Group and/or Discipline profits.
- Pension contributions through membership of the Company's pension scheme. Basic salary alone is pensionable.
- Executive share options and opportunities to invest in subsidiary companies for Ruby McGregor-Smith who joined the Group relatively recently.

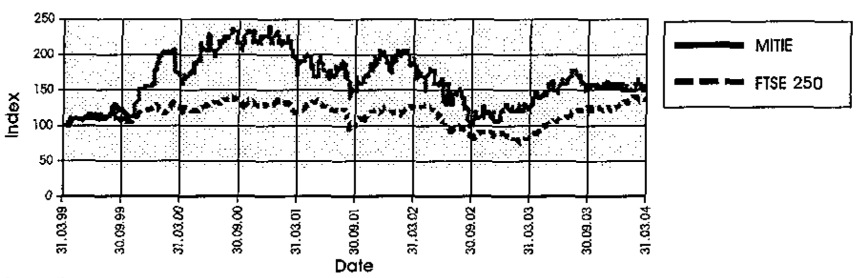
Contracts of Service
All Executive Directors have contracts with an indefinite term, providing for a maximum of one year's notice. There are no provisions for compensation payable upon early termination in the Directors' contracts.

Non-Executive Directors' Remuneration
The remuneration of Non-Executive Directors is determined by the Board and reflects the knowledge and experience that they bring to the Group. They do not participate in the Company's bonus or share schemes. They are appointed under fixed-term agreements and are not members of the Company pension scheme; nor do they receive taxable benefits in kind.

Sir John Jennings', Manish J Chande's and David C Ord's remuneration comprises shares in MITIE Group PLC at the market value on the issue date. Cullum McAlpine's remuneration comprises an annual fee, which he has elected to waive for this and subsequent years until further notice.

Performance Graph – MITIE's TSR vs FTSE Mid 250 index
The following graph shows the Company's performance, measured by total shareholder return ("TSR"), compared with the performance of the FTSE Mid 250 index over the past five years. The Committee believes that this comparison provides a clear picture of how well the Company has performed relative to a range of companies of a comparable size.

TSR is defined as the return Shareholders would receive if they held a notional number of shares and received dividends on those shares over a period of time. It measures the percentage growth in the Company's share price, together with the value of any dividends paid, assuming that the dividends are re-invested in the Company's shares.



Source: Datastream

DIRECTORS' REMUNERATION REPORT

Information Subject to Audit

Remuneration
The table below provides details of Directors' remuneration paid to or receivable by each person who served as a Director at any time during the year.

	DATE OF LATEST CONTRACT	BASE SALARY/FEES £'000	PERFORMANCE RELATED BONUSES £'000	BENEFITS £'000	PENSIONS £'000	2004 TOTAL £'000	2003 TOTAL £'000
Executive Directors							
I R Stewart	1 April 2003	250	214	28	50	**542**	493
C S Acheson (i)	1 April 2003	150	-	16	10	**176**	175
N R Goodman	1 April 2003	150	50	16	10	**226**	255
C S Hale	1 April 2003	150	383	16	10	**559**	246
R McGregor-Smith (ii)	1 April 2003	150	127	16	10	**303**	85
W Robson	1 April 2003	150	70	16	10	**246**	263
Former Executive Directors							
D M Telling (former Chairman)		132	-	13	29	**174**	324
P A Kilduff		-	-	-	-	-	329
Non-Executive Directors							
M J Chande (iii)		18	-	-	-	**18**	11
Sir John Jennings (iii)		49	-	-	-	**49**	35
C McAlpine (iv)		-	-	-	-	-	-
D C Ord (iii) (Chairman)		50	-	-	-	**50**	13
Former Non-Executive Directors							
D C Macpherson		14	-	-	-	**14**	18
N F Swiffen		-	-	-	-	-	15
Total		1,263	844	121	129	**2,357**	2,262

(i) C S Acheson waived his entitlement to bonus in this and the previous year. Under his contract of service he was entitled to £22,500 (2003: £28,263).

(ii) R McGregor-Smith's remuneration for 2003 was for the period from her appointment on 2 December 2002 until 31 March 2003.

(iii) Fees to third parties comprise amounts paid or payable to Mountgrange Limited of £18,375, David Ord Limited of £50,198 and J S Jennings Limited of £49,000 under agreements to provide the Group with the services of M J Chande, D C Ord and Sir John Jennings respectively. These agreements require the Directors to attend all meetings as notified by the Group, to serve on the Audit, Nomination and Remuneration Committees as the Group may request and to carry out such additional functions as the Group may require.

(iv) C McAlpine has formally waived his entitlement to fees for this year and for the foreseeable future. In recognition of this fact, MITIE Group PLC has made contributions to charity totalling £15,000 during the year.

Pensions

D M Telling was a member of a money purchase scheme and the Company's contributions to this scheme were £29,167 (2003: £50,000).

The pension benefit of Directors who are members of the MITIE Group PLC defined benefit scheme is set out below:

	ACCRUED PENSION 31 MARCH 2003 £'000	INCREASE IN ACCRUED PENSION DURING THE YEAR £'000	REAL INCREASE IN ACCRUED PENSION £'000	ACCRUED PENSION 31 MARCH 2004 £'000
I R Stewart	74	24	22	**98**
C S Acheson	28	2	1	**30**
N R Goodman	14	2	1	**16**
C S Hale	8	2	2	**10**
R McGregor-Smith	-	2	2	**2**
W Robson	18	2	1	**20**

The following table sets out the transfer value of the Directors' accrued benefits under the defined benefit scheme calculated in a manner consistent with "Retirement Benefit Schemes – Transfer Values (GN11)" published by the Institute of Actuaries and the Faculty of Actuaries.

	TRANSFER VALUE 31 MARCH 2003 £'000	CONTRIBUTIONS MADE BY THE DIRECTOR £'000	INCREASE IN ACCRUED PENSION OVER THE YEAR (NET OF CONTRIBUTIONS) £'000	REAL INCREASE IN ACCRUED PENSION (NET OF CONTRIBUTIONS) £'000	TRANSFER VALUE 31 MARCH 2004 £'000
I R Stewart	864	19	562*	310	**1,445**
C S Acheson	155	7	105	3	**267**
N R Goodman	109	7	70	9	**186**
C S Hale	33	7	24	2	**64**
R McGregor-Smith	-	7	8	-	**8**
W Robson	100	7	74	5	**181**

The transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the pension scheme.

*This includes £112,275 where I R Stewart transferred amounts in from another scheme.

DIRECTORS' REMUNERATION REPORT

Directors' Interests
The beneficial interests of the Directors who were in office on 31 March 2004 in the share capital of the Company are as shown below:

	31 MARCH 2004 ORDINARY SHARES OF $2^1/_2$p No.	1 APRIL 2003 OR LATER DATE OF APPOINTMENT ORDINARY SHARES OF $2^1/_2$p No.
Executive Directors		
I R Stewart	**4,992,872**	4,992,872
C S Acheson	**1,173,100**	1,423,100
N R Goodman	**1,543,213**	1,949,213
C S Hale	**2,041,134**	2,396,134
R McGregor-Smith	**9,353**	9,353
W Robson	**1,814,713**	2,314,713
Non-Executive Directors		
D C Ord	**138,957**	67,669
M J Chande	**42,508**	27,508
Sir John Jennings	**1,270,567**	1,230,567
C McAlpine	**-**	-

Directors also had beneficial interests in the capital of subsidiary companies as follows:

		31 MARCH 2004 No.	1 APRIL 2003 No.
R McGregor-Smith			
MITIE Business Services Ltd	B Ordinary Shares of 1p each	**3,500**	3,500
MITIE Services (Retail) Ltd	B Ordinary Shares of £1 each	**10,000**	-
N R Goodman			
MITIE Catering Services Ltd	B Ordinary Shares of £1 each	**8,333**	8,333
MITIE Security (Southern) Ltd	B Ordinary Shares of 1p each	**-**	2,500

On 8 March 2004, MITIE Group PLC acquired the remaining minority interest in MITIE Security (Southern) Ltd, including the interests of the Director shown above, for a nominal sum.

Directors' Interests continued

Since 31 March 2004, Directors acquired beneficial interests in the share capital of subsidiary companies as follows:

		31 MARCH 2004 No.	1 APRIL 2003 No.
R McGregor-Smith			
MITIE Industrial Cleaning (North) Ltd	B Ordinary Shares of £1 each	**1,750**	-
MITIE Engineering Services (North East) Ltd	B Ordinary Shares of £1 each	**1,500**	-
MITIE Engineering Services (Edinburgh) Ltd	B Ordinary Shares of £1 each	**2,000**	-
MITIE Landscape (Northern) Ltd	B Ordinary Shares of £1 each	**3,300**	-
MITIE Engineering Services (West Midlands) Ltd	B Ordinary Shares of £1 each	**1,500**	-
MITIE Catering Services (London) Ltd	B Ordinary Shares of £1 each	**5,000**	-

Directors also had interests in share options as follows:

	OPTIONS OUTSTANDING AT 1 APRIL 2003	GRANTED DURING THE YEAR	LAPSED DURING THE YEAR	EXERCISED DURING THE YEAR	OPTIONS OUTSTANDING AT 31 MARCH 2004	EXERCISE PRICE £	DATE EXERCISABLE	EXPIRY DATE
R McGregor-Smith								
(i)	-	22,700	-	-	**22,700**	1.32	9.8.06	9.8.13
(ii)	-	77,300	-	-	**77,300**	1.32	9.8.06	9.8.13

The share options stated above were granted under the MITIE Group PLC Executive Share Option Scheme 2001. (i) Granted under the Approved Part of the Scheme. (ii) Granted under the Unapproved Part of the Scheme.

The performance criterion for the Scheme that must be met requires a percentage growth in the Company's earnings per share equal to or in excess of 10% per annum compound over the period from the date of grant of the option to the date on which the option first becomes exercisable. The performance criterion selected is no different for the Director than for any other member of the Scheme.

No payment was made for the grant of the options and there have been no variations to the terms and conditions or performance criterion for share options since the grant date.

The market price of Ordinary Shares of $2^1/_2$p each at 31 March 2004 was £1.18 and the highest and lowest prices during the year were £1.38 and £1.00 respectively.

Other than as stated above, no other changes in Directors' interests have taken place since 1 April 2004 and no options have been granted to any Director since 1 April 2004.

Manish J Chande
Chairman, Remuneration Committee

CORPORATE GOVERNANCE

The Board adopts an effective system of Corporate Governance to fulfil the Group's corporate responsibilities and the achievement of its financial objectives.

This statement, together with the Directors' Remuneration report on pages 22 to 26, explains the manner in which the Board of MITIE Group PLC has applied the principles of good governance and the code provisions prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel and published in June 1998 (the "Hampel Code").

It is the policy of the Board of MITIE Group PLC to manage its affairs in accordance with these principles and provisions and achieve the highest standards of Corporate Governance.

Board and Committee Structure

Board of Directors

The Board of MITIE Group PLC currently comprises six Executive and four Independent Non-Executive Directors. Their biographical details, shown on page 19, demonstrate the range of experience, skill, and independent judgement they each bring to the Board.

As mentioned elsewhere in this report, David Telling resigned as Chairman on 25 September 2003 with David Ord, an Independent Non-Executive Director, taking over the Chairmanship. The Board considers that the appointment of the Chairman from the existing Board members provides the stability and consistency required to run the Board effectively. This appointment was recommended by the Nomination Committee and approved by the full Board.

During the year the Senior Independent Non-Executive Director, Donald Macpherson, retired. Sir John Jennings was appointed as Senior Independent Non-Executive Director in his place.

A new Independent Non-Executive Director, Cullum McAlpine, was appointed on 1 April 2003 to add to the Group's complement of Independent Non-Executive Directors. This appointment was made on the recommendation of the Nomination Committee resulting from its ongoing review of the balance of the Board. Due regard was given to Mr McAlpine's skills and experience, as well as his other commitments, when considering his appropriateness for the position.

Each new Director receives papers that include a copy of MITIE Group PLC's Memorandum and Articles of Association, various Committee terms of reference, and copies of recent Board minutes and supporting papers. New Directors are formally introduced to the Board as a whole and invited to visit any number of sites and operations to help familiarise themselves with the Group's business.

Any Director, on appointment and throughout their service, is entitled to receive any training they consider necessary to enable them to fulfil their responsibilities effectively. This is at the Group's expense. All Directors are appointed by the Board as a whole and after recommendations from the Nomination Committee have been received. All new Directors are subject to re-election by the Shareholders at the first Annual General Meeting after their appointment. One third of the Board is subject to re-election each year, ensuring that, based on the current Board composition, all Directors will have been subject to re-election over a three year period. This is in accordance with the Company's Articles of Association.

None of the Executive Directors has service contracts with notice periods greater than twelve months. The Executive Directors' service contracts and Non-Executive Directors' fixed-term agreements are available for inspection at the Company's Registered Office and the Head Office.

All Non-Executive Directors are considered to be independent of management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement. The criteria used by management for determining independence are in accordance with the criteria detailed in the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003. The Board does not consider Non-Executive Director shareholdings to impinge upon their independence. Indeed, such shareholdings not only ensure that the Non-Executive Directors' interests are aligned with those of Shareholders, but are also in keeping with the whole ethos of the MITIE Group.

There is a clear division of responsibility between the Chairman, who is responsible for the running of the Board, and Chief Executive, who is responsible for the running of the Group in accordance with the authority delegated by the Board. This ensures that there is a balance of power and authority such that no one individual has unfettered powers of decision.

The Board met seven times during the year for regular Board meetings. In addition to these regular Board meetings, there were a number of additional meetings to deal with specific matters. The Chairman met the Non-Executive Directors on several occasions during the year without the Executive Directors being present.

There is a formal schedule of matters reserved for the Board's decision, which includes strategy and performance, acquisitions, capital expenditure and the safeguarding of the assets of the Group.

At least a week before each Board meeting, each Director is supplied with an agenda and sufficient supporting papers that provide the appropriate information required for the Directors to properly discharge their duties. Included within these papers are detailed results for each of the Group's operating disciplines, as well as on an overall basis. Other papers include a treasury report detailing the cash position across the Group and proposals regarding future potential acquisitions, disposals, start-ups or restructurings. The monthly financial results and analyses are circulated in months where no Board meeting is held.

The Board constantly reviews the quality, nature and presentation of information provided and requests changes where the Directors feel such changes will offer information that is more appropriate.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed, including advising on all governance matters. If necessary the Directors are able to seek independent professional advice at the Group's expense, although no advice has been sought to date.

To ensure that undue reliance is not placed on a particular Director or Committee member, no individual Director is Chairman of more than one Committee.

Executive Committee
The Executive Committee met on a regular basis during the year. In addition to these formal meetings the Committee members were in regular communication and met less formally on a number of other occasions. The Committee is responsible for the overall day-to-day management of the business. Its current members are the Executive Directors of MITIE Group PLC and it is chaired by the Chief Executive.

Audit Committee
The Audit Committee comprises all four Non-Executive Directors, including the Non-Executive Chairman and the Senior Independent Non-Executive Director. The Committee met three times during the year to examine and consider matters relating to the affairs of the Group. These matters included the review and examination of the Group's Annual Report and Accounts, the internal financial control procedures in place for controlling the Group's business, and compliance with accounting standards and generally accepted accounting principles. In particular, the Committee focuses on any changes in accounting policy and practices, major judgemental areas, significant adjustments or problems resulting from the statutory audits, and the going concern assumption.

The Committee is also responsible for considering among other things the fees, nature and scope of work, effectiveness and independence of the Group's external Auditors as well as their appointment, re-appointment and removal as necessary. The external Auditors and the Company have regular dialogue concerning matters of independence and a report is made formally to the Audit Committee on this matter at least once a year. When appropriate the external Auditors provide non-audit services to the Group and independence matters are given careful consideration prior to their appointment. The Group is looking to broaden the range of service providers in this area, but will always appoint those who offer the best service to the Group and who are best placed to advise the Group. In addition, the independence of the external Auditors is further safeguarded by the internal controls within Deloitte & Touche LLP regarding the segregation and nature of the services being provided.

The terms of reference of the Committee are available from the Company Secretary on request.

Detailed presentations to the Committee are made, on request, by the Group's internal risk management department. However, reports are always submitted to the Committee to update its members on the department's activities. This helps the Committee assess the effectiveness of the Group's internal control systems and the internal risk management department itself. The Committee has reviewed and approved the internal audit plan for the year ending 31 March 2005.

The Group's external Auditors normally attend the Audit Committee meetings and, at the request of the Committee, the Group Finance Director and other senior executives from the Group will also attend. The Committee has access to the external Auditors' advice, and that of other independent professional advisors, without the presence of the Executive Directors if it considers this necessary.

CORPORATE GOVERNANCE

Remuneration Committee
The Remuneration Committee comprises all four Non-Executive Directors. They usually meet at least twice a year and met five times during the year under review. The Committee makes recommendations to the Board on the Group's framework of executive remuneration and determines on its behalf specific remuneration packages for each of the Executive Directors. Advice is sought from external remuneration consultants as and when considered necessary. The terms of reference of the Committee are available from the Company Secretary on request.

Nomination Committee
The Nomination Committee comprises three Non-Executive Directors and is chaired by the Senior Independent Non-Executive Director. The Committee is responsible for monitoring the balance and composition of the Board to ensure that it contains the necessary skills, knowledge and experience to properly discharge its duties. The Committee also makes recommendations to the Board on new Board appointments, after considering the job specification and the candidate's specific skills, experience and other commitments, succession planning and any adjustments to the Board's balance and composition considered necessary. The terms of reference of the Committee are available from the Company Secretary on request.

The Committee usually meets at least once a year with additional meetings taking place as and when requested by any Committee member. The Committee met once during the year under review.

Meeting Attendance
All Directors are encouraged to attend all meetings of all the Committees of which they are members and it is recognised by the Board that they make every effort to do so, rarely missing a meeting. Current Directors' combined actual attendance at regular Board and Committee meetings is shown in the following table:

DIRECTOR	ACTUAL MEETING ATTENDANCE	POSSIBLE MAXIMUM
David C Ord	14	16
Ian R Stewart	10	10
Colin S Acheson	10	10
N Roger Goodman	9	10
Colin S Hale	10	10
Ruby McGregor-Smith	9	10
Bill Robson	10	10
Sir John Jennings	17	17
Manish J Chande	16	17
Cullum McAlpine	10	12

Shareholder Communications
The Group is committed to maintaining an ongoing relationship with institutional and private Shareholders and welcomes such dialogue. Formal presentations are made to institutional investors and analysts twice a year after the release of the interim and final results. Individual requests for meetings are usually satisfied by the Chief Executive and Group Finance Director. Other Directors, including the Non-Executive Chairman, are available to Shareholders on request. The Senior Independent Non-Executive Director is available if Shareholders have concerns that they believe are not being addressed by the Executive Directors or the Chairman.

Principal channels of communication with investors continue to be through news announcements, the publication of the Interim Report and Annual Report and Accounts, and the Group's website (www.mitie.co.uk). Both institutional and private investors are welcomed at the Annual General Meeting.

Directors' Remuneration
The Directors' Remuneration Report on pages 22 to 26 includes details of the remuneration policy and of the remuneration of the Directors.

Internal Control
The Directors are responsible for the Group's systems of internal control, including financial, operational and compliance controls, and risk management systems. The Directors are also responsible for regularly reviewing the effectiveness of these systems. These systems have been designed to meet the Group's particular needs and aim to safeguard Group assets, ensure that proper accounting records are maintained and that the financial information used within the business and for publication is reliable.

Any such systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement and loss.

The Board confirms that there is a continuing process for identifying, evaluating and managing significant risks faced by the Group and that this process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

A review of the operation and effectiveness of this framework has also been undertaken and was performed in accordance with the Turnbull guidance.

Key features of the current system of internal control are discussed below. In addition, Directors continue to take steps to embed internal control and risk management further into the operations of the business and to deal with areas of improvement that come to management's and the Board's attention. The review process adopted by the Board includes the following:

Group Organisation and Culture
By its statements and actions, the Board emphasises a culture of integrity, competence, fairness and responsibility. The Board focuses mainly on strategic issues, senior management and financial performance. The Executive Committee concentrates on the formulation of strategic proposals to the Board and operational decision making. The individual operating companies' Managing Directors manage their businesses with the support of senior management.

Information Systems
There is a comprehensive system of reporting to the Board, based on an annual budget prepared in line with the business plan, half-yearly forecasts and regular reporting of operating results. Key operational performance indicators are continuously monitored by the Executive Directors and senior management.

Individual Company Controls
Each operating Company regularly reviews its risk profile using a common strategic risk framework. Early warning mechanisms, together with the system for reducing the risks, are documented. The operating companies refine each framework in the light of the changing aspects of their businesses. Furthermore, individual companies complete an annual Statement of Internal Controls, which requires the Board of each Company to consider formally its own systems of internal control with specific reference to areas of judgement, compliance with regulatory and Group requirements, and risks to its operations.

Risk Management
The internal risk management department within the Group undertakes an annual review programme to address internal control and risk management processes with particular reference to the Turnbull Report. The department's recommendations and conclusions are forwarded to the relevant level of management, Executive Committee and Audit Committee.

Compliance with the Combined Code
The Board confirms that throughout the year ended 31 March 2004, the Group has complied with the provisions set out in Section 1 of the Hampel Code.

The Directors have also considered the implications of the new Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003, which will apply to the Company for the 2004/05 financial year. The Directors consider that the Company is already substantially compliant with the new Combined Code.

INDEPENDENT AUDITORS' REPORT

to the members of MITIE Group PLC

We have audited the financial statements of MITIE Group PLC for the year ended 31 March 2004 which comprise the Group Profit and Loss Account, the Balance Sheets, the Group Cash Flow Statement, the Note of Historical Cost Profits and Losses, the Reconciliation of Movements in Shareholders' Funds and the related Notes 1 to 28 together with the Statement of Accounting Policies. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

This Report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 Auditors' 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.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Remuneration Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our Report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and that part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report described as having been audited are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit of the Group for the year then ended; and
- The financial statements and that part of the Directors' Remuneration Report described as audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Bristol

4 June 2004

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2004

	NOTE	2004 £'000	2003 £'000
Turnover			
Existing operations		**653,888**	562,288
Acquisitions		**40,625**	-
Total continuing operations		**694,513**	562,288
Discontinued operations		**-**	3,552
		694,513	565,840
Cost of sales	1	**(543,880)**	(439,932)
Gross profit	1	**150,633**	125,908
Administrative expenses		**(114,149)**	(95,584)
Administrative expenses	1		
- before amortisation and impairment of goodwill		**(111,986)**	(93,260)
Operating profit before goodwill amortisation and impairment		**38,647**	32,648
- amortisation and impairment of goodwill		**(2,163)**	(2,324)
Operating profit	2		
Existing operations		**34,992**	30,046
Acquisitions		**1,492**	-
Continuing operations		**36,484**	30,046
Discontinued operations		**-**	278
		36,484	30,324
Interest	4	**1,696**	1,465
Profit on ordinary activities before tax		**38,180**	31,789
Tax on profit on ordinary activities	5	**(12,293)**	(10,188)
Profit on ordinary activities after tax		**25,887**	21,601
Minority interests		**(2,533)**	(2,125)
Profit for the financial year		**23,354**	19,476
Dividends – equity	6	**(7,884)**	(5,736)
Retained profit for the financial year	18	**15,470**	13,740
Earnings per Ordinary Share - basic	7	**7.6p**	6.5p
- diluted		**7.6p**	6.5p
- basic before goodwill amortisation and impairment		**8.3p**	7.3p

There are no recognised gains and losses for the current financial year or preceding financial year other than as stated in the Group Profit and Loss Account.

Profit on ordinary activities before tax and goodwill amortisation and impairment		**40,343**	34,113

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 March 2004

	2004 £'000	2003 £'000
Profit for the financial year	**23,354**	19,476
Dividends	**(7,884)**	(5,736)
	15,470	13,740
Goodwill previously written off included in retained profit for the year	**-**	321
Shares issued		
- in respect of minority interests acquired	**8,128**	14,032
- to QUEST (see Note 18)	**-**	910
less amounts funded within Group	**-**	(553)
- other	**735**	1,959
Net addition to Shareholders' funds	**24,333**	30,409
Shareholders' funds at the beginning of the year	**104,900**	74,491
Shareholders' funds at the end of the year	**129,233**	104,900

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 March 2004

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	**38,180**	31,789
Difference between the historical cost depreciation charge on revalued assets and the actual depreciation charge for the year calculated on the revalued amount	**76**	5
Realisation of property revaluation losses of previous years	**(8)**	-
Historical cost profits on ordinary activities before tax	**38,248**	31,794
Historical cost profits for the year retained after tax, minority interests and dividends	**15,538**	13,745

GROUP BALANCE SHEET
as at 31 March 2004

	NOTE	2004 £'000	2003 £'000
Fixed Assets			
Intangible assets	8	**51,937**	24,291
Tangible assets	9	**40,329**	37,277
		92,266	61,568
Current Assets			
Work in progress and stocks	10	**7,055**	5,686
Debtors	11	**151,868**	111,902
Investments	12	**2,391**	3,880
Cash at bank and in hand		**47,165**	54,960
		208,479	176,428
Creditors – due within one year	13	**(157,370)**	(122,381)
Net Current Assets		**51,109**	54,047
Total Assets less Current Liabilities		**143,375**	115,615
Creditors – due after one year	14	**(136)**	(29)
Provision for liabilities and charges	16	**(7,390)**	(3,022)
Net Assets		**135,849**	112,564
Capital and Reserves			
Called up share capital	17	**7,736**	7,556
Share premium account	18	**50,731**	42,048
Revaluation reserve	18	**(440)**	(508)
Other reserve	18	**994**	994
Profit and loss account	18	**70,212**	54,810
Equity Shareholders' funds		**129,233**	104,900
Equity minority interest		**6,616**	7,664
		135,849	112,564

The financial statements were approved by the Board of Directors on 4 June 2004.

Signed on behalf of the Board of Directors.

Ian R Stewart
Chief Executive

Ruby McGregor-Smith
Group Finance Director

COMPANY BALANCE SHEET

as at 31 March 2004

	NOTE	2004 £'000	2003 £'000
Fixed Assets			
Tangible assets	9	**910**	708
Investments in subsidiary undertakings	25	***110,019***	*66,087*
		110,929	66,795
Current Assets			
Debtors	11	**39,864**	29,804
Cash at bank and in hand		**939**	16,734
		40,803	46,538
Creditors – due within one year	13	**(30,051)**	(17,645)
Net Current Assets		**10,752**	28,893
Net Assets		**121,681**	95,688
Capital and Reserves			
Called up share capital	17	**7,736**	7,556
Share premium account	18	**50,731**	42,048
Profit and loss account	18	**63,214**	46,084
Equity Shareholders' Funds		**121,681**	95,688

The financial statements were approved by the Board of Directors on 4 June 2004.

Signed on behalf of the Board of Directors.

Ian R Stewart
Chief Executive

Ruby McGregor-Smith
Group Finance Director

GROUP CASH FLOW STATEMENT

for the year ended 31 March 2004

	NOTE	2004 £'000	2003 £'000
Net cash flow from operating activities	19	**43,854**	48,474
Returns on investments and servicing of finance			
Interest received		**1,693**	1,537
Interest paid		**(39)**	(41)
Interest element of finance lease rentals		**(26)**	(1)
		1,628	1,495
Tax			
UK corporation tax paid		**(12,352)**	(10,669)
ACT recovered		**-**	14
		(12,352)	(10,655)
Capital expenditure			
Payments to acquire tangible fixed assets		**(17,267)**	(16,016)
Receipts from sales of tangible fixed assets		**4,603**	8,009
		(12,664)	(8,007)
Acquisitions and disposals	20		
Payments to acquire subsidiary undertakings		**(22,526)**	(4,977)
Net (overdraft)/ cash acquired with subsidiary undertakings		**(1,163)**	211
Sale of subsidiary undertakings		**-**	4,984
Net cash disposed with subsidiary undertakings		**-**	6,396
		(23,689)	6,614
Equity dividends paid		**(6,825)**	(7,035)
Cash (outflow) / inflow before management of liquid resources and financing		**(10,048)**	30,886
Management of liquid resources			
Net decrease / (increase) in investments		**1,489**	(3,880)
Financing			
Issue of Ordinary Share capital		**967**	2,862
Net capital element of finance lease rental payments		**(203)**	(14)
		764	2,848
(Decrease) / Increase in cash in the year	22	**(7,795)**	29,854

ACCOUNTING POLICIES

31 March 2004

Accounting Convention
The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain freehold and long leasehold properties. The financial statements have been prepared in accordance with applicable United Kingdom accounting standards.

Basis of Consolidation
The consolidated Profit and Loss Account and Balance Sheet include the financial statements of MITIE Group PLC and all its subsidiary undertakings. The results of the subsidiary undertakings acquired or sold are included from or up to the effective date of acquisition or sale.

Accounting Developments
The Group has adopted FRS 5 Application Note G during the year as this is the first year for which it is applicable. It is considered appropriate under this Application Note that the Group now recognises revenue in respect of its performance under contracts as they progress where, in prior periods, revenue was only recognised on certain contracts for contract work completed in the year. The Directors do not consider that the effect of implementing the Application Note is material in either period, with the consequence that the prior year Profit and Loss Account has not been restated. Where appropriate, contract work in progress, amounts recoverable on contracts and trade debtors have been restated in respect of the prior year in order to make them comparable with the classifications being used this year.

Goodwill and Intangible Fixed Assets
Goodwill is calculated as the surplus of fair value of purchase consideration over fair value attributed to the net assets of subsidiary undertakings acquired. Following the introduction of FRS 10, goodwill in respect of acquisitions made after the financial year ended 31 March 1998 has been capitalised and amortised over its estimated useful economic life of up to 20 years. For acquisitions made before 1 April 1998, goodwill was written off directly to reserves.

In the event of a disposal of the businesses concerned, this goodwill will be included in determining the gain or loss on disposal in the Profit and Loss Account.

Tangible Fixed Assets
Tangible fixed assets are stated at cost or valuation, less depreciation and any provision for impairment. Depreciation is provided on tangible fixed assets on a straight-line basis over the expected useful lives. No depreciation is provided on land.

Freehold and long leasehold buildings	50 years
Plant	3-14 years
Vehicles	4 years

Financial Instruments
The Group uses financial instruments to hedge its exposure to foreign currency risk. To the extent that such instruments are matched against an underlying asset or liability, they are accounted for using hedge accounting. Gains or losses and premiums or discounts are matched to the underlying transactions being hedged.

Foreign Currency
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

Investments
Shares in Group companies are stated at cost less provision for impairment in value. Current asset investments are stated at the lower of cost and net realisable value.

Leased Assets
Assets acquired under finance leases are included in tangible fixed assets and depreciated in accordance with the above policy. Outstanding future lease obligations are shown in creditors. The finance element of the rental payments is charged to the Profit and Loss Account over the period of the lease. Operating lease rentals are charged to the Profit and Loss Account in equal instalments over the lease term.

Work in Progress and Stocks
Stocks are valued at the lower of cost and net realisable value.

Costs represent materials, direct labour and overheads. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

All bid costs are expensed as incurred until the stage is reached where it is virtually certain that the contract has been awarded.

Deferred Tax
Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Turnover
Turnover represents the total amount, excluding sales taxes, receivable in respect of goods and services supplied and contract work completed in the year. Intra-Group transactions are excluded. All turnover arose within the United Kingdom.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses.

Pensions
The Group operates three defined benefit pension schemes. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. The Group also operates a fully insured defined contribution pension scheme, the assets of which are held in independently administered funds. In respect of this scheme, the pension cost charge represents contributions payable by the Group in the year.

The Group has continued to account for pensions in accordance with SSAP 24 as illustrated above. In November 2000 the Accounting Standards Board (ASB) issued FRS 17 'Retirement Benefits', replacing SSAP 24 'Accounting for Pension Costs'. In November 2002 an amendment to FRS 17 was published, which allowed an extension to the transitional arrangements of FRS 17. The Group is continuing to follow the transitional arrangements under FRS 17.

Provisions
Provision is made for outstanding insurance claims incurred at the balance sheet date. Provision is made for contingent consideration at the best estimate of the Directors, which will become payable in the future. This has not been discounted.

NOTES TO THE ACCOUNTS
for the year ended 31 March 2004

1 Segmental analysis

ACTIVITY	TURNOVER £'000	PROFIT BEFORE TAX, GOODWILL & INTEGRATION COSTS £'000	INTEGRATION COSTS £'000	PROFIT BEFORE TAX & GOODWILL £'000	PROFIT BEFORE TAX & GOODWILL MARGIN %	PROFIT BEFORE INTEREST, TAX & GOODWILL £'000	PRE-TAX PROFIT £'000	NET ASSETS £'000
2004								
Support Services	**347,831**	**25,504**	**(1,031)**	**24,473**	**7.0**	**23,871**	**23,148**	**41,179**
Building Services	**346,682**	**15,870**	**-**	**15,870**	**4.6**	**14,776**	**15,032**	**45,359**
	694,513	**41,374**	**(1,031)**	**40,343**	**5.8**	**38,647**	**38,180**	**86,538**
Net funds								**49,311**
Total								**135,849**
2003								
Support Services	259,884	18,988	-	18,988	7.3	18,626	18,760	24,912
Building Services	305,956	15,125	-	15,125	4.9	14,022	13,029	28,853
	565,840	34,113	-	34,113	6.0	32,648	31,789	53,765
Net funds								58,799
Total								112,564

Included in the Building Services segment in 2003 are amounts that relate to discontinued activities. These include turnover of £3,552,000 and pre-tax profit of £202,000.

TURNOVER	2004 EXISTING OPERATIONS £'000	2004 ACQUISITIONS £'000	2004 CONTINUING AND TOTAL ACTIVITIES £'000	2003 CONTINUING ACTIVITIES £'000	2003 DISCONTINUED OPERATIONS £'000	2003 TOTAL £'000
Support Services						
Cleaning	**139,443**	**12,253**	**151,696**	145,264	-	145,264
Catering	**10,677**	**-**	**10,677**	4,483	-	4,483
Landscaping	**1,257**	**-**	**1,257**	165	-	165
Pest Control	**-**	**3,268**	**3,268**			
Security	**9,913**	**25,104**	**35,017**	7,139	-	7,139
Managed Services	**82,870**	**-**	**82,870**	52,294	-	52,294
Engineering Maintenance	**63,046**	**-**	**63,046**	50,539	-	50,539
Total	**307,206**	**40,625**	**347,831**	259,884	-	259,884
Building Services						
Engineering Services	**188,810**	**-**	**188,810**	164,454	-	164,454
Property Services	**127,618**	**-**	**127,618**	110,034	-	110,034
Generation	**30,254**	**-**	**30,254**	27,916	3,552	31,468
Total	**346,682**	**-**	**346,682**	302,404	3,552	305,956

1 Segmental analysis (continued)

OPERATING PROFIT	2004 EXISTING OPERATIONS £'000	2004 ACQUISITIONS £'000	2004 CONTINUING AND TOTAL £'000	2003 CONTINUING ACTIVITIES £'000	2003 DISCONTINUED OPERATIONS £'000	2003 TOTAL £'000
Turnover	**653,888**	**40,625**	**694,513**	562,288	3,552	565,840
Cost of sales	**(510,209)**	**(33,671)**	**(543,880)**	(437,563)	(2,369)	(439,932)
Gross profit	**143,679**	**6,954**	**150,633**	124,725	1,183	125,908
Administrative expenses	**(108,687)**	**(5,462)**	**(114,149)**	(94,679)	(905)	(95,584)
Operating profit	**34,992**	**1,492**	**36,484**	30,046	278	30,324

Discontinued operations relate to the companies sold during 2003.

2 Operating profit

		2004 £'000	2003 £'000
This is stated after charging/(crediting):			
Depreciation and other amounts written off tangible fixed assets:			
- owned assets		**11,802**	10,499
- leased assets		**133**	346
Goodwill amortisation		**2,163**	1,219
Goodwill impairment		**-**	1,105
Auditors' remuneration	- Group	**194**	145
	- Company	**25**	25
	- Other services	**90**	155
Operating lease rentals	- plant and vehicles	**1,082**	983
	- other	**2,024**	2,075
Profit on disposal of fixed assets		**(884)**	(525)

A more detailed analysis of amounts paid to the Auditors is provided below:

		2004 £'000	2004 %	2003 £'000	2003 %
Auditors' remuneration	- services as auditors	**219**	**65**	170	52
	- further assurance services (i)	**28**	**8**	-	-
	- tax advisory services	**86**	**26**	133	41
	- other non-audit services	**4**	**1**	22	7
		337	**100**	325	100

(i) Fees of £28,000 (2003: £nil) in relation to acquisitions made in the financial year have been included within the cost of investment, and not charged against operating profit.

3 Directors and employees

		2004 £'000	2003 £'000
(i)	Employment costs		
	Wages and salaries	**282,521**	222,199
	Social security costs	**21,772**	17,842
	Other pension costs	**4,514**	3,251
		308,807	243,292

		2004 No.	2003 No.
(ii)	The average number of persons employed during the financial year was:		
	Site	**26,667**	21,158
	Administration	**2,360**	1,927
		29,027	23,085

(iii) Details of Directors' remuneration and interests are provided on pages 22 to 26 and should be regarded as an integral part of this Note.

4 Interest

		2004 £'000	2003 £'000
(i)	Interest payable and similar charges		
	Finance leases	**(26)**	(4)
	Other	**(39)**	(50)
(ii)	Interest receivable and similar income		
	Bank interest	**1,761**	1,519
		1,696	1,465

5 Tax on profit on ordinary activities

	2004 £'000	2003 £'000
a) Analysis of charge in the year		
UK corporation tax at 30% (2003: 30%)	**13,326**	10,459
Adjustment in respect of prior years	**(295)**	22
Total current tax charge for the year (Note 5b)	**13,031**	10,481
Deferred taxation:		
Timing differences – origination and reversal	**(690)**	(240)
Adjustments in respect of prior years – deferred tax	**(48)**	(53)
Tax on profit on ordinary activities	**12,293**	10,188

5 Tax on profit on ordinary activities (continued)

b) Factors affecting tax charge in the year

The tax assessed for the year is greater (2003: greater) than that resulting from applying the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are set out below.

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	**38,180**	31,789
Tax at 30% thereon	**11,454**	9,537
Expenses not deductible for tax purposes	**432**	303
Capital allowances in excess of depreciation	**(34)**	383
Utilisation of tax losses	**(34)**	-
Group relief not paid for	**(16)**	-
Movement in short-term timing differences	**650**	14
Profit on disposal of tangible fixed assets	**-**	(158)
Goodwill	**650**	697
Prior periods	**(295)**	22
Other	**224**	(317)
Total current tax charge for the year (Note 5a)	**13,031**	10,481

c) Factors affecting future tax charges

The Group is not aware of any factors that may materially affect the future tax charge.

6 Dividends

	2004 £'000	2003 £'000
Interim dividend 1.1p per 2½p share (2003: 0.8p per 2½p share)	**3,327**	2,417
Proposed final dividend 1.4p per 2½p share (2003: 1.1p per 2½p share)	**4,429**	3,223
Minorities	**128**	96
	7,884	5,736
Total dividend per 2½p share for the year	**2.5p**	1.9p

Subject to approval at the Annual General Meeting, the final dividend will be paid on 30 September 2004 to members on the Register on 3 September 2004.

7 Earnings per ordinary share

The calculation of earnings per 2½p share for 2004 and 2003 is based on the profit after tax and minority interest.

The weighted average number of shares for this purpose is 305,665,870 (2003: 297,979,470). The diluted earnings per share have been calculated on the basic earnings and the weighted average number of shares plus 1,040,263 (2003: additional shares 211,000) shares representing the fair value of the weighted average number of shares under option during the year.

Headline earnings per share continue to have widespread acceptance and have been calculated in accordance with the definition in the UK Society of Investment Professionals statement of investment practice No.1, "The Definition of Headline Earnings", as follows:

	2004 £'000	2003 £'000
Basic earnings per Ordinary Share	**7.6p**	6.5p
Amortisation of goodwill	**0.7p**	0.4p
Impairment of goodwill	-	0.4p
Headline earnings per Ordinary Share	**8.3p**	7.3p

8 Fixed assets – Intangible

GROUP	GOODWILL £'000
Cost	
At beginning of year	26,379
Additions	29,809
At end of year	56,188
Amortisation	
At beginning of year	2,088
Amortised in year	2,163
	4,251
Net book value	
At end of year	**51,937**
At beginning of year	24,291

9 Fixed assets - Tangible

GROUP	FREEHOLD PROPERTIES £'000	LONG LEASEHOD PROPERTIES £'000	PLANT AND VEHICLES £'000	TOTAL £'000
Cost or valuation				
At beginning of year	6,171	2,558	60,835	69,564
Additions at cost	29	678	16,560	17,267
Subsidiaries acquired (see Note 20)	-	-	1,439	1,439
Disposals	(408)	(70)	(13,806)	(14,284)
At end of year	5,792	3,166	65,028	73,986
Cost	2,738	2,746	65,028	70,512
Valuation 1995	*3,054*	*420*	-	*3,474*
Depreciation				
At beginning of year	567	213	31,507	32,287
Charge for year	83	80	11,772	11,935
Disposals	(40)	(8)	(10,517)	(10,565)
At end of year	610	285	32,762	33,657
Net book value				
At end of year	5,182	2,881	32,266	40,329
At beginning of year	5,604	2,345	29,328	37,277
Historic cost net book value				
2004	5,629	2,934	32,266	40,829
2003	6,132	2,325	29,328	37,785

No depreciation was charged against freehold or long leasehold buildings up to 1995. For the year ended 31 March 2004, the Profit and Loss Account has been charged with £163,000 (2003: £166,000) depreciation.

The historic cost of revalued properties was £4,590,811 (2003: £5,078,000). The net book value of plant and vehicles held under finance leases included above was £564,000 (2003: £nil).

Previous valuations were frozen, as allowed under the transitional provisions of FRS 15. The carrying value relating to the previous valuation performed as at 31 March 1995 has been carried forward in this year's Financial Statements.

9 Fixed assets – Tangible (continued)

COMPANY	PLANT AND VEHICLES £'000
Cost	
At beginning of year	2,145
Additions	595
Disposals	(122)
Transfers to other Group companies	(6)
At end of year	2,612
Depreciation	
At beginning of year	1,437
Charge for the year	348
Disposals	(82)
Transfers to other Group companies	(1)
At end of year	1,702
Net book value	
At end of year	910
At beginning of year	708

10 Work in progress and stocks

	GROUP 2004 £'000	2003 £'000	COMPANY 2004 £'000	2003 £'000
Work in progress	**5,965**	4,618	-	-
Payments received on account	**(2,811)**	(2,052)	-	-
Goods for resale	**3,901**	3,120	-	-
	7,055	5,686	-	-

Following the implementation of FRS 5 Application Note G, £19,586,000 of work in progress has been restated in the prior year split between amounts recoverable on contracts and trade debtors in order to make them comparable with the classifications being used this year. There has been no change to the overall total for current assets as a result of this.

11 Debtors

	GROUP 2004 £'000	2003 £'000	COMPANY 2004 £'000	2003 £'000
Trade debtors	**136,899**	97,652	**63**	7
Amounts recoverable under contracts	**7,182**	8,476	-	-
Owed by subsidiary undertakings	-	-	**38,884**	28,215
Other debtors	**3,119**	2,650	**198**	1,173
Prepayments and accrued income	**4,668**	3,124	**315**	409
Corporation tax	-	-	**404**	-
	151,868	111,902	**39,864**	29,804

Included in Group and Company other debtors is the sum of £nil (2003: £209,000) falling due after one year.

Following the implementation of FRS 5 Application Note G, £19,586,000 of work in progress has been restated in the prior year split between amounts recoverable on contracts and trade debtors in order to make them comparable with the classifications being used this year. There has been no change to the overall total for current assets as a result of this.

12 Investments

	GROUP 2004 £'000	2003 £'000	COMPANY 2004 £'000	2003 £'000
Unlisted investments	**2,391**	3,880	**-**	-

Included in unlisted investments are deposits totalling £2,391,000 (2003: £3,880,000) held by the Group's insurance subsidiary, which are not readily available for the general purposes of the Group.

13 Creditors - due within one year

	GROUP 2004 £'000	2003 £'000	COMPANY 2004 £'000	2003 £'000
Obligations under finance leases	**109**	12	**-**	-
Payments received on account	**205**	1,706	**-**	-
Trade creditors	**87,411**	78,163	**72**	895
Owed to subsidiary undertakings	**-**	-	**18,925**	9,810
Corporation tax	**6,490**	5,807	**-**	-
Other taxes and social security	**25,815**	18,188	**793**	479
Other creditors	**6,382**	4,762	**3,357**	-
Accruals and deferred income	**26,469**	10,270	**2,415**	3,137
Proposed dividends	**4,489**	3,473	**4,489**	3,324
	157,370	122,381	**30,051**	17,645

14 Creditors - due after one year

	GROUP 2004 £'000	2003 £'000	COMPANY 2004 £'000	2003 £'000
Obligations under finance leases	**136**	29	**-**	-

Finance leases are repayable between one and five years and are secured by related leased assets.

15 Financial assets and liabilities

	2004 £'000	2003 £'000
Maturity of borrowings		
The maturity profile of the Group's financial liabilities was as follows:		
In one year or less, or on demand	**109**	12
In more than one year, but not more than two years	**71**	29
In more than two years, but not more than five years	**65**	-
	245	41

Short-term debtors, current asset investments and creditors have been excluded from the analysis.

Cash at bank is held at normal commercial rates.

Borrowings
At the year-end, undrawn committed bank borrowing and overdraft facilities amounted to £60,000,000 (2003: £60,000,000), which are all renewable within one year.

15 Financial assets and liabilities (continued)

Interest rates
At 31 March 2004, the Group had financial liabilities of £310,000 (2003: £41,000). These liabilities are under a fixed rate of interest at normal commercial rates.

Hedging
The Group's policy is to use derivative instruments to hedge against any material exposure to movements in exchange rates, however, no such arrangements have been entered into during the course of the year. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

There are no unrecognised gains or losses at 31 March 2004 (2003: £nil).

Currency exposure
As at 31 March 2004, the Group had no currency exposure.

Fair values
The Directors consider that the fair value of financial assets and liabilities is not materially different from their book value.

Further information on financial instruments is given in the Finance Director's Review.

16 Provision for liabilities and charges

	CONTINGENT CONSIDERATION £'000	DEFERRED TAX £'000	INSURANCE RESERVE £'000	TOTAL £'000
Provisions				
At beginning of year	-	828	2,194	**3,022**
Utilised during the year	-	-	(529)	**(529)**
Arising during the year	3,200	(738)	2,435	**4,897**
At end of year	3,200	90	4,100	**7,390**

Deferred tax in respect of the Group's defined benefit schemes is disclosed in Note 26. The balance relates to the excess of net capital allowances over depreciation.

The provision for insurance claims represents amounts payable by MITIE Reinsurance Company Ltd in respect of outstanding claims incurred at the balance sheet dates.

Provision is made for contingent consideration, which will become payable in the future, at the best estimate of the Directors. This has not been discounted.

17 Called up share capital

	ORDINARY SHARES OF $2^1/_2$p No.	ORDINARY SHARES OF $2^1/_2$p £'000
Authorised	**340,000,000**	**8,500**
2004		
Allotted and fully paid		
At beginning of year	**302,186,614**	**7,556**
Issued as Directors' remuneration	**87,959**	**2**
Issued for acquisitions	**6,608,203**	**165**
Issued under share option schemes	**510,763**	**13**
At end of year	**309,393,539**	**7,736**
2003		
Allotted and fully paid		
At beginning of year	288,783,767	7,220
Issued as Directors' remuneration	70,808	2
Issued for acquisitions	10,586,208	265
Issued under share option schemes	2,745,831	69
At end of year	302,186,614	7,556

During the year 87,959 (2003: 70,808) Ordinary Shares of $2^1/_2$p were allotted to directors as remuneration at a market price of £1.23 (2003: £0.85) giving rise to share premium of £106,000 (2003: £58,000).

During the year 6,608,203 (2003: 10,586,208) Ordinary Shares of $2^1/_2$p were allotted in respect of acquiring minority interest at a market price of £1.23 (2003: £1.33) giving rise to share premium of £7,962,000 (2003: £13,767,000).

During the year 510,763 (2003: 2,745,831) Ordinary Shares of $2^1/_2$p were allotted in respect of share option schemes at a market price between £1.02 and £1.35 (2003: £0.81 and £1.48) giving rise to share premium of £615,000 (2003: £2,739,000).

Options outstanding under the Savings Related Share Option Schemes at 31 March 2004 were as follows:

OPTION PRICE	DATE EXCERCISABLE	ORDINARY SHARES OF $2^1/_2$p EACH 2004	2003
$37^1/_2$p	2002	-	10,488
85 p	2004	**907,592**	1,038,124
150 p	2005	**881,924**	1,049,922
125 p	2006	**802,926**	944,244
110 p	2007	**1,703,619**	2,109,354
120 p	2008	**1,792,604**	-
		6,088,665	5,152,132

17 Called up share capital (continued)

Options outstanding under the Executive Share Option Schemes at 31 March 2004 were as follows:

OPTION PRICE	DATE EXCERCISABLE	ORDINARY SHARES OF $2\frac{1}{2}$p EACH 2004	2003
$57\frac{3}{4}$p	2001 – 2008	**692,669**	1,036,400
95 p	2002 – 2009	**711,000**	931,000
$173\frac{3}{4}$ p	2003 – 2010	**587,600**	698,000
145 p	2004 - 2011	**744,600**	809,600
117 p	2005 – 2012	**1,027,600**	1,121,050
99 p	2006 – 2013	**200,000**	200,000
132 p	2006 – 2013	**1,520,850**	-
		5,484,319	4,796,050

18 Share capital and reserves

	CALLED UP SHARE CAPITAL £'000	SHARE PREMIUM ACCOUNT £'000	REVALUATION RESERVE £'000	OTHER RESERVE (i) £'000	PROFIT AND LOSS ACCOUNT £'000	TOTAL £'000
Group						
At beginning of year	7,556	42,048	(508)	994	54,810	104,900
Shares issued	180	-	-	-	-	180
Net premium arising on shares issued	-	8,068	-	-	-	8,068
Retained profit for the financial year	-	-	-	-	15,470	15,470
Additional depreciation on revalued assets	-	-	76	-	(76)	-
Realisation of property revaluation losses	-	-	(8)	-	8	-
Issue of shares in connection with the exercise of share options	-	615	-	-	-	615
Balance at end of year	**7,736**	**50,731**	**(440)**	**994**	**70,212**	**129,233**
Company						
At beginning of year	7,556	42,048	-	-	46,084	95,688
Shares issued	180	-	-	-	-	180
Net premium arising on shares issued	-	8,082	-	-	-	8,082
Retained profit for the year	-	-	-	-	17,130	17,130
Issue of shares in connection with the exercise of share options	-	601	-	-	-	601
Balance at end of year	**7,736**	**50,731**	**-**	**-**	**63,214**	**121,681**

(i) Non-distributable

In accordance with the exemption allowed by Section 230(4) of the Companies Act 1985, the Company has not presented its own Profit and Loss Account. The profit attributable to Shareholders in the Accounts of the Company was £17,130,000 (2003: £15,962,000).

Goodwill eliminated against reserves originating prior to the adoption of FRS 10 on 1 April 1998 amounted to £26,673,000 (2003: £26,673,000).

During the year, nil (2003: 949,831) Ordinary Shares of $2\frac{1}{2}$p each were issued to the MITIE Group PLC Qualifying Employee Share Ownership Trust (QUEST). The difference between the market value and the option price receivable has been eliminated against the Profit and Loss Account.

Included in both the Company and the Group share premium accounts are amounts relating to premiums arising on shares issued subject to the provisions of Section 131 of the Companies Act 1985.

19 Net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	**36,484**	30,324
Depreciation	**11,935**	10,845
Amortisation and impairment of goodwill	**2,163**	2,324
Profit on sale of tangible fixed assets	**(884)**	(525)
Increase in work in progress and stocks	**(1,369)**	(1,566)
(Increase) in debtors	**(39,754)**	(5,193)
Increase in creditors	**35,279**	12,265
	43,854	48,474

20 Purchase of subsidiary undertakings

Trident Safeguards Limited

	BOOK AND FAIR VALUE £'000
Fixed assets	**109**
Work in progress and stocks	**-**
Debtors	**3,965**
Bank and cash	**(275)**
Creditors	**(2,717)**
Tax	**(320)**
	762
Goodwill	**10,663**
Total purchase consideration	**11,425**
Contingent consideration	**(2,000)**
Cash consideration	**9,425**
Bank and cash acquired	**(275)**
Cash outflow in the period	**9,150**

Trident Safeguards Limited, which was acquired on 2 July 2003, earned a profit after taxation of £569,000 in the period from 2 July 2003 to 31 March 2004 (Year ended 31 March 2003: £554,000). Profit after taxation in the period from 1 April 2003 to acquisition was £190,000.

20 Purchase of subsidiary undertakings (continued)

Eagle Pest Control Services UK Limited

	BOOK AND FAIR VALUE £'000
Fixed assets	472
Work in progress and stocks	77
Debtors	1,024
Bank and cash	197
Creditors	(630)
Tax	(107)
	1,033
Goodwill	3,039
Total purchase consideration	4,072
Contingent consideration	(1,200)
Cash consideration	2,872
Bank and cash acquired	(197)
Cash outflow in the period	2,675

Eagle Pest Control Services UK Ltd, which was acquired on 3 July 2003, earned a profit after taxation of £235,000 in the period from 3 July 2003 to 31 March 2004 (Year ended 31 March 2003: £333,000). Profit after taxation in the period from 1 April 2003 to acquisition was £41,000.

Executive Holdings Limited

	BOOK VALUE £'000	ALIGNMENT OF ACCOUNTING POLICIES £'000	FAIR VALUE £'000
Fixed assets	1,076	(218)	858
Work in progress and stocks	12	(7)	5
Debtors	6,641	(137)	6,504
Bank and cash	(1,635)	-	(1,635)
Creditors	(7,209)	(9)	(7,218)
Tax	(46)	44	(2)
	(1,161)	(327)	(1,488)
Goodwill			11,505
Total purchase consideration			10,017
Cash consideration			10,017
Overdraft acquired			1,635
Cash outflow in the period			11,652

Executive Holdings Ltd, which was acquired on 4 November 2003, earned a profit after taxation of £102,000 in the period from 4 November 2003 to 31 March 2004 (52 weeks to 5 October 2003: loss £122,000). Loss after taxation in the period from 6 October 2003 to acquisition was £308,000.

The fair values shown for the acquisitions above are provisional.

20 Purchase of subsidiary undertakings (continued)

Acquisition of Minority Interests

	MITIE ENGINEERING SERVICES (PENINSULA) LTD £'000	MITIE GREENCOTE LTD £'000	MITIE PROPERTY SERVICES (MIDLANDS) LTD £'000	MITIE ENGINEERING MAINTENANCE LTD £'000	TOTAL £'000
Minority interest	683	235	985	1,834	**3,737**
Goodwill	335	94	868	3,305	**4,602**
Total purchase consideration	1,018	329	1,853	5,139	**8,339**
Shares issued – MITIE Group PLC	(971)	(289)	(1,774)	(5,093)	**(8,127)**
Cash consideration being cash outflow in the period	47	40	79	46	**212**

21 Analysis of changes in net funds

	AT 31 MARCH 2003 £'000	CASHFLOWS £'000	ACQUISITIONS £'000	AT 31 MARCH 2004 £'000
Cash at bank and in hand	54,960	(6,632)	(1,163)	**47,165**
Net cash	54,960	(6,632)	(1,163)	**47,165**
Finance leases	(41)	(30)	(174)	**(245)**
Debt financing	(41)	(30)	(174)	**(245)**
Current asset investments	3,880	(1,489)	-	**2,391**
Net funds	58,799	(8,151)	(1,337)	**49,311**

22 Reconciliation of net cash flow to movement in net funds

	2004 £'000	2003 £'000
(Decrease)/increase in cash during year	**(7,795)**	29,854
Cash (outflow)/inflow from movement in debt and lease financing	**(204)**	765
Cash (outflow)/inflow from movement in liquid resources	**(1,489)**	3,880
Movement in net funds in the year	**(9,488)**	34,499
Net funds at beginning of year	**58,799**	24,300
Net funds at end of year	**49,311**	58,799

23 Contingencies

The Company is party with other Group companies to cross guarantees of each other's bank overdrafts.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims that are in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings and claims, either individually or in aggregate, will have a material adverse effect on the Group's financial position.

Included in provisions for liabilities and charges (Note 16) is £3,200,000 of contingent consideration relating to the acquisitions of Trident Safeguards Ltd and Eagle Pest Control Services UK Ltd. For Trident Safeguards Ltd £2,000,000 is payable at any time between 2006 and 2010 if an agreed profit threshold is met. If this threshold is exceeded then an additional amount will become payable, with the total consideration capped at £20,000,000. For Eagle Pest Control Services UK Ltd £1,200,000 is payable at any time between 2008 and 2013 if an agreed profit threshold is met. If this profit threshold is exceeded then an additional amount will become payable, with the total consideration capped at £6,000,000.

Contingent consideration, to be satisfied in shares, for the acquisition of minority interests in subsidiary undertakings is dependent on future profits of those subsidiaries and at the discretion of MITIE Group PLC. It is therefore not possible to quantify accurately, in advance, the final amounts that may become payable.

In connection with the sale of The Platform Company (UK) Ltd (formerly MITIE Powered Access Ltd), the Group has guaranteed lease commitments amounting to £1,049,000. These commitments reduce to £nil at the end of the next year. Against these guarantees, the Group has received indemnities from the Group's bankers of £179,000 and from the suppliers of the leased equipment of £232,000, giving a net contingent liability of £638,000.

In addition, the Group and subsidiaries have given indemnities in respect of performance guarantees amounting to £6,893,000 (2003: £6,896,000), and import duty guarantees amounting to £50,000 (2003: £50,000) issued on its behalf in the ordinary course of business.

24 Commitments

	2004 £'000	2003 £'000
Capital commitments as follows:		
Contracted for but not provided for in the Accounts	-	161

	2004 PROPERTY £'000	2004 OTHER £'000	2003 PROPERTY £'000	2003 OTHER £'000
Annual commitments under operating leases that expire:				
Within one year	**263**	**241**	345	144
In second to fifth years inclusive	**1,427**	**389**	658	251
Over five years	**875**	**-**	1,179	5
	2,565	**630**	2,182	400

25 Investment in subsidiary undertakings

	SHARES AT COST £'000	PROVISION FOR IMPAIRMENT £'000	NET BOOK VALUE £'000
At beginning of year	72,888	(6,801)	66,087
Additions	44,272	-	44,272
Disposals	(340)	-	(340)
At end of year	**116,820**	**(6,801)**	**110,019**

The principal operating subsidiary undertakings are detailed in Note 28.

26 Pensions

In November 2000, the Accounting Standards Board (ASB) issued FRS 17 'Retirement Benefits', replacing SSAP 24 'Accounting for Pension Costs'. In November 2002, an amendment to FRS 17 was published which allowed an extension to the transitional arrangements of FRS 17. The Group will take advice to ensure that it continues to adopt the best practice in respect of accounting for retirement benefits. The Group is following the transitional arrangements under FRS 17 and the required disclosures to the extent not given in (a) are set out in (b).

(a) SSAP 24

The Group operates two defined benefit pension schemes called the MITIE Group PLC Pension Scheme and the MITIE Group PLC Passport Pension Scheme. In addition, following the acquisition of Executive Holdings Ltd, the Group contributes to the Executive Group Limited Shared Cost Section at the Railway Pension Scheme.

The assets of the two schemes are held separately from the Group, being invested in equities and with insurance companies. Contributions to the schemes are charged to the Profit and Loss Account so as to spread the cost of pensions over the employees working lives with the Group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit credit method.

The assets of the Executive scheme are held in separate trustee-administered funds, and the assets and liabilities of the section can be identified separately from those of other scheme sections.

The pension charge for the year was £4,514,000 (2003: £3,251,000).

MITIE Group PLC Pension Scheme

The most recent valuation was at 6 April 2002. It was assumed that:

Investment return – pre retirement	7.00%
Investment return – post retirement	5.50%
Salary increases	4.50%
Present and future pension increases	3.00%

The next actuarial valuation is due on 6 April 2005. The 2002 actuarial valuation showed that the market value of the assets was £24,401,000 and that the actuarial value of those assets represented 87% of the benefits that had accrued to members after allowing for expected future increases in earnings. The contributions of the Group and employees are 10% (2003: 10%) and 7.5% (2003: 7.5%) of pensionable earnings respectively.

MITIE Group PLC Passport Pension Scheme

The most recent valuation was at 6 April 2002. It was assumed that:

Investment return - pre retirement	7.00%
Investment return - post retirement	5.50%
Salary increases	4.50%
Present and future pension increases	3.00%

The next actuarial valuation is due on 6 April 2005. The 2002 actuarial valuation showed that the market value of the assets was £581,000 and that the actuarial value of those assets represented 67% of the benefits that had accrued to members after allowing for expected future increases in earnings. The contributions of the Group and employees total 32% (2003: 32%), with employees contributing between 1.5% and 6%.

Executive Group Limited Shared Cost Section ("the Section") of the Railway Pension Scheme

The Group operates a section of the Railway Pension Scheme ("the Scheme"), a funded defined benefit pension scheme. However, there are no longer any employees accruing benefits in the Section. The assets of the Scheme are held in separate trustee-administered funds, and the assets and liabilities of the Section can be identified separately from those of other Scheme Sections.

No contributions are currently payable to the Section. In addition, no pension cost for the period has been incurred in respect of the Section, and there is no provision or prepayment held.

26 Pensions (continued)

The Scheme is subject to triennial valuation by independent actuaries. The last valuation was at 31 December 2003 and used the projected unit method, in which the actuarial liability makes allowances for projected earnings. The following were the principal actuarial assumptions applied:

Investment returns	5.65% per annum
Pension increases	2.50% per annum

At the last actuarial valuation date, the value of the assets of the Section was £299,000 and, in the opinion of the actuary, this value was sufficient to cover 144% of the benefits that had accrued to members.

(b) FRS 17 (Retirement Benefits)
As stated above, the Group operates two principal defined benefit pension schemes and contributes to the Executive Group Shared Cost Section of the Railway Pension Scheme. The valuations used for the FRS 17 disclosure have been based on the most recent actuarial valuations at 6 April 2002, updated to 31 March 2004 by a qualified actuary.

As required by SSAP 24, the figures included in the Accounts in respect of the Group pension schemes are based on actuarial valuations carried out at 6 April 2002 and this does not take into account any impact of the movement in general stock market values since that date. Any such impact will be reflected in the next SSAP 24 triennial valuation as at 6 April 2005, based upon which subsequent pension costs will be determined until the adoption of FRS 17. The figures currently used for accounting purposes as regards pension costs are likely to change significantly as and when FRS17 is adopted.

The costs of death-in-service benefit for members of the Scheme are fully insured by the schemes.

The projected unit valuation method has been used. The major financial assumptions used by the actuary were:

	AT 31 MARCH 2004	AY 31 MARCH 2003	AT 31 MARCH 2002
Discount rate	**5.50%**	5.50%	6.25%
Rate of increase in salaries	**3.50%**	3.50%	3.50%
Rate of increase of pensions in payment (pre April 2002)	**3.00%**	3.00%	3.00%
Rate of increase of pensions in payment (post April 2002)	**2.75%**	2.50%	3.00%
Rate of increase of deferred pensions	**2.75%**	2.50%	2.75%
Inflation assumption	**2.75%**	2.50%	2.75%

The assets of the schemes and expected rates of return were:

	LONG-TERM RATE OF EXPECTED RETURN AT 31 MARCH 2004	VALUE AT 31 MARCH 2004 £'000	LONG-TERM RATE OF EXPECTED RETURN AT 31 MARCH 2003	VALUE AT 31 MARCH 2003 £'000	LONG-TERM RATE OF EXPECTED RETURN AT 31 MARCH 2002	VALUE AT 31 MARCH 2002 £'000
Equities	**7.5%**	**32,907**	7.25%	19,284	7.25%	18,947
Bonds	**5.25%**	**556**	5.50%	3,343	5.75%	3,022
Others	**4.00%**	**3,284**	4.00%	3,316	5.00%	2,825
Property	**7.50%**	**2,028**	-	-	-	-
Total market value of assets		**38,775**		25,943		24,794
Present value of schemes' liabilities		**(45,918)**		(37,051)		(25,850)
Deficit in the schemes		**(7,143)**		(11,108)		(1,056)
Related deferred tax asset		**2,143**		3,333		317
Net pension liability		**(5,000)**		(7,775)		(739)

26 Pensions (continued)

Analysis of amount that would have been charged to operating profit under FRS 17

	AT 31 MARCH 2004 £'000	AT 31 MARCH 2003 £'000
Current service cost	**2,952**	2,285
Past service cost	**224**	-
Total operating charge	**3,176**	2,285

Analysis of amount that would have been charged to interest under FRS 17

	AT 31 MARCH 2004 £'000	AT 31 MARCH 2003 £'000
Expected return on pension schemes' assets	**1,924**	1,836
Interest cost	**(2,187)**	(1,723)
Net return	**(263)**	113

The amount recognised in the statement of total recognised gains and losses had FRS 17 been operative would have been as follows:

	% OF SCHEME ASSETS	AT 31 MARCH 2004 £'000	% OF SCHEME ASSETS	AT 31 MARCH 2003 £'000
Actual return less expected return on pension schemes' assets	**9%**	**3,474**	20%	(5,061)
Changes in financial assumptions underlying the schemes' liabilities	**0%**	**(165)**	23%	(6,035)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	**7%**	**3,309**	-	(11,096)

Movements in deficit during the year

	AT 31 MARCH 2004 £'000	AT 31 MARCH 2003 £'000
Deficit in schemes at beginning of year	**(11,108)**	(1,056)
Movement in year		
Current service cost	**(2,952)**	(2,285)
Contributions	**4,095**	3,216
Past service costs	**(224)**	-
Other finance (cost)/income	**(263)**	113
Actuarial gain/(loss)	**3,309**	(11,096)
Deficit in schemes at the end of the year	**(7,143)**	(11,108)

26 Pensions (continued)

The impact to the Balance Sheet and Reserves at 31 March 2004 of adopting FRS 17 would be as follows:

	AT 31 MARCH 2004 £'000	AT 31 MARCH 2003 £'000
Net assets excluding pension liability	**135,849**	112,564
Net pension liability	**(5,000)**	(7,775)
Net assets including pension liability	**130,849**	104,789
Profit and loss reserve excluding pension liability	**70,204**	54,810
Net pension liability	**(5,000)**	(7,775)
Profit and loss reserve including pension liability	**65,204**	47,035

History of experience gains and losses

	AT 31 MARCH 2004	AT 31 MARCH 2003
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	**3,474**	(5,061)
Percentage of scheme assets	**9%**	20%
Experience gains and losses on scheme liabilities:		
Amount (£'000)	**165**	(6,035)
Percentage of the present value of scheme liabilities	**0%**	23%
Total actuarial gain in the statement of total recognised gains and losses:		
Amount (£'000)	**3,309**	(11,096)
Percentage of the present value of scheme liabilities	**7%**	-

27 Related party transactions

During the year, the Group paid £20,000 (2003: £20,000), in respect of purchases in the ordinary course of business, to a private company previously controlled by D M Telling.

During the year, D M Telling paid £4,000 (2003: £98,000) to the Group and subsidiary undertakings in respect of goods and services provided in the ordinary course of business.

During the year, the Group received interest of £15,000 (2003: £15,000) on loan notes with The Platform Holding Company Limited: a company in which C S Acheson held a Directorship. In addition, this company paid rent to the Group of £36,000 (2003: £36,000).

During the year, the Group provided services amounting to £110,000 (2003: £nil) to The Bristol Port Company Ltd; a company in which D C Ord held a Directorship. At the end of the year the amount owed to the Group was £10,000 (2003: £nil).

During the year, the Group provided services amounting to £160,000 (2003: £918,000) to Sir Robert McAlpine Ltd; a company in which C McAlpine held a Directorship. At the end of the year the amount owed to the Group was £15,000 (2003: £152,000).

No material contract or arrangement has been entered into during the year, nor subsisted at the end of the year, in which a Director had a material interest.

The Company has taken advantage of the exemption in FRS 8 not to disclose transactions with companies within the Group.

28 Principal operating subsidiary and associated companies

The companies set out below are those that were part of the Group at 31 March 2004 and, in the opinion of the Directors, significantly affected the Group's results and net assets during the year.

			AT 31 MARCH 2004 % ORDINARY SHARES OWNED
Scotland	B	MITIE Engineering Services (Scotland) Ltd	100
	S	MITIE Engineering Maintenance (Caledonia) Ltd	64
	S	MITIE Olscot Ltd	100
	S	MITIE Security (Scotland) Ltd	73
	B	MITIE Property Services (Scotland) Ltd	100
	B	MITIE Engineering Services (Edinburgh) Ltd	65
North	B	MITIE Air Conditioning (North) Ltd	53
	S	MITIE Cleaning (North) Ltd	100
	B	MITIE Engineering Services (Leeds) Ltd	56
	B	MITIE Engineering Services (North) Ltd	100
	B	MITIE Engineering Maintenance (North) Ltd	51
	B	MITIE Engineering Services (Liverpool) Ltd	63
	B	MITIE Engineering Projects Ltd	62
	B	MITIE Property Services (Northern) Ltd	100
	B	MITIE Greencote Ltd	97
	S	MITIE Security (North) Ltd	52
	S	MITIE Industrial Cleaning (North) Ltd	60
	S	MITIE Landscape (Northern) Ltd	57
	B	MITIE Engineering Services (North East) Ltd	70
Midlands	B	MITIE Air Conditioning (Midlands) Ltd	64
	S	MITIE Cleaning (Midlands) Ltd	100
	B	MITIE Engineering Services (Midlands) Ltd	55
	B	MITIE Property Services (Midlands) Ltd	100
	B	MITIE Roofing Services Ltd	60
	B	MITIE Engineering Services (West Midlands) Ltd	100
South East	B	MITIE Air Conditioning (London) Ltd	65
	S	MITIE Business Services Ltd	51
	S	MITIE Cleaning (South East) Ltd	100
	S	MITIE Cleaning (Southern) Ltd	100
	B	MITIE Engineering Maintenance Ltd	100
	B	MITIE Engineering Services (Eastern) Ltd	100
	B	MITIE Engineering Services (London) Ltd	100
	B	MITIE Engineering Services (South East) Ltd	100
	S	MITIE Landscape (Southern) Ltd	62
	B	MITIE Flooring (Southern) Ltd	57
	B	MITIE Interiors Ltd	62
	B	MITIE Property Services (Eastern) Ltd	67
	B	MITIE Property Services (London) Ltd*	100
	B	MITIE Property Services (Southern) Ltd	100
	B	MITIE Roofing (South East) Ltd	100
	S	Trident Safeguards Ltd	100
	S	MITIE Services (Retail) Ltd	54
	S	Executive Group Ltd*	100
	S	MITIE Managed Services (Southern) Ltd	100

28 Principal operating subsidiary and associated companies (continued)

			AT 31 MARCH 2004 % ORDINARY SHARES OWNED
South West	B	Cole Motors Ltd	100
	B	MITIE Air Conditioning (South West) Ltd	100
	B	MITIE Air Conditioning (Wales) Ltd	54
	S	MITIE Air Conditioning (West) Ltd	51
	S	MITIE Cleaning (South Wales) Ltd	100
	S	MITIE Cleaning (South West) Ltd	100
	S	MITIE Engineering Maintenance (South West) Ltd	53
	B	MITIE Engineering Services (Bristol) Ltd	100
	B	MITIE Engineering Services (Cardiff) Ltd	100
	B	MITIE Engineering Services (Peninsula) Ltd	100
	B	MITIE Engineering Services (South West) Ltd	100
	B	MITIE Engineering Services (Swansea) Ltd	54
	S	MITIE Managed Services (South West and Wales) Ltd	55
	B	MITIE Property Services (Western) Ltd	100
	B	MITIE Roofing (South West) Ltd	100
National	S	MITIE Catering Services Ltd	51
	B	MITIE Cleanrooms Ltd	65
	B	MITIE Engineering Services (Retail) Ltd	54
	B	MITIE Environmental Ltd	53
	B	MITIE Generation Ltd	100
	S	MITIE Managed Services (North and Scotland) Ltd	100
	S	MITIE PFI Ltd	100
	B	MITIE Scotgate Ltd*	53
	B	MITIE Scientific Projects Ltd	52
	B	MITIE Technology Ltd	60
	S	Eagle Pest Control Services (UK) Ltd	100
	B	MITIE McCartney Fire Protection Ltd	75
Administration	S	MITIE Cleaning Ltd	100
	B	MITIE Engineering Services Ltd	100
		MITIE Property Investments Ltd	100
	B	MITIE Property Services Ltd	100
		MITIE Reinsurance Company Ltd	100

* Shareholdings held by intermediate subsidiary undertakings
B Building Services
S Support Services

All companies were incorporated in and operate within the United Kingdom, except for MITIE Reinsurance Company Ltd which was registered and operates in Guernsey.

Certain companies operate on the basis of 13 four-weekly periods and have drawn up their accounts to 3 April 2004. Adjustments have been made on consolidation to exclude the results of these companies for the period from 31 March 2004 to that date.

The Group has a 33% interest in an associate company, Service Management International Ltd. As this is not considered material, separate disclosure of its results, assets or liabilities have not been included in the financial statements.

The companies listed above represent the principal operating subsidiary companies of the Group. A full list of subsidiary companies will be annexed to the next annual return.

FIVE-YEAR SUMMARY

	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Group Profit and Loss Account					
Turnover	**694,513**	565,840	518,852	415,375	346,514
Profit on ordinary activities before goodwill, integration costs and tax	**41,374**	34,113	30,997	25,148	19,758
Net profit margin (before goodwill amortisation and impairment and integration costs)	**6.0%**	6.0%	6.0%	6.0%	5.7%
Integration costs on acquisitions	**(1,031)**	-	-	-	-
Profit before tax and goodwill	**40,343**	34,113	30,997	25,148	19,758
Goodwill amortisation and impairment	**(2,163)**	(2,324)	(640)	(73)	(518)
Profit on ordinary activities before tax	**38,180**	31,789	30,357	25,075	19,240
Taxation	**(12,293)**	(10,188)	(9,027)	(8,420)	(6,080)
Profit on ordinary activities after tax	**25,887**	21,601	21,330	16,655	13,160
Minority interests	**(2,533)**	(2,125)	(2,712)	(2,703)	(2,067)
Dividends	**(7,884)**	(5,736)	(4,623)	(3,497)	(2,751)
Retained profit	**15,470**	13,740	13,995	10,455	8,342
Group Balance Sheet					
Intangible fixed assets	**51,937**	24,291	14,724	8,597	4,283
Tangible fixed assets	**40,329**	37,277	45,082	48,123	39,090
Other assets and liabilities	**43,583**	50,996	23,439	3,583	(1,723)
	135,849	112,564	83,245	60,303	41,650
Equity Shareholders' funds	**129,233**	104,900	74,491	50,166	32,900
Minority interests	**6,616**	7,664	8,754	10,137	8,750
	135,849	112,564	83,245	60,303	41,650
Earnings per share	**7.6p**	6.5p	6.5p	5.0p	4.1p
Pre-goodwill earnings per share	**8.3p**	7.3p	6.8p	5.1p	4.3p
Dividend per share	**2.5p**	1.9p	1.6p	1.25p	1.0p

Earnings and dividend per share figures have been restated to reflect the subdivision of shares in 2001.

NOTICE OF MEETING

Notice is hereby given that the Sixty-Eighth Annual General Meeting of MITIE Group PLC will be held at The Merchants' Hall, The Promenade, Clifton Down, Bristol, BS8 3NH on Thursday, 29 July 2004 at 12 noon for the following purposes:

Ordinary business

To consider and, if thought fit, pass the following Resolutions, which will be proposed as Ordinary Resolutions:

1. That the Accounts for the year ended 31 March 2004 and the Reports of the Directors and Auditors thereon be received.
2. That the Directors' Remuneration Report for the year ended 31 March 2004 contained in the Accounts be approved.
3. That a final dividend for the year ended 31 March 2004 of 1.4p per Ordinary Share of 2½p each be declared.
4. That Neville Roger Goodman be re-elected as a Director.
5. That Colin Stephen Hale be re-elected as a Director.
6. That William Robson be re-elected as a Director.
7. That Deloitte & Touche LLP be re-appointed as Auditors of the Company until the conclusion of the next general meeting before which accounts are laid and that their remuneration be fixed by the Directors.

Special business

To consider and, if thought fit, pass the following Resolutions, which will be proposed as Special Resolutions:

8. That the Directors be generally empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, provided that this power shall be limited:

   (a) to the allotment of equity securities in connection with a rights issue in favour of the holders of Ordinary Shares of 2½p each where the equity securities respectively attributable of the interests of all such Shareholders are proportionate (as nearly as may be) to the respective number of Ordinary Shares held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or in relation to fractional entitlements; and

   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £385,000 (approximately 5% of the issued share capital);

   and this authority shall expire 15 months after the date of the passing of this Resolution or at the conclusion of the next Annual General Meeting of the Company, whichever comes first, save that the Company may before such expiry make an offer or agreement that would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

9. That the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary Shares of 2½p each in the Company, on such terms and in such manner as the Board of Directors of the Company may from time to time determine, provided that:

   (a) the maximum number of Ordinary Shares that may be purchased is 30,800,000 (approximately 10% of the issued share capital);

   (b) the minimum price that may be paid for an Ordinary Share is 2½p, exclusive of expenses; and

   (c) the maximum price that may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle market quotation of an Ordinary Share of the Company as derived from the Daily Official List of the London Stock Exchange on the five business days immediately preceding the day on which the Ordinary Share is purchased, exclusive of expenses;

   and this authority shall expire 15 months after the date of the passing of this Resolution or at the conclusion of the next Annual General Meeting of the Company, whichever comes first, except in relation to purchases of shares the contract for which was concluded before the expiry of this authority and which might be executed wholly or partly after such expiry.

By order of the Board
Corina K Ross
Company Secretary
4 June 2004

Registered Office:
35 Duchess Road
Rutherglen
Glasgow
G73 1AU

Notes:

1. Any member entitled to attend and vote at this meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.

2. To be effective, forms of proxy duly completed must be received by the Company's Registrars, Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3FA not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion of a form of proxy does not preclude a member from attending the meeting and voting in person.

3. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the Register of Members of the Company as at 6.00pm on 27 July 2004 shall be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after 6.00pm on 27 July 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. The following documents will be available for inspection at the Registered Office and Head Office of the Company during normal business hours on any weekday (public holidays excepted) from the date of this Notice until the date of the meeting, and at the place of the meeting from 11.45 am until its conclusion:

   - The Register of Directors' interests in the share capital of the Company kept pursuant to Section 325 of the Companies Act 1985; and
   - Copies of the Directors' service agreements and letters of appointment.

5. The total number of options to subscribe for Ordinary Shares that were outstanding as at 3 June 2004 was 11,381,830, representing approximately 3.7% of the issued share capital of the Company. This would represent 4.1% of the issued share capital if the maximum number of Ordinary Shares were purchased under the authority proposed under Resolution 9.

SHAREHOLDER INFORMATION

Results

2004 Half year	8 December 2003
2004 Full year	7 June 2004
2005 Half year	29 November 2004

Dividends

2004 Interim 1.1p (2003: 0.8p)	Paid 31 March 2004
2004 Final (proposed) 1.4p (2003: 1.1p)	Due to be paid 30 September 2004 (to Shareholders on the Register on 3 September 2004)

Annual General Meeting 29 July 2004

Venue: The Merchants' Hall, The Promenade, Clifton Down, Bristol

Capital History

Mid-market price 2 April 2001 (date of subdivision)	152.5p
Mid-market price 31 March 2004	118p
2004 high/low	138p/100p

Registrars

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Edinburgh EH12 9DJ

Telephone: 0870 702 0010
Website: www.computershare.com

Company Head Office

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Contact: group@mitie.co.uk
Website: www.mitie.co.uk

These financial statements may be downloaded in pdf format from the Company's website, which also contains additional general information on the Company.