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**profitability
fresh thinking
sustainability
people passion
exciting futures
stakeholders
growth**

**MITIE Group PLC
Annual Report and Accounts 2008**

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Cautionary statement

The Annual Report and Accounts contain forward looking statements. Such statements do not relate strictly to historical or current facts and can be identified by the use of words such as 'anticipate', 'expect', 'intend', 'will', 'project', 'plan' and 'believe' and other words of similar meaning in connection with any discussion of future events. These statements are made by the Directors of MITIE Group PLC in good faith based on the information available to them as at the date of approval of this report and will not be updated during the year. These statements by their nature involve risk and uncertainty because they relate to and depend upon events that may or may not occur in the future. Actual events may differ materially from those expressed or implied in this report and accordingly all such statements should be treated with caution. Nothing in this report should be construed as a profit forecast.

Overview Highlights

We have achieved another year of strong, profitable growth. Revenue is up 14.5% to £1,407.2m and operating profit before amortisation is up 20.5% to £72.2m. These results have driven earnings per share before other items* up 21.1% to 14.9p per share and our full year dividend up 17.6% to 6.0p per share.

Our order book has grown to £4.4bn (2007: £4.1bn) and we have secured 78% of our budgeted revenue for the year ending 31 March 2009 (2007: 75%).

Our balance sheet remains strong and we have capacity for growth, we have low levels of gearing with net debt at £15.6m (2007: £8.1m) and our pension funds are in net surplus. We remain focused on the achievement of sustainable, profitable growth.

Revenue (£m)

£1,407.2m

+14.5%

Operating profit before
amortisation (£m)

£72.2m

+20.5%

Earnings per share before
other items* (£m)

14.9p

+21.1%

Dividend per share (p)

6.0p

+17.6%

* Other items are non-cash acquisition related items being amortisation of intangible assets and unwinding of discount on deferred contingent consideration

MITIE at a glance

We are one of the UK's leading support services companies delivering a range of integrated services to support the buildings and infrastructure of our clients. We are a people business, made up of over 49,000 talented and driven people, all working to support our three divisions: facilities, property and engineering services.

We are a UK based, FTSE 250 Company that has a track record of growing revenue, profit and earnings per share.

We have a clear strategy and vision, supported by a set of core values.

Strategy

To deliver stakeholder value through a focus on sustainable, profitable growth

Vision

To be a Company of world-class people delivering world-class services

Values

- **People** – MITIE is a people business. It's our 49,505 people, and their drive to always do their jobs to the very best of their ability that make us different.
- **Passion** – People + passion. That's what MITIE's all about. Take our people, add their passion and you get something really special.
- **Fresh thinking** – Our people are always having ideas. Every day, the teams at MITIE come up with original thoughts, from the brilliant to the sublime. It's our ability to innovate that helps us improve and develop services, enter new markets and keep our clients happy.
- **Exciting futures** – We want to make sure that all MITIE people want to do their jobs better than anyone else in the world. Motivating our people is part of our daily routine providing inspiration from skill development, career progression and recognition of a job well done.

Key facts

£1,407.2m

Revenue

49,505

People

£4.4bn

Order book

UK based

Strong balance sheet

Sectors

3
contract types

Single service

A client outsources one service to MITIE

Multi-service

A client outsources more than one service to MITIE

Facilities management

A complete facilities management solution, tailor made for each and every client

3
service areas

Facilities Services

Integrated facilities management and a range of services including asset management, energy consultancy, document management, front of house, catering, cleaning, engineering maintenance, landscaping, pest control, security, waste and environmental management

Property Services

Roofing, repairs and redecoration, interior fit out, plumbing and heating, social housing maintenance and refurbishment and fire protection

Engineering Services

Mechanical and electrical, energy generation and management, technology and infrastructure

Our strategy

We have a simple strategy to ensure our future success:

To deliver stakeholder value through a focus on sustainable, profitable growth.

This strategy can be broken down into four areas that are all linked to our key performance indicators (KPIs) and other management tools, which we use to measure our success and our progress.

“We have been able to grow much faster than the markets in which we operate.”

Stakeholders

Our strategy is to deliver value to all our stakeholders including our shareholders, customers, employees and the wider community

We have an uncompromising commitment to deliver value to our customers by providing them with quality services. Our ability to do this directly impacts on our ability to retain our clients. We measure this part of our strategy using our contract retention KPI. Many of the principles in delivering quality services start with the attitude of the people carrying out those services. This is why MITIE is all about having the right people for the job and the right attitude to getting it done. We

know that the best way to make sure that we have the right people is to recruit, motivate and retain the best talent in our industry. To do this we provide a comprehensive set of benefits, rewards, incentives and training. We measure our performance in this area through our management retention KPI. By providing our clients with quality services delivered by quality people, we will also deliver value to our shareholders, through the sustainable, profitable growth of the Group. Our financial KPI set reflects our performance in this area.

Sustainability

Sustainability has many interpretations. For us, it's about building and protecting a long term business, managing our growth rates and planning our resource requirements. Our forward order book is a KPI and helps us to monitor the visibility and demands of our future workloads and earnings.

We act responsibly as a business and aim to build a reputation that enhances our brand and makes us attractive to shareholders, customers and future employees in the long term.

Our corporate responsibility (CR) programme is a differentiator for clients seeking to do business with like-minded organisations and we believe that it contributes to our ability to sustain our growth in the future. CR is an important part of our strategy and we measure our impact on the environment as a KPI in the form of our CO₂ emissions per employee. We also produce a separate CR Report each year which uses key measurements to benchmark our progress in developing our CR programme.

Profitability

We are focused on growing our business profitably and on maintaining our margins within our target ranges. The remuneration of our senior management is influenced by profit related performance and we recognise that focusing on profitability rather

than top line growth is a key factor in creating value for our shareholders. We use our EBITA margin as one of our financial KPIs to monitor our performance.

Growth

We have a track record that has seen double digit organic growth every year since our formation in 1987. We are confident of continued success. During the year, we grew revenue at a rate of 14.5%, with organic growth of 10.4%, whilst we saw our markets grow at an average of 6.0%.

We are well placed to take advantage of the trends towards both integrated and larger scale national contracts that can only be delivered by a small number of providers.

Part of our strategy is to supplement our organic growth through acquisitions of companies that can enhance our service offering. We look for companies that have a similar culture to us – an entrepreneurial culture supported by strong management, where achievement is rewarded and the satisfaction of customers is the primary focus. MITIE's own success can be attributed to the strength and motivation of its people, and it is a vital ingredient for any company that we consider acquiring.

Our performance

Financial KPIs

Group EBITA (%)

Description Our earnings before interest, tax and amortisation (EBITA) margin provides us with a good indicator of the profitability of our business. Where we have material, non-recurring charges, such as integration costs, we exclude these from our measure.

Target range Maintain EBITA margins between 5.0% and 6.0% per annum.

Comment We have maintained our underlying margins at 5.1% and improved our reported margins from their 2007 levels of 4.9%. Acquisition-related integration costs reduced reported EBITA in 2007.

Capital expenditure as a percentage of revenue (%)

Description Our strength lies in the management of people and in the provision of suitable assets to support their work, but our business is not capital-intensive. We continue to monitor and control capital expenditure, and target growth and acquisitions in areas that do not require substantial capital expenditure.

Target range Maintain below 2.0% of revenue.

Comment We have reduced our capital expenditure KPI to 1.4% (2007: 1.8%) keeping it well below the 2.0% target limit.

Conversion of EBITDA to cash (%)

Description The efficiency with which we manage the generation of cash is an important indicator for our business. MITIE is built on a sound understanding of the importance of cash and working capital management and that ethos remains critical to our business. The conversion of the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) to cash is one of the significant cash flow indicators for MITIE.

Target range Over 90.0% of Group EBITDA converted to cash.

Comment We have achieved our target this year with 90.3% of Group EBITDA being converted to cash.

Dividend growth (%)

Description It is important that we continue to target a progressive dividend policy that provides an appropriate return to shareholders and that provides a dividend which grows in line with the underlying earnings of the Group.

Dividend cover is calculated by reference to our underlying, cash-based earnings which we measure using our basic EPS before amortisation of intangibles, imputed interest charges relating to acquisitions and material non-recurring charges. There were no

material non-recurring charges in 2008, whilst in 2007 adjustment was made in respect of acquisition-related integration costs. The adjusted EPS after these items is 14.9p (2007: 12.8p) giving rise to underlying growth of 16.4%.

Target range At least in line with underlying earnings growth at a cover rate of 2.5 times adjusted earnings.

Comment Our dividend growth for the year is 17.6%, giving cover of 2.5 times adjusted earnings.

MITIE's strategy is centred on sustainable, profitable growth. In delivering this strategy our main aim is to secure value enhancement for our shareholders and other stakeholders. We use the following financial and non-financial key performance indicators (KPIs) along with other management tools to measure our success in the delivery of our strategy and the management of our business:

Non financial KPIs

Reportable accidents (per 1,000 employees)

Description Reportable accidents are defined as fatalities, major injuries and injuries resulting in absence from work of over three days. Our people are our greatest asset. Providing them with a safe environment in which to work is of paramount importance to us, so we use a KPI for reportable accidents to assess our performance.

Objective Retain focus on reducing the risk of accidents in our business.

Comment Our focus on health and safety has enabled us to reduce reportable accidents to 4.0 per 1,000 employees.

Retention of existing contracts within Facilities Services (%)

Description In order to achieve sustainable, profitable growth, we monitor the percentage of existing contracts retained in our Facilities Services division on a rolling 12 month basis.

Target Achieve contract retention rates in excess of 90.0%.

Comment We have improved our contract retention rate in our Facilities Services division to 86.0%.

Management retention (%)

Description MITIE is a people business and we pride ourselves in creating and nurturing outstanding management. Monitoring how successful we are in retaining our people is an important measure for us.

Target: Enhance focus on the development and retention of management to maintain a retention rate of over 90.0%.

Comment We have increased our management retention rates to 92.0%.

Forward order book (£bn)

Description Our forward order book figure is the total future revenue for all of the contracts that we have signed with customers. This figure gives us a good indication of our ability to sustain our growth rates.

Target Increase order book.

Comment At the end of the year our order book was at £4.4bn, showing growth from the prior year.

Carbon dioxide emissions (tonnes equivalent CO₂ per employee)

Description We are conscious of the impact of our operations on the environment. Our CO₂ emissions are calculated using DEFRA conversion factors following a review of our fuel and utilities usage. The rate of CO₂ emissions per MITIE employee is calculated using the average number of people employed during the year.

Objective Understand and minimise the environmental impact of our operations.

Comment This year, we have reduced our CO₂ emissions per employee from 0.70 tonnes equivalent per employee to 0.64 tonnes equivalent.

Our services

Our services span the entire building lifecycle, from planning and installing, to managing and maintaining. We provide a comprehensive range of integrated services to some of the UK's largest public and private sector businesses, working with our customers to ensure their buildings and workspaces are smarter, greener, safer and better run.

Operating divisions

We are organised into three operating divisions supported by a central team. Our three divisions are structured to mirror the way our customers buy their services.

Contract types

When working with MITIE, clients are able to choose the way that they procure their services.

Some clients will buy just one service from us, some multiple services and others may outsource their entire facilities management departments to us.

Revenue split (£m)

Contract types split within MITIE (%)

Facilities Services

We provide integrated facilities services and are responsible for managing and maintaining properties and workspaces for some of the UK's largest businesses and organisations. We have the expertise in place to support our customers in achieving their strategic goals – improving services, reducing costs and creating great workplaces for their people.

Our comprehensive range of services means that we can provide all of our facilities services directly without having to subcontract to third parties, saving our customers time, money and increasing co-operation and efficiency between service teams.

We also provide the specialist knowledge to support our customers in addressing change, from energy and environmental management and specialist facilities management technology, to lifecycle management and consultancy services.

Single service

The first experience of outsourcing for most organisations is usually to outsource some of their single services. It is usually possible to provide significant cost savings on first time outsourced contracts as specialist suppliers may bring in process improvements and new technology, or may reduce the headcount of the service team. As organisations outsource more specialist non-core services, the number of suppliers and contracts that they have to manage increases.

Property Services

We provide a full suite of property services, from refurbishment to repairs, working with clients as varied as housing associations, industrial companies and property developers. We have specialist skills in every aspect of property care, including interior fit-out, minor repairs and redecoration, passive fire protection, plumbing and heating, refurbishment, repair and maintenance and roofing. Our energy and commitment to improving and transforming buildings, both inside and out, has made us one of the strongest providers in our sector.

Multi-service

In a multi service contract, a client will outsource more than one service to MITIE. We know that by providing quality services to our clients, it is more likely that they will outsource other services to us rather than going to a different supplier. Multi service contracts are a common progression for organisations that have already outsourced some of their non-core support services. For second and third generation outsourced contracts, it becomes harder to save money by process improvement alone. In a multi service contract, our clients can reduce the number of suppliers that they have to monitor by contracting with us to provide multiple services. The benefits include possible synergies in the management and delivery of the services, one invoice every month, one health and safety/ quality management system to audit and fewer suppliers to manage. We are a valuable partner for clients who wish to rationalise their supply chain without losing any of the expertise that comes with outsourcing to specialist suppliers.

Engineering Services

We deliver leading-edge, sustainable engineering services for buildings.

Our services cover every aspect of design, consultancy and installation, from mainstream mechanical and electrical engineering to technology infrastructure, heating, ventilation and air conditioning. We have also gained impressive expertise in renewable energy technologies and are helping clients make substantial reductions in the carbon footprint and lifecycle costs of their buildings.

Facilities management

Organisations that are comfortable with outsourcing may wish to engage with us in a facilities management (FM) contract. This type of contract is an end-to-end facilities solution where MITIE is brought in to manage the FM department for a client. We can help an organisation identify what should be outsourced, then deliver the services with one integrated team. With MITIE's range of services, we are able to provide directly the vast majority of services that most other FM companies would have to subcontract. This can help to drive down costs and encourage a 'one team' approach. We see the area of FM as a large potential growth area for MITIE.

Milton Keynes Council

Services provided: responsive repairs, void reinstatement and supply chain management.

Overview

We are helping Milton Keynes Council to improve their housing service by reinstating empty properties more quickly and providing a more effective method of carrying out housing repairs on its stock of 12,000 homes

Key successes

We were contracted to deliver a vastly improved and more cost-effective maintenance programme through a locally based service that encompasses all of the main building trades, building works and improvement programmes within properties

A new process that places great emphasis on empowering tradesmen to complete all calls on a 'zero defects, zero complaints' basis has been implemented. As a direct result, the level of responsive repairs completed on time has risen by 13% to 95%. Average working days for non urgent repairs have fallen from 70 days to just 12 days. These improvements have increased first time fixes and have enabled a larger percentage of every pound of the council's repairs budget to be spent on maintenance rather than on administering the service.

Communities and Local Government and the Government Office for London

**Services provided: facilities management,
maintenance and engineering, cleaning, catering,
business services (reception, portage and mail),
security and waste management.**

Overview

In 2004, the then Office of the Deputy Prime Minister was delivering facilities services through a managing agent, with a range of subcontractors. With a need to streamline the management of their estates and increasing sustainability targets, the government department, now known as Communities and Local Government embarked on a process to select a single supplier to deliver a fully integrated facilities management service. Since then MITIE has been working with the central government department to deliver an integrated FM service.

Key successes

MITIE has been successful in delivering savings of over £500,000 across the contract, which have been achieved as a result of a continuous drive for improvements, supporting the central government department in rationalising the efficiency of their estate whilst adding considerable value across the contract.

The contract is based around a focus on delivering innovation and expertise to improve service delivery, involving all members of the MITIE team and members of the client team to deliver these improvements. They have included the centralisation of the on site mailrooms, providing considerable financial and space saving benefits to the government department, through to providing environmental management expertise to support Communities and Local Government to achieve the recent targets introduced across the government estate, to reduce CO₂ emissions by 20% by 2012.

MITIE has introduced a range of initiatives across the sites to reduce waste and energy usage and support the achievement of sustainability targets. This has included a project to re-programme the time-settings on the passive infrared motion sensors across the various sites and the introduction of a food composting programme which saw MITIE working in partnership with a locally based social enterprise to support the increase in recycling across the sites. Combined with a range of other recycling initiatives, this has resulted in a dramatic increase in recycling across all sites over the last two years, with MITIE continuing to work with Communities and Local Government to achieve their targets in this area.

Her Majesty's Courts Service (HMCS)

Services provided: front of house, access control, CCTV monitoring, jury supervision and car park management.

Overview

In 2007, HMCS and the Tribunal Service decided they wanted a more consistent security presence, with an exclusive manned guarding provider across all their sites. The key requirement for the courts was to have a dedicated, motivated and specially trained team, with the ability to deal with a broad range of responsibilities and cope in any eventuality.

Key successes

MITIE has succeeded in providing an excellent service with a team of more than 1,400 officers at all 425 county, magistrates and tribunal courts across England and Wales.

Our approach has resulted in one of the lowest turnover rates of security officers in our industry. We pay close attention to looking after our people, supplying consistent uniforms across the board and providing high quality training delivered at our own bespoke academy.

It's important to both the courts and to MITIE to maintain this level of excellence and keep our people motivated. The results have been a cost-effective and efficient guarding service for staff, juries and visitors delivered by a motivated security team from a provider with 15 years' experience in dealing with the demanding court environment.

HBOS

Services provided: cleaning, landscaping and pest control.

Overview

Our relationship with HBOS started in 1998 when MITIE was awarded contracts for major employment sites in Aylesbury, London, Scotland and Birmingham as well as the post room in Bristol. Today, MITIE cleans over 1,000 high street branches around the country and more than 130 HBOS offices too, employing over 2,000 people overseen by an Account Director with their own management team. As a national accounts contract it has direct access to our own 24hr call centre based in Bristol, allowing for instant remedies of cleaning requirements.

Key successes

The high street retail network was mobilised in record time – nearly 1,000 of the branches were made ready in just over six weeks. We have also developed our own quality auditing system that uses the latest technology. Each Account Manager completes their monthly audit using a handheld device. Once the audit has been completed, the real-time information sits on a secure website alongside other essential management information which can be accessed by all authorised stakeholders. This is used extensively on each HBOS site.

We have also worked hard with HBOS to develop an automated computer system which plays an important part in guaranteeing service delivery compliance across the contract. In addition, the system has the ability to address the issue of MITIE's people who work on their own, often during unsociable hours, allowing us to be sure of their whereabouts for health and safety reasons. This system is unique and offers a real differentiation in the marketplace.

Business review

Chairman's statement

I am delighted to announce that 2008 has been another year of strong growth for MITIE. This year was our 20th year of revenue and profits growth

Throughout the last year we have continued to forge new relationships and build on long term partnerships with our clients and are delighted to welcome thousands of new people to MITIE

We are now well positioned for the next stage in our development with an excellent management team and a well developed strategy in place targeting our three markets of facilities, property and engineering services

Results

MITIE has had another excellent year, with 14.5% growth in our revenue to £1,407.2m (2007: £1,228.8m). Operating profit before amortisation rose by 20.5% to £72.2m (2007: £59.9m) with profit before tax increasing by 20.0% to £67.9m (2007: £56.6m). Adjusted earnings per share grew by 21.1% to 14.9p per share (2007: 12.3p per share). Underlying operating profit margins were maintained within our target range of 5-6% at 5.1% (2007: 5.1%) whilst reported operating profit margins increased from 4.9% to 5.1%

Dividend

The Board is recommending a final dividend of 3.2p per Ordinary share making a total of 6.0p per share for the year, a 17.6% increase on 2007. This increase is in line with our dividend policy to maintain dividends in line with underlying earnings growth at a cover ratio of 2.5 times adjusted earnings.

The dividend will be paid on 4 August 2008 to shareholders on the register at 4 July 2008.

Pensions

The Group contributes to a range of defined benefit and defined contribution pension schemes. I am pleased to report that the surplus within the defined benefit schemes has continued this year with a net surplus of £7.5m (2007: £0.5m).

Board changes

This will be my last year as Non Executive Chairman of MITIE as I will retire at the Company's Annual General Meeting (AGM) on 31 July 2008. I have thoroughly enjoyed the last six years with MITIE. I will leave the Company in a very strong financial position and with excellent prospects to succeed in the future under the stewardship of Roger Matthews, who will be appointed as Non-Executive Chairman at the close of the AGM. Roger has been a Non Executive Director since December 2006 and brings with him a wide range of skills and experience from his previous positions as Group Finance Director of J Sainsbury plc and Group Managing Director and Group Finance Director of Compass Group PLC.

Cullum McAlpine, who has been a Non Executive Director of MITIE since April 2003 and is Chairman of the Audit Committee and Senior Independent Non Executive Director, will also retire from the Board at the Company's AGM. I would like to thank Cullum for his support to MITIE and the Board over the past five years.

The following Board changes will also take effect from 31 July 2008. David Jenkins will be appointed as Senior Independent Non Executive Director and Chairman of the Audit Committee. Roger Matthews will assume the chairmanship of the Nomination Committee.

The recruitment of a new Non-Executive Director will commence during the year.

Corporate governance

We are committed to maintaining high standards of corporate governance. The Board recognises that MITIE is expected to act to the highest standards of responsibility at all times and we therefore have in place a set of governance structures and practices designed to ensure that MITIE is run responsibly in the best interests of all its stakeholders.

Outlook

In this my last year as Chairman of MITIE, I would like to wish the management team every success for the future. We enter the new financial year with our business aligned to meet the needs of our ever changing markets. Current economic conditions are requiring businesses to re-evaluate their cost base and to focus resource and attention on reducing risk and uncertainty in volatile markets. This provides us with opportunities as organisations seek to reduce costs through outsourcing.

We are confident that we are well positioned to continue our strategy of delivering stakeholder value by focusing on sustainable, profitable growth through 2008 and beyond.

David C Ord
Chairman

**David Ord
Chairman**

**“MITIE is well
positioned to
continue its
history of
strong growth.”**

Chief Executive's review

At the end of my first full year as Chief Executive, I am delighted that we have continued our record of double digit growth, increasing revenue by 14.5% in the year. Our operating profit before amortisation has increased by 20.5% and all three of our divisions have performed well, enabling us to maintain our overall underlying operating profit margins within our target range at 5.1%.

In order to deliver value to our stakeholders by delivering future sustainable growth, we have spent the year ensuring that we are well placed to meet the needs of our ever changing markets.

We have aligned our Facilities Services division to focus on growth in the FM and multi service markets. With the formation of our new FM business, we are now able to compete for the larger FM contracts. The business now provides us with a vehicle that has been created to really understand our clients' FM needs and show how we can match them with MITIE's capabilities.

Our Property Services division has been reorganised to align our specialist skills to the market place in which we operate. We are intent on making each area of our business a truly national offering, focusing on roofing, minor repairs and redecoration, interior fit out, plumbing and heating, social housing and fire protection.

Our Engineering Services division has also been focusing on aligning the structure of the division with its three main markets: energy, technology and infrastructure, and building services. In the energy markets, we offer a full energy management consultancy for our clients, reducing their carbon footprints through renewable technologies and use of efficient materials. The technology and infrastructure markets concentrate on providing information communications technology services (ICT) as well as power generation and cooling solutions for data centres. The building services market is the more traditional mechanical and electrical contracting arm of the business.

We have had an excellent year and have delivered record results. Our business is focused on growth through its strength in integrated facilities, property and engineering services. We are confident in our ability to make progress in this economic climate and there are positive trading conditions across all three divisions. We have a record order book and are well positioned to deliver sustainable, profitable growth.

Order book

Our forward order book has grown to £4.4bn (2007: £4.1bn). 82% of this order book is within our Facilities Services division, 11% within Property Services and 7% in Engineering Services. This year, we have secured 78% of our budgeted revenue for the year ending 31 March 2009 compared to 75% at the same point last year.

Acquisitions

We continue to seek to acquire businesses that complement or fit within our existing company and in 2008 made three acquisitions. In April 2007, we acquired Jabez Holdings Limited, the holding company of the Robert Prettie plumbing business. In March 2008, we completed the acquisitions of both Catering Partnership Holdings Limited and DW Tilley Limited.

All three acquisitions complement our existing activities.

- Robert Prettie is a Nottingham based business that works in partnership with local authorities, councils, developers and registered social landlords on kitchen and bathroom installations, heating replacement, gas servicing, maintenance and call-out services. This acquisition has added significantly to the capabilities of our Property Services division in the housing sector and has complemented the existing regional operations.

“We have realigned our divisions to meet the needs of our markets.”

Chief Executive's review continued

- Catering Partnership Holdings Limited is a Midlands based catering company. The company complements the geographical coverage of our existing operations, and
- DW Tilley Limited is a national roofing contractor, based in the North East of England. The company complements our existing Property Services division and provides us with a national roofing capability.

Equity incentivisation

We continue to start new businesses and support first generation equity start ups within MITIE. In October 2007 we started MITIE Client Services Limited. This business operates within the Facilities Services division and will provide clients with high quality, client facing support services including reception, switchboard, helpdesk and events management.

As part of the development of our equity incentivisation model, we have introduced a second generation equity scheme into some of our established businesses to provide an equity opportunity for the new management teams within those businesses whereby management share the risks and rewards of ownership.

Second generation schemes have been set up in our Property Services division and also in the Cleaning, Landscaping and Security businesses

within our Facilities Services division. The second generation scheme in our Security business was introduced on 4 October 2007 following shareholder approval at an EGM. The introduction of this scheme is important for the successful development and consolidation of our Security business which has grown rapidly, particularly over the last two years.

Our Long Term Incentive Plan (LTIP) scheme was also introduced in July 2007 following shareholder approval at the AGM. EPS growth targets over three years form the basis of the performance criteria for the LTIP, with shares being offered to a number of key senior management. This scheme ensures that we have market leading reward mechanisms to attract the best management in our sector to MITIE.

Market development

Our markets have always been demanding and will continue to be so. Uncertainty in the general economy creates opportunity for MITIE as customers seek innovation and fresh thinking from their service providers. Our relatively low market share, range of services and integrated delivery makes us an attractive partner.

One way that customers are saving money and increasing efficiency is through enlarging the scope of facilities contracts. The move towards larger multi-service and FM contracts provides us with opportunity due to our unrivalled range of services and wealth of knowledge.

The workplace environment is more demanding than ever for our clients. Issues such as waste and recycling, energy management, carbon footprint and through life cost asset management all demand forward thinking and integration into their strategic planning.

MITIE is well positioned to take advantage of these current markets and has the capability to provide integrated services through a measured and thought out approach. We can assist our clients by using the expertise developed within our business in these increasingly complex areas, providing the thought needed to develop integrated solutions that understand the unique needs of each and every client.

In our engineering markets, we are finding that clients are increasingly looking to award contracts on a framework basis. The long term visibility provided by a framework approach to workload allocation and the continued aggregation of the procurement philosophy of both public and private sector customers continues to work to MITIE's benefit. We are well placed to take advantage of this shift in work type due to our substantial knowledge of key sectors, our national capability and our expertise of renewable technologies.

The engineering sector is also responding to new legislation, in particular the requirement of energy certificates for all buildings that are constructed, sold, rented or occupied. The certificates will show

Our business is structured to face the needs of our current and future markets

how energy efficient a building is and how much CO₂ it emits into the atmosphere. Responsible contractors within this sector are providing the expertise and innovation to deal with this new requirement. MITIE has invested heavily in resources and is actively involved in the design and application of more efficient forms of energy generation and distribution to the built environment. This commitment and investment ensures that our Engineering Services division is at the forefront when it comes to advising clients and the supply chain on planning regulations and requirements.

Our Property Services division continues to operate in diverse markets. The acquisition of Robert Prettie provides us with the technical ability and expertise to create a service aimed at the wider housing market. We believe this new offering will prove attractive to the sector and provide us with future, sustainable organic growth. The social housing market continues to afford us opportunities to increase our presence in this sector.

International services

MITIE is the UK's market leader in providing facilities, property and engineering services. As our markets are very fragmented, we still only have a relatively small market share in the UK. Our primary focus remains on growing our UK business. Nevertheless, we do have the capability to deliver contracts outside the UK when asked to do so by our increasingly global client base.

Rewarding our stars

We have launched a new employee awards scheme across MITIE in order to give something back in return for all their energy and commitment. It's called the MITIE Stars awards scheme and it will make sure that the most important part of our business is recognised and rewarded – our people. The overall winner will take home more than £25,000 worth in prizes from a total prize fund of more than £100,000.

Corporate responsibility (CR)

For us, CR is about behaviour and attitude. We aim to ensure that our CR programme involves every area of our business. CR is undoubtedly a differentiator for us, and has been cited as the deciding factor for some clients when awarding us contracts. CR issues, such as reducing the carbon footprint of buildings, create opportunities for us as we have substantial experience in renewable energy technology and energy consultancy.

This year we will publish our third CR Report. The Report covers our CR programme in detail and expands upon the summary of our CR performance that is in this Annual Report and Accounts. We are proud of this year's achievements including gaining a silver award scoring 81.5% in Business in the Community's Corporate Responsibility Index (2007 bronze award with 70.0%) and featuring in the Top 100 'Companies that Count' for the second year in a row. The index is a voluntary, self-assessment survey, providing an annual benchmark of how companies manage, measure and report their corporate responsibility.

Our greatest asset is our people

We continue to see our people as being our greatest and most valued asset. Without their commitment and hard work, MITIE would not be successful, so I would like to thank personally all of our people for their efforts over the last 12 months.

We have always recognised and promoted success within MITIE and this year have launched a new recognition scheme called MITIE Stars. The new scheme will be a key tool in recognising excellence within MITIE, helping us to drive performance improvement and support the need for consistency across the organisation.

In MITIE, our success has been built on the strength of our teams. It is unusual for us to single out the contribution of one individual, but on this occasion I would like to extend my personal thanks and those of the Board to David Ord, who will step down as Non Executive Chairman of MITIE following our AGM in July 2008. David has been instrumental in supporting the development of the Group since his appointment and I wish him every success in the future.

Ruby McGregor Smith
Chief Executive



We ensure C&W's systems work smoothly

Cable & Wireless

In July 2007 we were awarded the contract to maintain the mechanical and electrical infrastructure for 725 Cable & Wireless sites across the UK. The high technical and performance requirements of the contract sees almost 80 dedicated MITE people working to make sure Cable & Wireless' systems run smoothly. Our solution offers a dedicated mobile maintenance team, supported by flexible back up engineers from our regional service centres. This has combined

with our 24/7 intelligent helpdesk at our Tamworth service centre offering technical engineer support and response services to increase the response times and adherence to KPIs. MITE has expanded its relationship to provide a facilities management service delivering cleaning, office services, helpdesk and other ancillary services to their UK and Ireland Estate, including their Bracknell HQ and other locations around the country.

Operating review

Facilities Services

Our Facilities Services division combines the operating activities of our broad range of FM services. The division has had a good year with new contract awards across the division increasing revenue by 12.1% to £820.4m (2007: £732.1m) and operating profit growing by 17.8% to £48.9m (2007: £41.5m). Reported operating profit margins increased by 0.3% to 6.0% (2007: 5.7%) whilst underlying operating profit margins were maintained at 6.0% (2007: 6.0%). Our medium term target range for this division is 6.0% to 7.0%.

	2008 £m	2007 £m	Increase %
Revenue	820.4	732.1	12.1
Operating profit before amortisation	48.9	41.5	17.8
Reported operating profit margin before amortisation	6.0%	5.7%	0.3pps
Underlying operating profit margin before amortisation	6.0%	6.0%	-

Within Facilities Services this year, we have had a focus on consolidation which will allow our businesses to work together more easily and assist them in delivering effective multi-service and FM contracts going forward. We now recognise five business lines as follows: Cleaning and Environmental Services which encompasses the cleaning, landscaping and pest control businesses with revenues this year of £269.6m (2007: £236.9m), Facilities Management which comprises the Managed Services, Business Services and PFI businesses which had revenues of £136.4m (2007: £124.0m), Security with revenue of £257.4m (2007: £241.8m), Engineering Maintenance with revenue of £135.2m (2007: £109.7m) and Catering with revenue of £21.8m (2007: £19.7m).

We set out below a range of contract awards:

Within the **government sector**, we have been awarded a five-year contract to provide an FM solution for The Office for National Statistics delivering project management services as well as a full solution to provide facilities services for their UK estate.

We have also recently been awarded a large contract with the Atomic Weapons Establishment to provide security services, where our team will be under the operational and tactical control of the MoD Police to manage access and egress at their Aldermaston and Burghfield sites.

Our national contract with Her Majesty's Courts Service to provide security services continues to expand, with additional revenue secured in the last financial year. This enlarged contract is the largest single manned guarding contract in the UK security industry.

Our focus on the **education sector** has enabled us to win several new cleaning contracts with Carnegie College in Fife, and both Stevenson College and the new Queen Margaret University Campus in Edinburgh.

We have secured a key role in Perth and Kinross Council's Investment in Learning project – a public-private partnership agreement between Perth and Kinross Council and Axiom Education (Perth and Kinross) Limited to build five new primary schools and four secondary schools on six campus-style sites. We have been appointed as the FM partner to deliver a comprehensive FM service for a 30-year period.

Our contract awards in the **financial and professional services sector** include a major new contract with Barclays to provide cleaning, security and waste management services at more than 50 of their main buildings around the country.

We have extended our existing contract with Willis to deliver facilities services to the new Willis Tower building in the City, which Willis moved into in February 2008. MITIE will deliver all the cleaning and security services on this site, which is 330,000 sq ft in size with 2,000 occupants, from spring 2008.

“We provide the thinking behind integrated solutions.”

Facilities Services continued

MITIE has also recently been awarded a contract with Newedge, a company formed by the amalgamation of the brokerage businesses of Calyon and Société Générale. The new contract is for MITIE to deliver a multi service package of mail and courier services, as well as front of house services, hospitality and cafe trolley services for their 750 staff.

In addition to the contract with HBOS to provide the cleaning, landscaping and pest control to their high street branches around the UK, which started in February 2007, we have now extended our contract to provide these services to a further 130 of their major office sites around the country. The contract has doubled in value and now involves over 2,000 MITIE people.

Contract types within Facilities Services (%)

Another valued contract award for MITIE was with the top five international law firm, Linklaters. Having been a client since May 2001 and having already renewed once in 2004, we are very pleased that the contract was extended for a third period in a recent tender exercise. MITIE provides 38 people delivering mail and archiving services in London and Colchester. We also provide several technology solutions on site. Our document management business was recently awarded an exciting new five-year contract with Herbert Smith, delivering mailroom, stationery, reprographics and records management services to their offices in London.

In the **manufacturing and logistics sector**, MITIE has been awarded a specialist health and hygiene contract to clean the Fox's biscuits site, part of Northern Foods.

Working in the **property management sector**, we have been awarded a major contract with NB Entrust to deliver cleaning, pest control and landscaping to 150 sites in the south east as well as delivering the same services along with security and engineering maintenance to a further 70 sites in the south west.

Within the **retail sector**, we have been awarded work at more Somerfield stores to add to our cleaning contract in the south east.

In the **transport sector**, we have secured a prestigious three year contract to deliver FM consultancy services to Dubai World Central (DWC). DWC is one of the most strategically important commercial infrastructure developments ever

launched in the Persian Gulf DWC, a 140km² urban aviation project centred on the world's largest international airport, aims to transform the region into one of the most powerful global centres for logistics, tourism and commerce.

Another great award is with St Pancras International, a flagship contract for our specialist transport team which includes cleaning and pest control.

In May 2007, MITIE's specialist transport security team was re-awarded a three year contract for the provision of hold baggage screening services for all flights departing from Bristol International Airport.

MITIE has also been awarded a contract with BAA at Heathrow Terminal 5, providing cleaning and waste management for one of the largest single sites in Europe.

In the **utilities sector**, we have been awarded contracts with EDF Energy to clean two power stations in Lincolnshire as well as a new contract with British Nuclear Group involving over 55 MITIE people, providing mail, graphics, reprographics, document production, fleet technical support and signage services.

In addition to the work secured earlier in the year with Cable & Wireless to deliver engineering maintenance services throughout 725 of their sites in the UK and Ireland, MITIE has expanded its relationship to provide an FM service, delivering cleaning, office services, helpdesk and other ancillary services to their UK and Ireland estate, including their Bracknell HQ.

“Facilities Services has seen increased opportunities.”

St Pancras is a flagship award for us in the transport sector

St Pancras

In September 2007, MITIE was awarded the cleaning, waste management and pest control contract to look after St Pancras International and Ebbwfleet International. The contract incorporates the Eurostar platforms and departure, arrival and security areas.

Our social housing work makes a real difference

Dacorum Borough Council

The tenants of Dacorum Borough Council's Housing Service are receiving a new and improved repairs service to help maintain their homes, thanks to a new, five-year contract with MITIE

MITIE now provides all of the repairs and maintenance to the Council's 11,000 homes in Hemel Hempstead, Berkhamsted Tring and the surrounding villages

Property Services

Our Property Services division has had a very successful year with good performance in all of its services lines, with particularly pleasing results from Robert Prettie, the heating and plumbing business that was acquired in April 2007. Property Services has increased revenue by 32.8% to £285.7m (2007 £215.1m) reflecting organic growth of 10.0% and revenue of £49.1m from Robert Prettie. Operating profit grew by 41.5% to £15.0m (2007 £10.6m) and operating margins by 0.4% to 5.3% (2007 4.9%). Our medium term target range for this division is 4.5% to 5.0%.

	2008 £m	2007 £m	Increase %
Revenue	285.7	215.1	32.8
Operating profit before amortisation	15.0	10.6	41.5
Operating profit margin before amortisation	5.3%	4.9%	0.4pps

We have included some of the contract awards that have contributed to these successful results below

In the **government sector**, we have been awarded a four year contract with Suffolk County Council to provide painting, repairs and redecoration of public buildings. Contracts awarded in the **education sector** include a five year repair and maintenance contract with Sanctuary Management Services at Queen Margaret University in Edinburgh and a contract with the University of Westminster to refurbish an education block. Using our specialist environmental knowledge, we are also installing underfloor heating and solar hot water at a new build school in Sheffield for Tilen Electrics.

We have been awarded several new contracts within the **financial and professional services sector** including a contract with a leading investment bank situated within the City of London to fit out 25,000 sq ft of office space for them at Pinners Hall in London and a contract for Bank of Ireland to fit-out its prestigious new headquarters at Bow Bells House, located in EC4.

In **manufacturing and logistics**, we have been awarded a five-year contract with Royal Mail to provide responsive maintenance to their post offices and delivery offices throughout Scotland as well as a 25-week contract to replace the roof of Siemens' main manufacturing plant in Cheshire.

Within the **property management and construction sectors**, we have won a further refurbishment contract with Frank Haslam Milan in Derbyshire where we will be plastering sheltered accommodation for landlord Housing 21. Taylor Wimpey has also awarded us a contract to install heating and plumbing in over 500 homes across the West Midlands.

Other work includes a contract with Bramall Construction to provide kitchen, bathroom and heating refurbishment in nearly 500 properties in Sheffield, as well as a contract with Wildgoose Construction Limited in Sheffield for the installation of solar powered hot water in 47 ecological homes. We have been awarded a contract to provide plumbing and heating installations in nearly 500 homes for Bellway Homes in North Nottinghamshire as part of a five-year regeneration project.

We have secured several refurbishment contracts with property companies including a 44-week refurbishment of office space for Helical Bar plc in London as well as a contract to refurbish Bruntwood's office space in Bootle.

We have had a good year in the **social housing sector**, securing a new five year contract with Dacorum Borough Council to provide all of the repairs and maintenance to the Council's 11,000 homes in Hemel Hempstead, Berkhamsted, Tring and the surrounding villages. In Scotland, we have secured a three year contract with Hillhead Housing Association and Perthshire Housing Association to provide repairs and maintenance services. We have also provided Hyde Housing Association with internal and external decoration to over 300 of their properties.

We have secured work comprising two ten month contracts for Flagship Housing Group in Newmarket to provide internal refurbishment and redecoration.

In addition to these great contract awards, our specialist teams will be spending five years painting and redecorating all 2,400 of Trust Housing Association's homes across the country and also working for Fife Housing Association on a one-year internal and external planned maintenance contract.

Within the **transport sector**, we have secured a further five-month contract for passive fire protection at Heathrow Terminal 5 and in the **utilities sector** we are carrying out a four year contract with BT to upgrade telephone exchanges in the North and South of England and in Scotland.

Engineering Services

We have seen steady growth in our Engineering Services division as the business transitions to a lower risk work mix. Contract awards have increased revenues in the division by 6.9% to £301.1m (2007: £281.6m) with operating profit also increasing by 6.4% to £8.3m (2007: £7.8m). Operating margins were maintained at 2.8% (2007: 2.8%). Our medium term target range for this division is 3.0% to 4.0%.

	2008 £m	2007 £m	Increase %
Revenue	301.1	281.6	6.9
Operating profit before amortisation	8.3	7.8	6.4
Operating profit margin before amortisation	2.8%	2.8%	-

Our engineering team's traditional work is evolving to meet the changing requirements of our customer base. New government legislation promotes on site energy generation in new build developments and reduction in carbon emissions through the use of green technologies. Our new energy offering in these areas makes us an even more attractive partner in the marketplace. This is reflected in some of our latest contract awards.

In the **government sector**, we have been awarded a contract with the National Assembly for Wales' regional headquarters in Aberystwyth. Work has started on the project, with staff set to occupy the building in spring 2009. The contract is for mechanical and electrical works, and includes many environmentally friendly features such as a biomass boiler, ammonia chillers, rainwater harvesting, natural ventilation and controls, solar panels, quietrevolution wind turbine, cooling pond and intelligent lighting. The aim will be to achieve a Building Research Establishment Environmental Assessment Method (BREEAM) rating of Excellent.

As part of our work in the **education sector**, we have been awarded some great new contracts, including a design and build contract for University Campus Suffolk. The new build campus development in Ipswich sees us integrated straight into the project team to develop the platform design and ensure the client's vision is fully realised. Works include air cooled chiller plant with heat recovery, chilled beams and a sophisticated lighting control system harvesting sunlight on bright days. The building also features a sedum or 'living' roof, which provides a really natural feel to the campus.

MITIE continues to build on its strong relationship with the University of Bristol with the award of a combined heat and power (CHP) and waste heat recovery project at the University's Langford veterinary campus. The project includes both the supply and installation of a contained CHP unit with 380kW electrical and 500kW heat output, as well as the provision of infrastructure works at the University. The proposed development will create over £50m of educational and research facilities, and laboratories for the Biological Sciences and Mathematics departments.

We have been awarded the contract on the new build Melksham Oak Community School in Wiltshire to provide the mechanical and electrical engineering. The school is part of the Building Schools for the

Future 'Pathfinder' programme. MITIE's design concepts for the school include good quality internal environment, simple, user friendly systems, low energy and capital costs minimising CO₂ emissions while applying value engineering where possible. It will feature energy efficient heating and lighting together with rainwater harvesting and night time cooling. There will also be a focus on providing a natural environment for learning centred on a natural ventilation strategy.

We have continued to build on our relationship with Standard Life Investments in the **financial and professional services sector**, offering an integrated approach to provide the engineering fit out and maintenance. This has resulted in us securing three new build projects with them in Guildford, Ealing and London. The Woodbridge Road project in Guildford sees us utilise geo-thermal energy, generating 137mWh of renewable energy for the building. Our commitment to partnering and substantial knowledge of renewable technologies was instrumental in securing this contract.

We have secured further infrastructure works at Great Ormond Street Hospital in the **healthcare sector**, following our excellent performance as principal contractor on the initial project that was completed in October 2007. The hospital's redevelopment programme continues through to 2012 and our strong relationship with the hospital and their team means we are well placed for future works.

In the **leisure sector**, we have continued our relationship with the world famous The Langham Hotel, London, by recently securing two major projects. Running concurrently, these are the public area works, which consist of a complete mechanical and electrical refurbishment in all public areas, including the main entrance and function rooms. The other project is the guest room fit out of 161 rooms, which will be taking place in the occupied hotel over the next year.

In the **property management sector**, our recent award at Easter Park, Aldermaston allows us to exploit our in depth knowledge of geothermal technology, satisfying the client's objective to create 'green' office space for this new build business park development near Reading. The contract includes the design, build and installation of closed loop borefields and a ground source heat pump system.

Standard Life Investments
Standard Life Investments has partnered with MITIE to build a new state-of-the-art office complex in Guildford. Our energy experts have proposed an energy solution based upon the use of geothermal energy as its heat source. MITIE will also be carrying out the interior fit-out of the building and the mechanical and electrical maintenance.

Other recent contracts include Salt Quay House, a new office development at Sutton Harbour, Plymouth, which meets the latest environmental standards and includes energy saving initiatives, such as air-conditioning using latest generation heat recovery pumps with thermal wheel air handling units to maximise free cooling.

Our work in the **science and technology sector** has grown by securing a major infrastructure upgrade project in May 2007 with one of the world's largest providers of data centre space. The project, located in London's Docklands area, is now our largest engineering contract and consists of the construction of two new power stations, upgrade of an existing power station and the increase in the cooling capacity to the data centre floors.

The completion and integration of the MITIE project works into the existing data centre infrastructure will provide the client with an increased capacity and increased resilience to the building. This will enable additional space to be sold on the floors and will underpin the current and future service level agreements.

We have also formed an exciting partnership with the wind turbine design company, quietrevolution, to install and integrate its wind turbines across the UK. MITIE has incorporated the use of these turbines as an essential component within many of our low carbon schemes, including the National Assembly for Wales, and this product forms an integral part of Engineering Services' new microgeneration energy offering.

According to an Energy Saving Trust report, it is estimated that small scale wind generation, together with other forms of microgeneration, could provide 30-40% of the UK's electricity needs by 2050.

Another notable contract award is our appointment onto the framework contract for Diamond Light Source at its new scientific facility in Oxfordshire. The contract, initially for three years, will see Engineering Services acting as principal contractor for the installation of beamline cabins including mechanical, electrical and specialist services.

Financial review

Our financial results for the year reflect continuing growth across all of our three divisions with an improved reported margin, helping to deliver strong growth in profits. Our strategy of making acquisitions which complement and strengthen the existing service offerings continues, with three acquisitions made during the year.

Key performance indicators (KPIs)

Our financial KPIs of profit margins before the amortisation of intangibles, interest and tax (EBITA) and profit to cash conversion levels are important indicators of the trading performance of the Group. We are satisfied that the levels of performance in these measures across the Group are consistent with our medium term targets. Furthermore, our strategy of operating low capital intensive businesses continues and capital expenditure levels are being managed within the target range of less than 2% of revenue.

Our results support the continued growth in dividends. Our dividend is based on post tax earnings attributable to Ordinary shareholders adjusted to exclude non-cash items associated with acquisitions (amortisation and imputed finance charges) and material non-recurring items such as integration costs. This ensures that dividend payments to shareholders track the underlying operating earnings of our business. This has resulted in a dividend for the full year of 6.0p per share (2007 5.1p), an increase of 17.6% for the year. This reflects a dividend cover of 2.5 times based on our adjusted EPS measure. Our final dividend for the year ended 31 March 2008 will be paid on 4 August 2008.

Growth in revenue

The year to 31 March 2008 has seen growth across all three of our divisions and our revenue has increased by 14.5% to £1,407.2m (2007 £1,228.8m). We have achieved organic growth across the business of 10.4% (2007 17.4%). The acquisition of Robert Prettie, which

was completed on 2 April 2007, has brought a further £49.1m of revenues to the Group.

Revenue in our Facilities Services division grew organically by 12.1% to £820.4m (2007 £732.1m). In Property Services, revenue grew by 32.8% to £285.7m (2007 £215.1m) reflecting organic growth of 10.0% and revenue of £49.1m from Robert Prettie. In Engineering Services, controlled organic growth increased revenue by 6.9% to £301.1m (2007 £281.6m) reflecting the continued focus on sustainable growth.

Profitability

Operating profit before amortisation of intangibles (EBITA) rose to £72.2m (2007 £59.9m). This includes a charge for share based payments of £1.5m (2007 £1.1m) which reflects the accounting charges in respect of our Save As You Earn, Executive Share Option and Long Term Incentive Plan schemes. The increase in the share based payment charge reflects the introduction of the LTIP in July 2007 following shareholder approval at the AGM.

Reported EBITA profit margin increased to 5.1% (2007 4.9%). Underlying margins were maintained at 5.1% (2007 5.1%). The reported operating profit margins within Facilities Services were 6.0% (2007 5.7%) whilst underlying profit margins (before material integration costs in 2007) remained at 6.0%. In Property Services, margins increased to 5.3% (2007 4.9%) reflecting the change in the mix of work following the Robert Prettie acquisition. Engineering Services' margins remain consistent with the prior year at 2.8% (2007 2.8%).

“Strong balance sheet and a net pensions surplus.”

Financial review continued

The charge in respect of the amortisation of intangible assets arising on acquisitions was £1.9m (2007 £1.6m). The increase is largely due to the amortisation of the intangible assets recognised following the Robert Prettie acquisition. Operating profit after the amortisation of intangibles was £70.3m (2007 £58.3m).

Investment and finance costs for the year were £2.4m (2007 £1.7m) reflecting the increased level of net debt across the Group and the non-cash finance charge of £0.8m (2007 £nil) relating to the unwinding of the discount on deferred contingent consideration in respect of the purchase of Robert Prettie at the beginning of the year. The Group also settled in cash the deferred consideration which had previously been held as loan notes amounting to £8.0m on two prior acquisitions as detailed in the acquisitions section below.

The tax charge for the year was £20.6m (2007 £17.4m), representing an effective rate of tax on our profit on continuing operations of 30.3% (2007 30.7%).

These results generated a profit after tax for the year of £47.3m (2007 £39.2m), an increase of 20.7% on the prior year. Of this, £45.0m or 95.1% (2007 £37.0m, 94.4%) is

attributable to the shareholders of MITIE Group PLC.

Growth in earnings per share (EPS)

Basic EPS before other items increased by 21.1% to 14.9p per share (2007 12.3p per share). Basic EPS before amortisation rose by 19.5% to 14.7p per share (2007 12.3p per share). Basic EPS increased to 14.3p per share (2007 11.9p per share), an increase of 20.2%. Fully diluted EPS increased by 19.5% to 14.1p per share (2007 11.8p per share).

We have intentionally changed the format of our published consolidated income statement to disclose the impact of non-cash items relating to acquisitions – amortisation and unwinding of discount on deferred contingent consideration. In keeping with the MITIE ethos, we aim to structure acquisitions which encourage business performance through deferred contingent consideration. This is discounted in the balance sheet and unwinds through finance costs in the consolidated income statement. The amount included this year was £0.8m (2007 £nil) and has impacted headline EPS disclosure this year.

Acquisitions

In April 2007, we acquired the plumbing and heating company Robert Prettie. The initial consideration was £8.6m, of which £7.0m was in cash and £1.6m in loan notes. A total of £0.8m of cash has been retained against

potential warranty claims. Debt of £3.7m was assumed by MITIE on the acquisition. Deferred consideration on the acquisition up to a maximum of £22.8m is payable in a combination of loan notes and cash based on performance over a three-year period. The deferred consideration can be triggered between 2010 and 2012. The fair value of the deferred consideration on the acquisition of £15.3m is included within provisions in the consolidated balance sheet.

In March 2008, MITIE completed the acquisition of the entire issued share capital of both Catering Partnership Holdings Limited and DW Tilley Limited.

The fair value of the total expected consideration payable for Catering Partnership Holdings Limited is £7.5m with initial consideration of £6.6m paid in cash on completion. Deferred consideration of up to £2.3m, payable in cash, is dependent on the future financial performance of the acquired business and is included within provisions in the consolidated balance sheet.

The fair value of the total consideration expected to be paid for DW Tilley Limited is £14.7m. Initial consideration of £7.5m for the equity of the company and £3.6m for the cash balances in the company was paid in cash on completion. Deferred consideration of up to £5.0m, payable in cash, is dependent on the future financial performance of the acquired

Financial highlights	2008 £m	2007 £m	Increase %
Revenue	1,407.2	1,228.8	14.5
Operating profit before amortisation of intangibles	72.2	59.9	20.5
Amortisation of intangibles	(1.9)	(1.6)	
	70.3	58.3	20.6
Net investment revenue and finance cost	(2.4)	(1.7)	
Profit before tax	67.9	56.6	20.0
Tax	(20.6)	(17.4)	
	47.3	39.2	20.7
Effective tax rate on continuing operations	30.3%	30.7%	
Basic EPS before other items	14.9p	12.3p	21.1
Basic EPS	14.3p	11.9p	20.2
Dividend per share	6.0p	5.1p	17.6

“Our results support the continued growth in dividends.”

business and is included within provisions in the consolidated balance sheet

The Group also acquired some or all of the minority interests in the equity share capital of seven of its subsidiaries. The total maximum consideration payable in respect of those acquisitions is £8.1m. The consideration was largely settled by the issue of new MITIE shares.

In August 2007, the Group also settled deferred consideration of £0.2m in respect of the purchase last year of the minority shareholding in MITIE Engineering Maintenance (South West) Limited. This was settled by the issue of new MITIE shares.

The total number of MITIE Group PLC shares issued in respect of these transactions was 2.4m.

Other acquisition related transactions include the redemption in cash of £8.0m of loan notes issued in respect of the deferred consideration for the acquisition of MITIE Security (London) Limited (formerly MITIE Trident Security Limited) of £7.0m and The Watch Security Limited of £1.0m.

Pensions

The Group contributes to a range of defined benefit and defined contribution pension schemes. In addition, MITIE makes contributions to its customers' defined benefit pension schemes under Admitted Body Local Government and other arrangements in respect of certain employees who have transferred

to the Group under TUPE. The net surplus before tax included in the Group's balance sheet arising from these pension schemes was £7.5m (2007: £0.5m).

Cash flow

The underlying cash flow performance of the Group remains strong, with the conversion of EBITDA to cash of 90.3% (2007: 114.4%). The prior year EBITDA conversion of 114.4% was particularly high due to one-off short term timing differences at March 2007, the average cash conversion over the past two years was 101.3% reflecting strong cash flow performance, well in line with our current KPI of conversion above 90.0%.

At 31 March 2008, the net debt of the Group was £15.6m (2007: £8.1m) with loans of £50m being drawn at that time (2007: £20m). Deposits held by the Group's reinsurance subsidiary, which are not readily available to the Group, totalled £12.4m at 31 March 2008 (2007: £10.3m).

Group Treasury has responsibility for managing and reducing financial risks 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.

During the year the Group renegotiated its existing banking facility which was established during the previous year. It extended its committed five-year £150m revolving credit facility to £230m. The principal covenants in respect of this facility remained the same and put a cap on the maximum level of debt within the Group at 3.5 times EBITDA, and require a minimum ratio of profit to interest payable of 3:1. The Group has operated within these covenants throughout the year.

Share buyback

While MITIE did not buy back any shares in the past financial year, we will be seeking shareholder approval to renew the authority to purchase up to 10.0% of the MITIE Group PLC's issued share capital at our next AGM on 31 July 2008. This authority will provide the Directors with the flexibility to take advantage of business opportunities as they arise.

Suzanne Baxter
Group Finance Director



Corporate responsibility

At MITIE, we are committed to the operation of a responsible business model and to the delivery of our CR strategy. For us, it makes sound business sense.

We have consciously structured our programme with an emphasis on the development of skills and the environment. As an employer of over 49,000 people working in the built environment, these two areas are particularly important to us, and have helped to shape our activities and business model to meet the ever changing demands of our markets and our stakeholders.

Every year we set challenging targets to drive our business forward. Our ambitions in CR are no different. We have the same passionate commitment to protecting our people, enhancing our workplaces, our communities, our marketplaces and the environments in which we all work.

MITIE endorses the Business for Social Responsibility definition of Corporate Responsibility as, 'achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment'. This year, by working closely with our stakeholders to improve our CR policies, practices and procedures, we managed to continue our success in improving our CR performance and achieved an overall score of 81.5% (2007: 70.0%) in the Business in the Community (BiTC) CR Index. For the second year in a row, we are featured as one of the Top 100 'Companies that Count' for companies who completed the BiTC CR Index. We're pleased to announce that this year, MITIE has improved on its bronze award last year and is now listed in the 'silver' section of the 'Companies that Count' survey published in the Sunday Times in May 2008.

This year we have again published a separate CR Report which will be issued to all of our shareholders. The report provides more detail on our CR activity and related performance measures during the year.

Health and safety

The health and safety of our people is of principal importance for us at MITIE. We set high standards and we expect everyone to play their part in maintaining them. MITIE has a team of over 60 dedicated health and safety professionals working in our business, engaged in formal programmes to improve our health and safety performance across our business on an ongoing basis.

As a Company of world class people delivering world class services, we have an extensive range of training programmes available to all our people, including over 25 health and safety training courses. In the year over 2,000 people successfully completed these courses that

included, Working Safely, Managing Safely, Management of Work at Height and Safe Driving.

The results of our efforts are there to see. In addition to the positive feedback we have had from our employee surveys, we achieved a 23% reduction in major injuries during the year, with a 22% reduction in the reportable incident rate. Regrettably we received four enforcement notices during the year and we have put in place remedial actions to address the issues raised and learn the lessons across the Group.

We have now held four Health Awareness Days at our offices across the UK, giving our people access to medical information and advice at work. They can have a full check up on site during working hours, including body mass index, cholesterol checks, diabetes test, and lung capacity testing.

During the year we increased our focus on teleconferencing, car pooling and public transport as ways to cut down our fleet's carbon emissions, and reduce the risks to our people from driving related incidents. That said, driving will always be a necessary part of our business, especially for our emergency response vehicles. However, there is still a great deal we can do to make it as safe and efficient as possible.

One way we're doing this is through the government backed safe and fuel efficient driving scheme, or SAFED. Some of our people have now attended this course, which gives them tips on safer and more environmentally friendly driving.

Workplace

As a people business, we treat every one of our 49,505 people who work for us with respect. We're passionate about helping our people reach their full potential, because the more successful they are, the more successful we are. We ensure they have the skills, training and support they need to excel, and a fair, equal and responsible environment to work in.

Training is important for everyone, at every stage of their career. We offer an integrated career and personal development programme to all levels of our workforce. Last year over 21,000 MITIE people undertook one or more of our wide range of training courses. Furthermore, since the start of our relationship with the Institute of Leadership and Management (ILM) in April 2006, almost 1,000 MITIE people have completed ILM courses, including ILM Level 2 in Team Leading, ILM Level 3 in First Line Management and ILM Level 5 in Management.

quietrevolution

We have now made quietrevolution turbines a key component of many of our low carbon schemes and an integral part of our Engineering Services division's new microgeneration offering. In the past many wind generation schemes were often refused planning permission because of noise, vibration, or the impact on their surroundings. However, quietrevolution's designs have managed to deal with almost all of these objections, which is why so many local councils across the UK recommend them for small-scale urban wind generators.

quietrevolution turbines are virtually silent, and can generate 10,000kWh a year equivalent to 10% of the energy requirements of a 600m² office building. In the UK this is equivalent to displacing 4,000–6,000kg of annual CO₂ emissions associated with grid-generated electricity.

“Alternative energy is a key ingredient in our low carbon schemes.”

Going the extra mile
MITIE's Stephanie Winn, finishing this year's
London Marathon. Her sponsorship donation
for Great Ormond Street Hospital was
match funded by MITIE

Corporate responsibility continued

We have also developed our in house Navigator men's personal development programme and SpringBoard women's personal development programme which were launched in April 2007. These programmes have been specifically developed for non managerial people and give advice on a wide range of issues both in and out of the workplace, from getting a promotion to building self confidence. Coming out of the programme, candidates moved forward with their action plans and were offered individual trained mentors to support their future development.

On 14 June 2007 MITIE became one of the first employers to make the UK government Skills Pledge – a specific and voluntary promise, made by an employer to its employees, that every eligible member of staff will be helped to gain basic literacy and numeracy skills and a full Level

2 qualification, equal to five GCSEs at A*– C. Speaking at the launch last year Gordon Brown said 'In the future, skills will be the only route to prosperity and jobs'. Our commitment to the Skills Pledge is a key part of our strategy: we will only deliver world-class services if we have skilled, competent and able people who can seize all the opportunities offered to them.

Signing up to the Skills Pledge gives us the opportunity to demonstrate publicly the importance MITIE places on investing in the skills of our people. MITIE's commitment to developing a better skilled and qualified workforce benefits our business' competitive advantage, as well as aiding the training, development and employability requirements of our people.

Our award winning Real Apprenticeship scheme is now in its third year.

and we're pleased to announce that it's just received Big Tick re-accreditation for 2008. In the last three years the scheme has won prestigious Big Tick Excellence Awards, the 2006 PFM Partners with People Award and the Greater London Training Award. The 59th apprentice to go through the programme has recently been offered a full-time job with us, and 29 young people found work with MITIE in London last year, the highest number so far.

Marketplace

We know that selecting the right suppliers and subcontractors is a key way to reduce business risk and improve performance. In fact we see our suppliers as partners in our own success, and we demand the same standards from those partners that we observe ourselves.

In 2007 we set up a new Supplier Improvement Programme to ensure that our main suppliers are aligned with our CR principles and apply 'downstream accountability' in their own supply chains. Our partnering relationship with national building products supplier Wolsley has proven to be particularly rewarding. We see each other not just as trading partners and exchange CR knowledge and practice by participating in each other's CR and Environment Forums. Wolsley generously support our Construction Skills Centres by providing materials and employment opportunities for the student apprentices. Wolsley also participate in our employee volunteering events.

Last year, our catering business managed to drive costs down and

profits up while at the same time improving our own sustainability performance, and satisfying clients' demands for more sustainable products. By simply changing our confectionery supplier to a main grocery chain, our catering business saved approximately 64,000 food miles of deliveries to our sites. Likewise, by sourcing our bakery products locally, we're investing in the surrounding communities and getting the freshest food available.

It doesn't stop there though, over 70% of our 57,000 black waste sacks are now made from bio-degradable materials as are the 4.5m napkins we use in our restaurants, and the 50,000 disposable takeaway bags we give out with our deli food. Additionally, our 160,000 fruit and yoghurt pots are now packaged in plastic cups made from polylactic acid.

MITIE also endorses the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work and the Ethical Trading Initiative 'Base Code'. We ensure that employment with us is always freely chosen, freedom of association is respected, working conditions are safe and hygienic, child labour is not used, pay is not lower than the minimum wage, working hours are not excessive, regular employment is provided, and no harsh or inhumane treatment is allowed.

Environment

We know our business can have an impact on the natural environment, and we do what we can to minimise and mitigate this by using environmentally friendly materials and practices. We have developed

our products and services to meet the environmental demands of our clients and are proud to help them achieve their environmental targets.

In November 2007 our work in energy management and sustainability with the Department for Culture, Media and Sport was recognised at the Premises and Facilities Management annual awards, where we picked up the Partners in Sustainability Award 2007. We were also awarded a Green Apple Award for our work on the same contract. At the beginning of the year we implemented an energy action plan and a number of other sustainability initiatives, helping to support the department in its drive to achieve its environmental targets. To date the plan has identified savings of £83,000 per year and the equivalent of 546 tonnes of CO₂.

Our work has also helped them become the first Whitehall government department to be accredited by the Carbon Trust's Energy Efficiency Accreditation Scheme.

Last year we won a highly commended certificate in the FM Excellence Awards for Sustainability, to recognise our partnership with Castle Vale School in Birmingham, home to one of our Skills Centres. The award was for our support for their entry in the 'Go Green' challenge on Teachers TV. One of MITIE's energy managers, voted NEMEX Energy Manager of the Year 2007, worked closely with both staff and pupils to help them reduce their electricity and gas use by 10% in a single term. The total amount saved came to 51 tonnes of CO₂, and over £8,000 per year.

“Over 1,000 students have benefited from our ‘World of Work’ days.”

Corporate responsibility continued

As part of the government's renewable energy drive every major new building in the UK must now generate at least 10% of its power on site from renewable sources. Faced with this challenge Standard Life Investments came to us to help them install a geothermal energy system at their new Guildford offices. The project is due for completion in October 2008, and we will also be carrying out the mechanical and electrical elements of the design and build.

In addition to this, we have now made quietrevolution turbines a key component of many of our low carbon schemes, and an integral part of the engineering services team's new microgeneration offering. A single turbine can generate 10,000kWh a year, equivalent to 10% of the energy requirements of a 600m² office building. The first project to go live was at Merton Abbey Mills in London which is used to power The Colour House Children's Theatre.

Community

We believe in giving something back to the many communities we work in: building links with local businesses, supporting our people in their own neighbourhoods, and reinforcing our reputation as a responsible Company. The value of our community investment during the year amounted to nearly £600,000. We will continue to give our skills

and our time, as well as money to supporting employee volunteering and fundraising. We play our part in communities across the world, as well as at home in the UK.

Our Skills Centres are particularly close to our hearts, and are our most important and visible commitment to supporting the development of young people. The first Skills Centre was opened in Portsmouth in 2001 and was hailed at the time as a revolutionary new way to tackle the vocational skills shortage facing the UK by bridging the gap between education and employment. The centres give school children an introduction to construction and building skills. Over 500 students are currently studying on nationally recognised construction vocational courses in the MITIE Skills Centres.

During the year we opened a further Skills Centre at Caldervale High School in Airdrie – the first of its kind in Scotland.

MITIE's people have a wealth of skills and experience that we can share with the community. Since 2005, over 1,000 students have benefited from our 'World of Work' days, which are designed to increase their employability skills.

We are keen to expand the understanding of opportunities within the workplace to more young people, and in 2008/09 we'll build upon the 'World of Work' programme. This initiative will be designed to help young people to understand the roles that could be available to them when they leave school.

Our work with the Bansang Saving Lives Appeal continued. From its base in a remote area of the African bush, Bansang Hospital looks after the healthcare needs of some 600,000 people from the Gambia, Senegal, Mali, Guinea Bissau, Guinea Conakry and refugees from Sierra Leone.

The most recent work with the hospital was a complete refit of the old colonial building to create twelve single bedrooms and two self-contained units for married medical staff. Our mechanical and electrical engineers worked alongside local workers on the new 'MITIE House', which opened in early 2008. The project used local materials wherever possible, as well as other items donated by our UK suppliers.

As we continue to grow into a world class Company delivering world class services, our commitment, responsibility and levels of investment to our communities grows with us.

Skills for life
Over 500 students are currently studying on nationally recognised construction vocational courses in the MITIE Skills Centres.

Corporate governance

The Board recognises that the manner in which the Group is governed is critical to the long-term success of the business. The Board is committed to ensuring that high standards of corporate governance are achieved throughout the Group.

This statement, together with the Directors' report and Directors' remuneration report, provides details of key aspects of MITIE's corporate governance environment and explains the manner in which the Board has applied the principles and provisions of good governance as set out in section 1 of the Combined Code issued in June 2006 (the Code).

The Board

Board responsibility

Matters that are exclusively dealt with by the Board include setting Group objectives and strategies, approving business plans and budgets and monitoring performance against these, approving material tenders, acquisitions, disposals, and business start-ups, approving the Group's Half yearly and Annual Report and Accounts, appointing and removing the Chairman, Directors and Company Secretary, and monitoring the Group's corporate governance arrangements. These matters are set out in a schedule of matters reserved for the Board which was approved by the Board on 19 May 2006 and which is available on the Group's website, www.mitie.co.uk.

Board of Directors

On 1 April 2007 there were six Executive Directors, six independent Non Executive Directors, one non-independent Non Executive Director (Ian Stewart) and the Chairman. During the year two Executive Directors resigned from the Board (Colin Acheson and Colin Hale). In addition, as announced on 19 May 2008, the Chairman David Ord (having served six years as a Non Executive Director of MITIE) and Cullum McAlpine (having served five years as a Non Executive Director of MITIE) intend to resign as Non Executive Directors with effect from the conclusion of the AGM on 31 July 2008. These decisions to resign have taken account of the Board's orderly succession planning. Roger Matthews (an independent Non Executive Director) will succeed David Ord as Chairman following the AGM.

Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Act. All Directors are subject to re-election at intervals of no more than three years in accordance with the Articles of Association and the Code. The names and biographical details of all Directors serving on the Board as at 31 March 2008 are set out on page 48. As part of the formal Board evaluation, the Board has considered the performance of each Director seeking re-election and is satisfied that they continue to be effective and demonstrate clear commitment to the role.

Board balance

As part of the ongoing review of Board performance (as set out below), the Nomination Committee and the Board have specifically reviewed the roles of Chairman and Senior Independent Non Executive Director (SID) and the composition and chairmanship of each of its committees.

The Board and the Nomination Committee recognise that, notwithstanding the reduction in the number of Executive Directors on the Board from six to four during the year, there will be an imbalance in the number of Executive and independent Non Executive Directors following the resignation of David Ord and Cullum McAlpine. The composition of the Board did not comply with provision A 3.2 of the Code prior to the resignation of Colin Hale in January 2008 and will similarly not comply with provision A 3.2 following the date of the AGM. The Board is broadly satisfied that the anticipated composition following the date of the AGM is appropriate having regard in particular to the integrity, skills, knowledge and experience of its Directors and the size and nature of the business. The Board is also keen to ensure that the Board does not become too large and unwieldy. However, it is mindful of the need to maintain a balance of independent Non Executive Directors and non independent Directors and has accordingly reviewed its composition and has initiated a search process to recruit an additional independent Non Executive Director to the Board. It is hoped that this recruitment process will be concluded within a reasonable timeframe.

Board appointments

Chairman

The Nomination Committee and the Board have reviewed the role of Chairman and resolved to appoint Roger Matthews as Chairman with effect from the conclusion of the AGM. This is in accordance with the Board succession planning in recruiting Roger Matthews in December 2006 and follows a period of familiarisation for Roger Matthews with the Group. In reaching this decision, the committee and the Board prepared a detailed job specification for the role and determined that the appointment of an independent internal candidate from amongst the existing Non-Executive Directors was in the Group's best interests. As part of this process, the committee and the Board have reviewed the independence of Roger Matthews as set out below.

Senior Independent Non Executive Director (SID)

Following Cullum McAlpine's decision to resign from the Board, the Board has reviewed the role of SID and resolved to appoint David Jenkins to the role with effect from the conclusion of the AGM.

Committee chairmanships and composition

The Board has similarly reviewed the composition and chairmanship of its committees with a view to ensuring that power and responsibility is not concentrated in a few individuals and that the committees draw appropriately on the range of skills and experience of the Executive and Non Executive Directors. The following changes to the chairmanship and composition of the committees will, subject to re-election, take effect on the conclusion of the AGM.

- David Jenkins will assume the role of Chairman of the Audit Committee,
- Roger Matthews will step down from the Audit Committee and
- Roger Matthews will assume the role of Chairman of the Nomination Committee.

Corporate governance continued

Chairman and Chief Executive division of responsibility

There is a clear division between the roles of Chairman and Chief Executive as formally set out in the terms of reference for each of these roles. These terms of reference have been reviewed as part of the review of the job specification of the Chairman.

The Chairman is responsible for the effective running of the Board. This includes ensuring that the Non Executive Directors contribute effectively and that the Board is aware of the views of major shareholders. He is also responsible for ensuring that the Board addresses major challenges faced by MITIE and for the effective performance of the Board and its committees. The Chairman is available to consult with shareholders throughout the year and is available at the AGM.

As Chief Executive, Ruby McGregor Smith is responsible for all aspects of the operation and management of the Group and its business during the year within the authorities delegated by the Board.

The role of the Executive and Non Executive Directors

The Executive Directors are collectively responsible for proposing strategy and for making and implementing operational decisions. Non Executive Directors are responsible for exercising their independent skill and judgement and contributing to the formulation of strategy, policy and decision making. The terms of appointment of the Non Executive Directors' and the Executive Directors' service contracts are available for inspection at MITIE's registered office, the head office and at the AGM.

Company Secretary

Richard Allan was appointed as the Company Secretary on 21 May 2007 as successor to Suzanne Baxter. The Company Secretary is responsible for ensuring that Board procedures and applicable rules and regulations are observed, as well as advising on all governance matters.

Director independence

During the year, Non-Executive Director independence was considered by the Board. The Board determined that all Non Executive Directors as at 31 March 2008, with the exception of the Deputy Chairman Ian Stewart, were independent in mind and judgement, and free from any material relationship that could interfere with their ability to discharge their duties effectively. Specific consideration was given to David Jenkins' prior role with Deloitte & Touche LLP, MITIE's external auditors. The Board determined that David is independent given that he had not been involved in the provision of services to MITIE and the passage of time since his departure from Deloitte & Touche LLP. Additional consideration was given to directorships held by both Cullum McAlpine and David Jenkins on the Board of Renewable Energy Systems Holdings Limited and two of its subsidiaries. The Board does not consider these directorships to adversely impact either of the Non-Executive Directors' independence.

External appointments and commitments

Executive Directors are permitted to accept appointments outside the Group providing permission is sought from the Chairman and the Chief Executive and that the additional appointments do not interfere with the Directors' ability to effectively discharge their duties. The commitments outside the Group of the Executive Directors are detailed on page 54. Executive Directors are entitled to retain any fees earned from these external appointments.

Board meetings

Directors are supplied with an agenda and supporting papers for all Board meetings on a timely basis. This ensures that each Director is appropriately briefed and able to properly discharge their duties. Papers submitted regularly for the Board's review include reports on current trading and performance, corporate development activities, health and safety and, matters relating to corporate governance. The Board will also receive, from time to time, detailed presentations from non-Board members on operational matters. The Board, its committees and its Directors have access to the advice and services of the Company Secretary and, where appropriate, external independent legal advice funded by MITIE.

All Directors are expected, where possible, to attend all Board meetings and the AGM. During the year ended 31 March 2008, there were six scheduled Board meetings. Additional unscheduled Board meetings were held to deal with administrative matters, predominantly for the approval of the issue of shares. Dedicated budget review meetings have also been held. Directors' attendance at scheduled Board and committee meetings (Audit, Remuneration and Nomination) of which they are members is shown in the following table.

Director	Board	Audit	Remuneration	Nomination
Number of meetings held in year	6	3	5	3
D C Ord	6	-	-	3
I R Stewart	6	-	-	-
R McGregor Smith ⁽¹⁾ ⁽²⁾	6	-	-	2
S Baxter ⁽¹⁾	6	-	-	-
N R Goodman	6	-	-	-
D S Jenkins	6	3	5	3
I J S Macpherson	6	3	5	3
R J Matthews	6	3	-	-
C McAlpine	4	2	3	3
G Potts	6	-	5	-
W Robson	6	-	-	-
C S Acheson ⁽³⁾	3	-	-	-
C S Hale ⁽⁴⁾	4	-	-	-

⁽¹⁾ Ruby McGregor Smith and Suzanne Baxter attended the Audit, Remuneration and Nomination Committee meetings by invitation.

⁽²⁾ Ruby McGregor Smith was appointed to the Nomination Committee on 26 July 2007.

⁽³⁾ Colin Acheson resigned from the Board on 3 October 2007.

⁽⁴⁾ Colin Hale resigned from the Board on 14 January 2008.

In addition to scheduled Board and committee meetings during the year, the Chairman met with the Non-Executive Directors on several occasions without the Executive Directors being present

Director appointment, induction and training

No new Directors were appointed to the Board during the relevant period. However, the Board has a general policy that subsequent to appointment to the Board all new Directors are subject to re-election by the shareholders at the first AGM after their appointment that each new Director receives a tailored induction suitable to their role, and that all new Directors receive a tailored information pack which includes a copy of MITIE's Memorandum and Articles of Association, latest Annual Report and Accounts, committee terms of reference and copies of recent Board minutes and supporting papers. In accordance with MITIE's Articles of Association all Directors are subject to re-election at least once in every three year period. None of the Executive or Non-Executive Directors has a service contract with a notice period greater than 12 months. All Directors have access to management and the operating businesses in MITIE at their request and have secure remote access to Board and other relevant papers held on a dedicated facility.

Review of Board performance

The Board is committed to effective and rigorous review of its performance and that of the committees and individual Directors and accordingly a formal evaluation of the performance and effectiveness of the Board, its committees and of each Director is performed annually.

Director performance evaluation for the current year has been carried out using a combination of formal appraisal questionnaires completed by all Board members and through informal meetings and discussions. The results of these reviews are reported to the Board and used to improve the Board's performance. Results of the prior year appraisal process identified an overall level of satisfaction with the performance of the Board and that of its committees and Directors. Additionally, action taken in response to this feedback included the need to continue to monitor the balance of Executive and independent Non-Executive Directors, and the sector relevant expertise of the independent Non-Executive Directors, and minor changes to the information reported to the Board. Similarly, action will be taken throughout the current year to introduce improvements as identified in the evaluation exercise undertaken for the year ended 31 March 2008.

The committees

The specific duties and responsibilities of each committee are set out in its terms of reference which are available on the Group's website, www.mitie.co.uk. Further details in relation to the composition, role and functioning of each committee are set out below.

Executive Committee and executive board

During the year the Group operated an executive committee of the Board which managed the operational matters delegated to it by the Board. The committee members were the Executive Directors and senior management were invited to attend specific meetings. During the year the Board approved the formation of an executive board which now fulfils the operational management role of the Executive Committee. The purpose of this change was to enable non-Directors to be full participating members of the executive management team rather than involvement through invitation. The executive board is not a formal committee of the Board but operates on a review and consultative basis under the existing powers of the Chief Executive and other Executive Directors.

The Executive Committee now remains as a formal approval and signing committee of the Board.

Audit Committee

The Audit Committee consists entirely of independent Non-Executive Directors and is chaired by Cullum McAlpine. During the year the Audit Committee comprised David Jenkins, Ishbel Macpherson, Roger Matthews and Cullum McAlpine. All members of the committee are considered as being appropriately experienced to fulfil its duties, while David Jenkins, Ishbel Macpherson and Roger Matthews continue to be deemed as at the date of this report, by the Board to have significant, recent and relevant financial experience through their qualifications and their previous appointments.

During the year the Audit Committee invited the external auditors, Chief Executive, Group Finance Director and Head of Internal Audit to attend meetings of the committee. The committee also met separately with the external auditors and the Head of Internal Audit without the presence of the Executive Directors.

Report of the Audit Committee

During the year the Audit Committee held three meetings. The matters under consideration at these meetings included:

- The Group's Half yearly Financial Report and Annual Report and Accounts,
- Critical accounting policies and judgements,
- The review of the external auditors' audit plan, nature and scope of work and overall summary of key issues and judgements
- The re-appointment of the external auditors
- The approval of fees for the external auditors
- The effectiveness of the external auditors including the appropriateness and skills of the audit team,
- Compliance with the Group policy on the provision of non-audit services by the external auditors and maintenance of auditor independence
- The approval of the Group risk assurance framework and the internal audit plan for the year ending 31 March 2008 and for the year ending 31 March 2009,
- The review of key internal audit reports and findings and
- The effectiveness of the internal audit function

The Audit Committee is committed to ensuring the independence and objectivity of the external auditors and confirms that the requirements of the Group's policy on the provision of non-audit services were met. This policy restricts the external auditors from performing work which will result in them auditing their own work, making management decisions for the Group, creating a conflict of interest, finding themselves in the role of advocate for MITIE or creating any potential threat to their independence. Additionally, the external auditors will only be considered for the provision of non-audit services if they are best suited to perform the work in question. Deloitte & Touche LLP also maintains its own internal controls designed to safeguard their independence. A summary of the fees paid to the external auditors is given in Note 4 to the financial statements.

The remit of the Audit Committee also includes monitoring the arrangements by which employees may raise concerns regarding any matters of financial reporting or other perceived improprieties across the Group. During the year 'whistle blowing' activity has been communicated to the committee along with the results of investigations carried out. These investigations have not identified any material risks to the Group.

Corporate governance continued

Remuneration Committee

During the year the Remuneration Committee's members were Ishbel Macpherson, David Jenkins, Graham Potts and Cullum McAlpine, all of whom are independent Non-Executive Directors. The committee held five meetings during the year and is chaired by Ishbel Macpherson.

The key duty of the Remuneration Committee is to make recommendations to the Board on the individual remuneration packages of Executive Directors. As a part of this process the committee oversaw the introduction of a LTIP (following shareholder approval at the AGM in July 2007) to reward, retain and incentivise senior members of the MITE management team. During the year the committee has been advised by the following external remuneration consultants: New Bridge Street Consultants LLP in relation to the introduction of the LTIP, and Kepler Associates in relation to Executive Director remuneration through formal benchmarking with market and industry comparators. The Board is responsible for reviewing and setting the remuneration of the Non Executive Directors.

Nomination Committee

During the year the Nomination Committee comprised David Jenkins, Ishbel Macpherson, Cullum McAlpine and David Ord. On 26 July 2007 Ruby McGregor Smith was appointed as a member of the committee. During the year three meetings of the committee took place. A key function of the committee is to evaluate the balance and composition of the Board and ensure that new Directors bring the requisite skills, knowledge and experience required for the role being considered. A full evaluation of succession planning was also undertaken by the committee during the year as described more fully above.

Shareholder communications

The Board is committed to an ongoing dialogue with institutional and private investors. The principal method of communication between the Board and shareholders remains news announcements, the Half yearly Financial Report, the Annual Report and Accounts, the CR Report and MITE's website, www.mite.co.uk. A full programme of formal and informal events, institutional investor meetings and presentations are also held following the Half yearly Financial Report and Preliminary Results announcements which are led by the Chief Executive and Group Finance Director. The Chairman, SID and Non Executive Directors may attend and are available for additional meetings with shareholders upon request.

Latest Group information, financial reports, corporate governance and CR matters, Half yearly Financial Report and Preliminary Results presentations, major shareholder information and all announcements are made available to shareholders via the MITE website (www.mite.co.uk) which has a specific area dedicated to investor relations. The 2007 AGM approved changes to the Articles of Association of the Company implementing the use of electronic communications as enabled under recent changes in company law. Under the new Articles the Company can communicate with its shareholders in three ways: in hard copy (as under the previous Articles), in electronic form to shareholders who have elected to receive documents electronically, and by making the document available on the website and notifying each relevant shareholder that the document or information has been made available on the website. The Company has deemed that any shareholder who failed, within 28 days of the 2007 AGM, to elect to receive either electronic or hard copy communications, has agreed to receive notification of documents made available on the Company's website.

Significant importance is attached to investor feedback on the Group's performance, and as such the executive board receives an investor relations report at each meeting detailing corporate news, share price activity, investor relations activity and major shareholder movements. The Board is updated by the Executive Directors on these matters and receives analyst feedback following the Half yearly Financial Report and Preliminary Results presentations.

The AGM also allows shareholders to address and discuss any issues surrounding the Group directly with the Executive and Non Executive Directors.

Internal control and risk management

The Board recognises that it is responsible for the Group's system of internal control and for reviewing its effectiveness. This system is designed to support the Group's pursuit of achieving its objectives and strategies and also the identification and management of risks that may impact upon MITE and the environment in which the Group operates. The system of internal control is designed to manage rather than eliminate the risk of failing to achieve these objectives and strategies, and it will only provide reasonable, and not absolute, assurance against material misstatement and loss.

Key features of MITE's system of internal control are set out below.

Culture, responsibility and accountability

The Board and senior management are responsible for maintaining and developing a culture of integrity, competence, fairness and responsibility throughout the Group. Essential to this is the recruitment and retention of highly skilled individuals who promote the highest standards of integrity, competence, governance and ethical behaviour.

Group policies and procedures support the business by providing an operational internal control framework for the Group, each division and operating business to work within which is appropriate to the nature of the business being undertaken. This framework is designed to balance the need for Group wide consistency and control with the autonomy local management require to develop and manage each operating business successfully.

In order to delegate responsibilities clearly and effectively to the Group's operating businesses, and to ensure compliance with the matters reserved for the Board, a formal delegated authorities matrix is issued to all operating subsidiaries that includes both financial and non financial authorities and matters relating to strategy, contract approval, recruitment, capital expenditure, banking transactions and specific Group policies. Each operating subsidiary is headed by a managing or regional Director who has authority to manage their business within this framework of delegated authorities and Group policies and procedures outlined above.

To support the business further, the Group central team has a team of specialist resources with individuals responsible for specific functions including legal, health and safety, IT, insurance, human resources, tax, pensions, purchasing, finance and business risk. Regular dialogue between these functions and the operating businesses provides additional support and forms a key part of the system of internal control.

Information and communication

The Group maintains a number of systems and processes that report relevant information to Group executive management and the Board as necessary. This includes financial and non-financial information regarding business performance, compliance with policy and procedure, relevant regulations and business critical matters.

At an operational level each division and business holds regular executive board meetings. To maintain and develop relationships between separate divisions and to address specific matters, regional meetings are also held and are attended by regional representatives of each division. Senior Group management regularly attend these meetings.

The Group also maintains an extensive intranet which allows all employees to access key information as well as Group policies, procedures and guidelines.

Risk management

The Board confirms that there is a continuing process for identifying, evaluating and managing significant risks faced by the Group. The Board also confirms that this process has been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts and that this process is monitored by the Board in accordance with the revised guidance on internal control issued by the Financial Reporting Council.

The process for identifying, evaluating and managing principal risks requires the Group and its principal businesses to consider strategic, operational, financial and compliance risks and the effectiveness of the mitigating controls based on a pre and post controls risk evaluation. The principal risks identified from this process are recorded on the Group's risk register which is maintained by the Group's Business Risk function. This register is reviewed by the Board twice a year and will similarly be reviewed by the executive board twice a year.

Monitoring the system of internal control

The Board is responsible for monitoring the Group's system of internal control and for reviewing its effectiveness. Monitoring is carried out throughout the year via the receipt and review of various reports, presentations and discussions with management, as set out above. Specifically, the Audit Committee supports the Board by monitoring and guiding the activities of the internal audit function, including approving the internal audit programme, reviewing regular reports from the function and via meetings with the Head of Internal Audit. The internal audit programme is designed to provide a level of assurance over key risks as identified in the Group risk register and is developed by the Head of Internal Audit who reports to the Company Secretary and independently to the Audit Committee.

During the reporting period a review was initiated by the Audit Committee into the Group's assurance framework encompassing both the Group's Business Risk function and Group level controls and the assurance framework within the operating divisions. The review was conducted by external consultants Grant Thornton who reported in November 2007. A number of recommendations set out in the report have been implemented in order to strengthen further the Group's risk assurance framework.

The Audit Committee also receives regular reports from the external auditors who contribute a further independent perspective on certain aspects of the internal financial control systems arising from their work. As necessary the Audit Committee will have dialogue with the Executive Directors on their control responsibilities and in particular those relating to specific matters reported by internal or external audit.

Reviewing the effectiveness of the system of internal control

The Board performs a formal annual assessment of the operation and effectiveness of the system of internal control and updates this assessment prior to the signing of the Annual Report and Accounts. This includes consideration of reports on principal risks, controls and their effectiveness from the heads of each central team function and an independent report from the Head of Internal Audit summarising key audit findings. The Board also holds discussions with senior management and reviews the results of a formal internal controls review and system effectiveness confirmation from each operating subsidiary.

The Board confirms that management has taken steps during the year to improve further the system of internal control, embed effective controls further into the operations of the Group and to address improvements as they come to management's attention. These steps are monitored to ensure they are implemented appropriately and that ultimately they are effective.

Compliance with the Combined Code

The Board confirms that throughout the year ended 31 March 2008 the Group has complied with the provisions set out in section 1 of the Code with the exception that the Board did not consist of an at least equal number of independent Non Executive and Executive Directors between 1 April 2007 and 14 January 2008.

Statement of principal risks and uncertainties

The Group has an established risk management framework which is designed to identify, evaluate and manage the risks and uncertainties facing the Group. This framework is described further in the corporate governance statement. Within this framework, MITIE classifies risks into four distinct categories according to their potential impact on the Group:

- **Strategic** – risks impacting long-term strategic objectives
- **Operational** – risks arising during day-to-day activities which if not managed could impact upon the running of the business
- **Financial** – risks directly impacting upon the finances of the business, and
- **Compliance** – risks relating to legal and regulatory sanctions and damage to goodwill arising from failure to comply with applicable laws and regulations

Principal strategic risks

New business

The Group is increasingly tendering for and winning more complex and larger multi-service business. There is an associated increase in the risks relating to appropriate scoping and pricing of contracts to ensure a fair balance of risk and reward, securing balanced commercial terms and ensuring compliant delivery of services. Robust systems to gain visibility of these risks and manage them effectively will benefit the Group's service delivery capabilities and financial performance, whilst any realisation of the negative effect of these risks would have a detrimental impact on the Group's profitability and reputation.

To ensure visibility and good management of these risks MITIE's system of internal controls incorporates strict bid and contract review and approval mechanisms. Depending upon the scope and risk of a specific tender a dedicated commercial bid team and other specialists are utilised. Effective contract management and monitoring procedures are used to ensure that ongoing risks are properly managed through the life of each relevant contract.

Loss of major contracts

MITIE has a number of major contracts which although not individually material by value to the Group are important in supporting our future growth. We adopt a key account management strategy for these contracts which includes, where appropriate, Director-level client relationships and we monitor closely key client relations, helping to reduce the risk of losing any of these contracts.

Acquisitions

MITIE continues to seek to acquire businesses that fit with, or complement our existing range of service offerings and culture. The strategic risks associated with acquisitions include a failure to gain visibility of and manage risks that are assumed through acquisition, valuation risk relating to the acquisition, a failure to achieve a cultural fit and, the synergistic and operational transition of the acquired business into the Group. If these risks were crystallised they could lead to material business disruption, and loss of profits and associated investor confidence. These risks are managed and mitigated by the use of an experienced acquisitions team supported by internal specialists and external professionals and by the Directors who closely monitor the acquisition process. All material acquisitions require full Board approval. Following any acquisition an Executive Director is appointed as an integration project sponsor with responsibility for ensuring that the acquired business is integrated successfully and the performance of the integration process closely monitored.

Infrastructure and systems

MITIE is increasingly dependent upon the successful implementation and ongoing operation of information technology infrastructure and related systems. Failure to improve and invest in our infrastructure and systems on a continuing basis and to ensure their ongoing operational integrity could impact MITIE's ability to meet our operational commitments and may result in liabilities being incurred under customer contracts. MITIE's infrastructure is continually reviewed by the Board to ensure it is appropriate to the operations performed and that it enables employees to deliver services to its clients successfully. The ongoing investment in a new SAP based finance and HR system will improve and strengthen further MITIE's IT infrastructure.

Reputational risk

MITIE operates in business sectors that are vulnerable to reputational damage through operational failings. Incidents that result in damage to MITIE's reputation may impact existing customer relations, MITIE's ability to attract future business, and damage to shareholder value. MITIE addresses this risk through the use of robust and well established operational procedures to ensure compliance with regulatory and legal requirements and with contractual obligations. Clearly defined escalation procedures are in place to ensure that senior management have timely visibility of high risk matters.

Principal operational risks

Health, safety and environment

The breadth and nature of activities that MITIE undertakes gives rise to a range of potential health, safety and environmental risks. These risks could impact upon MITIE, its customers, employees, members of the public and the environment generally through injury or loss of life, environmental damage, disruption to business activities, loss of reputation and the incurring of financial penalties. Specific examples of potential risks encountered by employees include working at height, installing and maintaining electrical systems using machinery and controlled chemicals and operating in hazardous sites and public areas.

MITIE manages these risks through the maintenance of a culture that encourages every employee to take responsibility for their health and safety and where all operational activities have a strong safety focus. The Chief Executive is responsible for health and safety and is supported by the executive board, the head of health and safety and a network of dedicated health and safety experts within the business. All parties are committed to the continual development and improvement of processes and procedures to reduce the likelihood and impact of incidents. Training and education of all employees is a fundamental part of the improvement process and promotes a culture of both collective and individual responsibility for health and well being of our employees, our clients' employees and the general public.

Employee skill shortages

MITIE recognises that there may be skill shortages in some sectors in which the Group operates. This would impact upon our ability to mobilise and service new and existing contracts and potentially upon MITIE's ability to grow its business generally. In order to recruit and retain the people that MITIE needs, we regularly review, at the appropriate level, our remuneration, incentivisation and reward structures. The Group continues its emphasis on equity based incentivisation for employees and other employee incentive and reward schemes.

We place great emphasis on succession planning and on the need to train and develop all our employees. As part of this MITIE continues to provide work based learning and training opportunities and currently employs 321 construction, engineering and other apprentices. MITIE also supports vocational education in the wider community by providing Skills Centres in secondary schools. In the last year we have opened our eighth Skills Centre.

Principal financial risks

Liquidity

Maintaining sufficient levels of liquidity and financial capacity is essential to enabling MITIE to function at an operational level and to fund its growth strategy. Failure to manage liquidity properly could impact operational activities and the Group's ability to grow further. Specific liquidity risks include the ability to manage working capital and sufficiency of banking arrangements.

The Group Treasury function is responsible for the management of liquidity risk and operates within a framework of policies and procedures that are approved by the Board. Forecasting, monitoring and reporting of cash flows to senior management and the Board ensures the appropriate level of visibility over the processes to control this risk. Furthermore, within the reporting period, pre-existing committed five year banking facilities were extended by £80m on existing terms to £230m to provide ongoing funding to support the Group's growth strategy. Further details regarding financial risk are shown in Note 23.

Principal compliance risks

Pensions

Risks associated with the operation and management of the Group's pension funds concern the ability of the pension fund assets to meet future pension liabilities. Within the Group this applies to MITIE's own pension schemes and to pension liabilities assumed by MITIE where a workforce transfers to the Group under new business contracts and relevant legislation.

Trustees manage the MITIE Group pension funds and the required contribution rates are set on the basis of independent actuarial advice. Actuarial valuations are sensitive to changes in assumptions made regarding future events including mortality rates and the long term return on scheme assets. The funding positions of these funds are regularly reviewed.

In respect of pensions schemes associated with transferring employees, for example the Local Government Pension Scheme, the principal risk concerns the potential for scheme liabilities to exceed scheme assets requiring increases in post transfer contribution levels. MITIE manages this risk through ensuring that appropriate advice is obtained in the bidding and transfer process, that the risk is fairly and properly priced and that binding contractual commitments are secured as to how future liabilities are met and on the funding position on transfer. Further information regarding pensions is shown in Note 34.

Board of Directors

David Ord†

Non Executive Chairman

David was appointed as a Non-Executive Director of MITIE Group PLC in October 2002 and was later appointed as Non-Executive Chairman in September 2003. David is Managing Director of The Bristol Port Company which owns and operates the Avonmouth and Portbury docks.

Ian Stewart

Non Executive Deputy Chairman

Ian was appointed as Chief Executive of MITIE Group PLC in 2001 and was appointed as Non Executive Deputy Chairman on 30 March 2007. Ian was a founding member of MITIE. He is Non Executive Director of Generation (UK) Limited, suppliers of scaffolding, access and safety systems.

Ruby McGregor Smith†

Chief Executive

Ruby was appointed as Group Finance Director of MITIE Group PLC in December 2002, later appointed as Chief Operating Officer in September 2005 and subsequently as Chief Executive in March 2007. Prior to joining the Group, Ruby held a range of senior roles within the support services sector, primarily at Serco Group plc. In addition, she is a Non Executive Director of Michael Page International plc.

Suzanne Baxter

Group Finance Director

Suzanne was appointed as Group Finance Director of MITIE Group PLC in April 2006. Suzanne is a Chartered Accountant. Prior to joining MITIE, she specialised in mergers and acquisitions related transaction support and also held a number of commercial and operational roles with Serco Group plc. Suzanne holds a seat on the Opportunity Now Advisory Board, a part of the Business in the Community (BITC) organisation with a focus on workplace diversity, and is also a member of the Finance and Risk committee of BITC.

Roger Goodman

Group Corporate Development Director

Roger joined MITIE Group PLC in 1993 and was appointed as an Executive Director in August 2001. Roger is a Non Executive Director of The Business Services Association and Asset Skills Council, which advocates the growth of the support services industry profile and the development of skills in the sector. In addition, he is Chairman of Networkers International plc.

Bill Robson

Director responsible for Property Services

Bill joined MITIE Group PLC in January 1992 following the acquisition of Trident Maintenance Services Limited and was appointed as an Executive Director in August 2001.

David Jenkins †‡

Non Executive Director and Chairman of the Nomination Committee

David was appointed as Non Executive Director in March 2006. David was previously a senior Partner with Deloitte & Touche LLP in London having spent over 20 years in Assurance and Advisory Services. David is Chairman of Development Securities PLC and Non Executive Director of Renewable Energy Systems Limited. He is a Governor of Downe House School.

Ishbel Macpherson †‡

Non Executive Director and Chairman of the Remuneration Committee

Ishbel was appointed as Non Executive Director in July 2005. Ishbel was previously an investment banker for over 20 years specialising in UK mid market corporate finance and previously held positions at Dresdner Kleinwort Wasserstein and Hoare Goveff. Ishbel is Non-Executive Director of Hydrogen Group plc and GAME Group plc and the Senior Independent Non Executive Director at Speedy Hire Plc.

Roger Matthews†

Non Executive Director

Roger was appointed as Non Executive Director in December 2006. Roger previously held the roles of Group Finance Director of J Sainsbury plc and Group Managing Director and Group Finance Director of Compass Group PLC. Roger is Non Executive Chairman of both Land of Leather Holdings PLC and LSL Property Services PLC.

Cullum McAlpine †‡

Non Executive Director and Chairman of the Audit Committee

Cullum was appointed as Non Executive Director in April 2003. He is also Director of Sir Robert McAlpine Limited and Chairman of Renewable Energy Systems Limited.

Graeme Potts

Non Executive Director

Graeme was appointed as Non Executive Director in July 2006. Graeme previously held appointments with Inchcape PLC, RAC Motoring Services and Reg Vardy plc. He is Non Executive Director of BEN, the Motor & Allied Trades Benevolent Fund and is Non Executive Chairman of Bikers Legal Defence Limited.

* Member of the Remuneration Committee

† Member of the Audit Committee

‡ Member of the Nomination Committee

Directors' report

The Directors submit their report together with the audited consolidated financial statements of the MITIE Group of companies (the Group) for the year ended 31 March 2008

Principal activities

MITIE Group PLC (the Company) is the holding company of the Group. The principal activity of the Company is to provide management services to the Group. The Group's activities are focused on the provision of services in support of the buildings and infrastructure of clients

Business review

The Company is required to set out a fair review of the business of the Group during the reporting period (including an analysis of the position of the Group at the end of the reporting period and the principal risks and uncertainties facing the Group). Details of this review are contained in the following sections of this Annual Report and Accounts: the Chairman's statement, the Chief Executive's review, the operating review, the financial review, the corporate governance statement and the statement of principal risks and uncertainties

Profit and dividends

The profit for the financial year, before taxation, is £67.9m (2007: £56.6m). The Directors have declared/recommended dividends as follows

Paid (on 8 February 2008) an interim dividend of 2.8p per Ordinary share	£8.9m
Recommended a final dividend of 3.2p per Ordinary share	£10.1m
Total Ordinary dividend 6.0p per share (2007: 5.1p)	£19.0m

The final dividend, subject to shareholder approval, will be paid on 4 August 2008 to Ordinary shareholders on the register on 4 July 2008. The Company operates a Dividend Re-investment Plan (DRIP). Further details on the operation of the DRIP are contained within the notice of the AGM booklet.

Share capital

Details of changes to the Company's share capital during the year and the number of Ordinary shares in issue at the year end are detailed in Note 27 to the financial statements.

Substantial interests in share capital

As at 16 May 2008 the Company has been notified of the following significant holdings of voting rights in its shares under the Disclosure and Transparency Rules

	Number of Ordinary shares of 2.5p each	% of share capital
Fidelity International Limited	10,065,118	3.18%
Legal & General Group PLC	12,753,391	4.03%
Mirabaud Investment Management Limited	15,673,517	4.95%

In June 2004 the Company commenced a share buyback programme which has continued pursuant to the renewed authority given by shareholders at the AGM in 2007. During the year to 31 March 2008 there have been no further purchases by the Company of MITIE shares. The exact amount and timing of future purchases will be determined by the Company and will be dependent on market conditions and other factors. It is the Company's present intention to cancel any shares it buys back, rather than hold them in treasury, but this policy will be reviewed on a case by case basis. Further details on the proposed renewal of powers for share buyback and the allotment of shares in the Company are provided in the notice of the AGM booklet.

Rights and restrictions attaching to shares

Under the Company's Articles of Association holders of Ordinary shares are entitled to participate in any dividends pro rata to their holding. The Board may propose and pay interim dividends and recommend a final dividend for approval by the shareholders at the AGM. A final dividend may be declared by the shareholders in a general meeting by ordinary resolution, but such dividend cannot exceed the amount recommended by the Board. The Company's Articles of Association contain various provisions relating to voting rights attaching to Ordinary shares and restrictions on the transfer of Ordinary shares which are in line with standard administrative practice. No person holds securities in the Company carrying special rights with regards to control of the Company and the Company is not aware of any agreement between its shareholders that may result in restrictions on the transfer of shares.

Board of Directors

The membership of the Board as at 31 March 2008 and biographical details of the Directors (including details of committee chairmanships and other positions held) are given on page 48. The notice of the AGM booklet contains details of those Directors who are retiring by rotation and proposed for re-election. The Board considers that the performance of those Directors proposed for re-election continues to be effective and that they demonstrate a strong commitment to their role.

On 19 May 2008 David Ord announced his intention to retire from his role as Chairman and as a Director of the Company and Cullum McAlpine announced his intention to retire from his role as Chairman of the Audit Committee, Senior Independent Non-Executive Director (SID) and as a Director of the Company. These retirements will be effective on the conclusion of the AGM on 31 July 2008 and Roger Matthews will thereupon assume the role of Chairman. With effect from the conclusion of the AGM, David Jenkins will become Chairman of the Audit Committee, Roger Matthews will become Chairman of the Nomination Committee, and David Jenkins will become Senior Independent Non-Executive Director. Further details on the selection process in respect of these appointments are provided in the corporate governance statement. During the year Colin Acheson and Colin Hale stepped down as Executive Directors of the Company.

Directors' interests

Details of the beneficial and non-beneficial interests (including share options) of each Director and connected persons in the Ordinary share capital of the Company are provided in the remuneration report.

Directors' report continued

Directors' indemnities

The Company maintains Directors' and officers' liability insurance providing appropriate cover for any legal action brought against its Directors and/or officers. The 2007 AGM approved various amendments to the Memorandum and Articles of Association of the Company to extend the protection provided to Directors in respect of any litigation against Directors relating to their position as a Director of the Company. These changes were made possible by recent amendments to company law. The amended Memorandum and Articles of Association specifically provide that the Company may indemnify Directors against any liability incurred in connection with any negligence, default, breach of duty or breach of trust in relation to the Company and that the Company may fund defence costs. Individual Directors would still be liable to pay damages awarded to the Company in any action against them by the Company and to repay their defence costs (to the extent funded by the Company) if their defence was unsuccessful.

Going concern

After making enquiries, the Directors have formed a judgement that, as at the date of approving the financial statements, there is a reasonable expectation that the Group and the Company have 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.

Statement of Directors' responsibilities in respect of the accounts

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare the financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and have chosen to prepare Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of International Financial Reporting Standards (IFRS) accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with IFRS where applicable. The Directors are also required to properly select and apply accounting policies, present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and, provide additional disclosures when compliance with the specific IFRS requirements is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In the case of UK GAAP accounts, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, and, state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, safeguarding the assets, taking reasonable steps for the prevention and detection of fraud and other irregularities, and the preparation of a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Act 1985.

The Directors are also responsible for the maintenance and integrity of the Company website. Financial statements published by the Company on this website are prepared in accordance with UK legislation which may differ from legislation in other jurisdictions.

To the best of each Director's knowledge, the financial statements prepared in accordance with IFRS and contained within this Annual Report and Accounts, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole, and the management report, which is incorporated into the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties they face.

Auditors and disclosure of information to the auditors

Each of the Directors in office as of the date of approval of this Annual Report confirms that:

- So far as they are aware, there is no relevant audit information (being information required by the auditors in the preparation of their report) of which the Company's auditors are unaware, and
- They have each taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and the resolution to reappoint them will be proposed at the forthcoming AGM.

Events after the balance sheet date

There have not been any significant events since the balance sheet date.

Financial instruments

The Group's financial instruments comprise bank loans, finance leases, overdrafts and performance guarantees. The principal purpose of these is to raise funds for general corporate purposes. In addition, various other financial instruments such as trade creditors and trade debtors arise from its trade. The use of interest rate swaps and currency swaps will be used to manage interest and currency risk when necessary or material.

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 2008, the Group had 47 days' purchases outstanding (2007: 48 days).

Employee involvement, disability and opportunities

The Board remains committed to developing further a culture that encourages the inclusion and diversity of all of the Group's employees through respecting and appreciating their differences, and to promoting the continuous development of employees through skills enhancement and training programmes. The Group's employment policies are designed to attract, retain, train and motivate the very best people, recognising that this can be achieved only through offering equal opportunities regardless of gender, race, religion, age, disability or any other aspect of diversity. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as reasonably possible, be identical to that of other employees.

Communication with employees continues to have a high priority. The Company maintains a group wide intranet site and delivers bi-annual publications to all employees. Through the use of their own communication processes each of the Group's businesses is encouraged to ensure that employees are kept informed on Group and individual business developments.

Employees remain actively involved in the Group's activities via an employee forum. This year the forum held two meetings chaired by Ruby McGregor Smith. We look forward to an increase in involvement and activity of our company representatives.

Equity incentivisation of employees

The Board remains committed to fostering and developing a culture of equity involvement whereby employees should be encouraged to build a stake in the Company through the Company's various equity based incentive schemes. The Board believes that it is this culture of equity involvement that has driven the Group's growth performance and that it assists in attracting and retaining skilled and committed employees. During the year, and as approved at the 2007 AGM, the Group has implemented the Long Term Incentive Plan (LTIP) to incentivise and reward senior members of the MITIE management team, and has made adjustments to the discretionary (those not open to all employees) executive Share Option Scheme (ESOS) to simplify the incentive effect for employees below Board level. The Board is seeking shareholder approval at the AGM for a change to the Group's Savings Related Share Option Scheme (SAYE) to reduce the savings contract period from five years to three years. The Board believes that this is in line with general market practice and will make the scheme more attractive to, and should increase uptake of the scheme by, MITIE's employees.

The Group has historically grown by giving entrepreneurial managers the opportunity to create wealth for themselves by taking the risk of starting a new business, taking equity stakes at fair value in those new businesses in conjunction with MITIE and then, dependent on a pre-agreed pricing structure, offering to sell that stake to MITIE in exchange for MITIE shares. This incentivisation scheme typically provides for such managers to elect to offer their stake in their business to MITIE between the fifth and tenth years from the date of establishment of the business. Recipients of shares under this incentivisation scheme are generally restricted from selling the MITIE shares for a minimum of two years. The Board believes that this is a unique business model that has driven MITIE's past performance and continues to ensure a close alignment in interest between MITIE shareholders and the management and employees of the Group. During the reporting period the Group further expanded its use of this incentivisation scheme through the restructuring and recapitalisation of the Group's Security business and through the start-up of the Client Services business. It is the Board's current intent to continue to utilise this incentivisation scheme.

Donations

Charitable donations were made during the year (amounting to £106,850 (2007: £116,650)) to charities serving the communities in which the Group operates. As a matter of policy, no political contributions were made during the year (2007: £nil). The total value of community investment as disclosed in more detail in our CR Report 2008 was £592,132 (2007: £611,836).

Electronic communications

The Directors remain committed to improving and extending the methods in which the Company communicates with its shareholders and wish to move towards an increase in electronic communication. At the 2007 AGM, shareholders approved certain amendments which aligned the Company's Articles of Association with the new provisions of the Companies Act 2006 in relation to electronic shareholder communications. The Board has been disappointed with the level of uptake by shareholders to date and would wish to encourage all shareholders to 'opt in' to electronic communications – thus realising the environmental and cost benefits of reduced printing and carriage of hard copy reports and other communications.


AGM

The notice of the AGM to be held on 31 July 2008 is given, together with explanatory notes, in the booklet which accompanies this Annual Report.

Basis of report

This Directors' report (together with the other sections of this Annual Report incorporated by reference) has been prepared and is published in accordance with, and in reliance upon, applicable English company law and the liabilities of the Directors in relation to this report are subject to the limitations provided by such law.

By order of the Board



Richard Allan
Company Secretary

19 May 2008

Directors' remuneration report

Introduction

This remuneration report summarises the Company's remuneration policy and particularly, its application in relation to the Directors. The report describes how the Company applies the principles of good corporate governance in relation to Directors' remuneration in accordance with the Combined Code 2006, the Directors' Remuneration Report Regulations 2002, relevant company law and the Listing Rules of the Financial Services Authority. The Company's auditors are required to report on certain sections of this report (the 'audited information') and to state if the report has been properly prepared in accordance with these regulations. Shareholders will be provided with an opportunity to vote on this remuneration report at the forthcoming AGM. Further details are contained in the notice of AGM booklet that accompanies this report.

Shareholder approval will also be sought at the AGM for two changes in the Company's existing equity based employee incentive schemes. The first is a change to the maximum grant level of awards under the Long Term Incentive Plan (LTIP). The second is a reduction in the contract period under the all-employee MITIE Group PLC 2001 Savings Related Share Option Scheme, known as the Save As You Earn (SAYE) Scheme, from five years to three years. Details of these schemes are set out below and specific details of the proposed changes are set out in the notice of AGM booklet that accompanies this report.

Part 1 information not subject to audit

Remuneration Committee

The Remuneration Committee (the committee) has responsibility for determining the remuneration packages of the Executive Directors. It is also responsible for overseeing the operation of all equity based employee incentive schemes operated by the Company. The terms of reference of the committee are available on the Group's website (www.mitie.co.uk) and upon request.

During the year the members of the committee were: Ishbel Macpherson (Chairman), David Jenkins, Graeme Potts and Cullum McAlpine. Certain decisions affecting Group remuneration policy were taken during the period immediately prior to the reporting period when Sir John Jennings was a member of the committee. Sir John Jennings retired on 30 March 2007 and Graeme Potts was appointed a member on 30 March 2007 in his place. All members of the committee are independent Non-Executive Directors. By invitation of the committee, meetings may also be attended by David Ord, Roger Matthews and Ruby McGregor Smith.

During the year, the committee was advised by New Bridge Street Consultants LLP in relation to the introduction of the 2007 LTIP. In November 2007 the committee engaged the services of Kepler Associates to assist with a review of executive remuneration policy (including the remuneration of Executive Directors) and to review the LTIP and SAYE schemes. The proposed changes to these schemes are the result of this review. Other than remuneration advice, neither New Bridge Street Consultants LLP nor Kepler Associates provided any other services to the Company.

Remuneration policy

The remuneration policy for the Company's Executive Directors and other Group senior executives is shaped by the need to recruit, retain and motivate individuals of the right calibre. The policy also has regard to the Company's and the Group's culture which encourages equity ownership in order to maximise the alignment between the Company's executives and its shareholders and is a long standing feature of the Group's executive remuneration structures. The committee, and the Board, continues to believe that the principle of equity incentivisation has been a key driving force in the past success of the Group. Consequently, in order to maintain and develop further MITIE's performance culture, the remuneration packages of Executive Directors and other Group executives should continue to contain significant performance related elements.

Chairman's remuneration

The remuneration for the Chairman, David Ord, is recommended by the committee for approval by the Board. The level of remuneration for the Chairman reflects the responsibilities and commitment of this role and was reviewed during the year following receipt of advice from New Bridge Street Consultants LLP in relation to market comparators.

Non Executive Director remuneration

The fees for the Non Executive Directors are set by the Chairman and the Executive Directors and they are reviewed annually. The fee level is designed both to recognise the contribution and responsibilities of the role and to attract individuals with the levels of experience and skills required to contribute to the future development of the Board and the Group. The Non Executive Directors are paid a basic fee with an additional fee for chairmanship of committees, together with expenses incurred in carrying out their duties on behalf of the Company. Non Executive Directors are not eligible to participate in any of the Company's schemes or the annual bonus scheme, nor do they receive pensions or ancillary benefits. Further details of fees paid to Non-Executive Directors are provided in the audited section of this report.

Executive Directors' remuneration

Overall policy

The committee has during the year, further reviewed its policy in respect of remuneration for Executive Directors. Kepler Associates were engaged to assist in this process. The changes proposed to the LTIP scheme (as set out in greater detail below and in the notice of AGM booklet accompanying this report) will enable the Company to provide an Executive Director remuneration package that is more strongly weighted towards share based incentives – reinforcing the link between the interests of Executive Directors and those of the shareholders. The overall package for Executive Directors consists of salary, an annual performance-related bonus, long-term equity based incentives, pension contributions and other benefits. The committee has continued its policy of providing a remuneration structure with a strong variable performance-related element. There are two key components of variable remuneration: the annual performance-related cash bonus and the performance-related LTIP. The committee believes that where the Executive Directors receive remuneration packages at or above the median of an appropriate Group of comparator companies, this appropriately reflects the relative outperformance of MITIE when compared with such sector and size comparator companies.

Salary and benefits

Salaries for Executive Directors are reviewed annually and any change to salary is generally made with effect from 1 April. Kepler Associates advised the committee during the year on a formal benchmarking process in respect of Executive Director pay which took account of pay levels in sector and size comparator companies. The committee also took account of a range of other factors when determining appropriate salary levels including market conditions and the responsibilities and skills of the individual Directors. Details of the salaries of the Executive Directors during the year, together with the details of and value of other emoluments and benefits are given below.

Annual bonus scheme

The annual bonus schemes for Executive Directors in respect of the reporting period were designed to enable the Executive Directors to share in the success of MITIE and, where relevant, the divisions for which the Executive Director is responsible. All the Executive Directors have a maximum annual bonus potential of 100% of salary. The bonuses payable to Ruby McGregor Smith and Suzanne Baxter for the year were based on the achievement of Group budgeted performance levels. The bonuses payable to the other Executive Directors were calculated on the basis of 50% of their bonus being dependent on the achievement of Group budgeted performance levels and 50% being calculated on the performance against budget of the respective areas of the Group's business within each individual Director's direct control. The profitability performance targets for the year were delivered and as a result maximum awards under the scheme were paid to the Executive Directors.

Service contracts and terms

Chairman and Non Executive Directors

The Non Executive Directors and the Chairman are engaged for terms of three years which are terminable on six months' notice.

	Date of agreement	Notice period	Date of leaving
David Ord	26 April 2004	6 months	David Ord has announced his intention to retire on 31 July 2008
Ian Stewart ⁽¹⁾	30 March 2007	6 months	-
David Jenkins ⁽²⁾	31 January 2006	6 months	-
Cullum McAlpine ⁽³⁾	3 August 2005	6 months	Cullum McAlpine has announced his intention to retire on 31 July 2008
Ishbel Macpherson ⁽⁴⁾	27 July 2005	6 months	-
Roger Matthews	4 December 2006	6 months	-
Graeme Potts	1 August 2006	6 months	-

⁽¹⁾ Ian Stewart was appointed Non-Executive Deputy Chairman on 30 March 2007 having previously held the position of Chief Executive.

⁽²⁾ Chairman of the Nomination Committee.

⁽³⁾ Chairman of the Audit Committee.

⁽⁴⁾ Chairman of the Remuneration Committee.

Executive Directors

All the Executive Directors have rolling service contracts which provide for a maximum of 12 months notice from either party. There are no provisions for compensation on termination of employment set out within the contracts of the Executive Directors. The dates of the contracts of the Executive Directors are set out below.

	Date of agreement	Notice period	Date of resignation
Ruby McGregor Smith	1 April 2003	12 months	-
Suzanne Baxter	10 April 2006	12 months	-
Roger Goodman	1 April 2003	12 months	-
Bill Robson	1 April 2003	12 months	-
Colin Acheson ⁽¹⁾	1 April 2003	12 months	3 October 2007
Colin Hale ⁽¹⁾	1 April 2003	12 months	14 January 2008

⁽¹⁾ Colin Acheson and Colin Hale ceased to be Directors of the Company on the dates indicated.

Equity based incentive schemes

The Group operates three equity based incentive schemes from which awards can be made. The Long Term Incentive Plan (LTIP) targeted at Executive Directors and other senior executives and the MITIE Group PLC 2001 Executive Share Option Scheme (ESOS) are both discretionary schemes and therefore not open to all employees of the Group. The SAYE, an Inland Revenue approved scheme, is open to all our UK employees.

LTIP

The LTIP was established in 2007 and is the principal equity based incentive scheme for Executive Directors. Awards may be granted in the form of nil cost options, conditional shares or forfeitable shares. The committee is examining the possibility of granting awards using a combination of these award types. The committee may also decide to grant cash based awards of an equivalent value to share based awards or to satisfy share-based awards in cash, although it does not currently intend to do so. An award may not be granted after 26 July 2017. No payment (other than in respect of individual recipients electing to pay income tax where appropriate) is required for the grant of an award. Awards are not transferable except on death and are not pensionable.

Awards will normally vest after three years provided that certain performance criteria have been met. The LTIP awards made in 2007 are subject to performance conditions that require adjusted earnings per share (EPS) less inflation (measured by the retail prices index - RPI), to exceed certain performance thresholds over a three year period. Where EPS growth is less than inflation plus 5% per annum none of the awards will vest. Awards vest in full for EPS growth equal to inflation plus 14% per annum. Vesting will be on a straight line basis for performance between these levels. Following advice from New Bridge Street Consultants LLP and a consultation exercise with the Company's principal shareholders in 2007 the committee determined and continues to believe that EPS is the most appropriate long-term performance measure for MITIE. It brings the advantages of simplicity and visibility of the value of the award which the committee believes enhances the LTIP's effectiveness as an incentive tool. In the event of a change-of-control awards will be pro-rated both for time and performance, subject to the discretion of the committee.

Directors' remuneration report continued

Currently an individual may not ordinarily receive awards in any financial year over shares having a market value in excess of 100% of annual base salary in that financial year. In exceptional circumstances, such as recruitment or retention, the rules currently allow for this limit to be increased to 200% of any employee's annual base salary. It is proposed that the threshold in respect of annual grants is amended to 200% to allow certain Executive Directors, who have not otherwise had the opportunity, a greater possibility to build shareholdings in the Company, subject to the satisfaction of stretching performance targets. As part of its review of the LTIP, the committee considered the introduction of a second performance target for awards of over 100% of an Executive Director's base salary. The committee decided against this believing it would dilute the clarity and simplicity of the scheme, and that a single target is more in keeping with the other successful equity based incentive schemes that operate within the Group. It is also proposed to increase the maximum award in exceptional circumstances to 250% of base salary. The 2008 notice of AGM booklet accompanying this report contains further details of these proposed amendments.

Further details of the LTIP were provided in the 2007 notice of AGM booklet (available in the investor section of the MITE website at www.mite.co.uk)

ESOS

The current ESOS was established in 2001. The scheme has been approved by Her Majesty's Revenue and Customs (HMRC) and options over shares to an individual limit of £30,000 can be awarded under the approved element of the scheme. Options have in the past been awarded under this scheme to Executive Directors but, following the introduction of the LTIP it is intended that the ESOS will be focused on employees below main Board level. The committee does not currently intend to make any further awards under the ESOS to Executive Directors or to other participants in the LTIP. There is a limit on the grant level set at 100% of an individual's base salary and the scheme has, following changes to the scheme approved by shareholders at the 2007 AGM, a single performance threshold for vesting of the options – average growth in earnings per share over the three year vesting period must exceed inflation (measured as RPI) plus 4%. The scheme permits the grant of share appreciation rights and the settlement of outstanding unapproved options with share appreciation rights.

SAYE

The current MITE Group PLC Savings Related Share Option Scheme (SAYE) was established in 2001. The SAYE is open to all qualifying employees within the MITE Group including Executive Directors. HMRC rules restrict the maximum amount saved to £250 per month. When the savings contract is started, options are granted to acquire the number of shares that the total savings will be when the contract matures, at a discounted price set at the start of the scheme. In 2007 this discount was set at 13.5%. The scheme currently provides that the savings scheme will run for and options cannot normally be exercised before, five years. The committee is concerned that take up of the SAYE should be improved and the lapse rate reduced, and accordingly it is proposing that shareholders agree an amendment to the scheme rules to provide for a lesser savings contract period and option exercise period of three years. The notice of AGM booklet accompanying this report contains further details of the proposed amendments to the SAYE.

Dilution limits

For historic reasons the Schemes' rules have incorporated limitations on the grant of equity based incentives which exceed the ABI guidelines. These limitations have historically been that the Company will not issue in any ten year period more than 12% of the issued Ordinary share capital of the Company in respect of equity based incentive schemes (both all-employee schemes and discretionary schemes), and more than 6% of the issued Ordinary share capital of the Company in respect of discretionary equity based incentive schemes. However, the Company will endeavour to keep within the best practice ABI guidelines of 10% of issued Ordinary share capital in respect of both all employee schemes and discretionary schemes (the ESOS, LTIP and SAYE) and 5% in respect of discretionary schemes (the ESOS and the LTIP). In calculating compliance with these guidelines the Company allocates available 'headroom' on a ten year flat line basis, making adjustments for projected lapse rates and projected increases in issued share capital. As at 31 March 2008 the potential dilution of the Company's issued share capital was equal to 6.2% of the issued share capital in respect of all outstanding options granted under the Company's equity based incentive schemes (which will be satisfied through the allotment of new shares) and 3.0% of the issued share capital in respect of all outstanding options granted under the Company's discretionary equity based incentive schemes (which will be satisfied through the allotment of new shares).

Shareholding policy

A shareholding policy for Executive Directors was introduced in 2007 at the same time as the LTIP. Under the current policy, all Executive Directors are required to build and maintain a shareholding in the Company worth 100% of base salary. The committee recognises that the principal mechanism for building up this holding will be on the exercise of LTIP awards and accordingly, until such time as the shareholding requirement is met, Executive Directors will be expected to retain no fewer than 50% of shares (net of taxes) that vest under the LTIP.

In view of the proposal to increase the maximum level of LTIP award (as set out above) the committee has deemed it appropriate to increase the level of shares required to be held by any Executive Director who is granted an LTIP award of more than 100% of their base salary to a level equivalent to 150% of base salary.

The level of Executive Director share ownership as at 31 March 2008 expressed as a percentage of base salary is set out in the share ownership table below.

Policy on external appointments

The Board recognises that the appointment of Executive Directors to Non Executive positions at other companies can be beneficial both for the individual Director and the wider Group through the broadening of their experience and knowledge. Individual Directors retain their fees in respect of any such appointments. Roger Goodman receives £25,000 per annum in fees in respect of his role as Chairman of Networkers International plc. Ruby McGregor Smith receives £43,000 per annum in fees in respect of her role as a Non Executive Director of Michael Page International plc.

Total shareholder return performance graph

The graph below shows the value of £100 invested in MITIE shares on 1 April 2003 and ending on 31 March 2008 compared with £100 invested in the FTSE 250 Index and the FTSE 350 Support Services Index on the same date (assuming that all dividends are reinvested). The other points are the values at intervening financial year ends. The committee is of the opinion that these comparators provide a clear picture of the performance of MITIE relative to a range of companies of comparable size as well as a specific Group of companies within the same sector.

Total Shareholder Returns (rebased to 100)

Source: Datastream

The market price of the Company's shares as at 31 March 2008 was 242.00p. The highest and lowest prices during the year were 287.00p and 223.25p respectively.

Part 2 audited information

Directors' 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.

	Base salary/fees £'000	Performance related bonuses £'000	Benefits £'000	Pensions £'000	2008 Total £'000	2007 Total £'000
Executive Directors						
R McGregor Smith	370	370	18	11	769	607
S Baxter	260	260	16	35	571	436
N R Goodman	240	240	16	11	507	489
W Robson	240	240	16	11	507	437
C S Acheson ⁽¹⁾	115	–	8	6	129	368
C S Hale ⁽²⁾	200	240	16	33	489	505
Non Executive Directors						
D C Ord (Chairman) ⁽³⁾	121	–	–	–	121	90
I R Stewart ⁽⁴⁾	75	–	–	–	75	695
D S Jenkins	45	–	–	–	45	40
C McAlpine	45	–	–	–	45	29
I J S Macpherson	45	–	–	–	45	45
R Matthews	40	–	–	–	40	13
G Potts	40	–	–	–	40	27
Total	1,836	1,350	90	107	3,383	3,781

⁽¹⁾ Colin Acheson resigned as a Director on 3 October 2007.

⁽²⁾ Colin Hale resigned as a Director on 14 January 2008. He was paid base salary until 31 January 2008, his 2007/08 bonus entitlement of £240,000 in full, an additional termination payment of £238,750 and a lump sum pension contribution of £24,000 conditional upon his own contribution of £18,000 to the scheme.

⁽³⁾ David Ord's fee increased to £140,000 with effect from 26 July 2007 following a market testing review by New Bridge Street Consultants LLP.

⁽⁴⁾ Ian Stewart received an additional payment of £35,000 in respect of consultancy services provided to the Company following his retirement as Chief Executive and to support the transfer of the role to Ruby McGregor Smith.

Directors' remuneration report continued

Pensions table

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

	Accrued pension 31 March 2007 £'000	Increase in accrued pension during the year £'000	Real increase in accrued pension £'000	Accrued pension 31 March 2008 £'000
R McGregor Smith	7	2	2	9
N R Goodman	22	2	1	24
W Robson	26	2	1	28
C S Acheson ⁽¹⁾	38	3	1	41
C S Hale ⁽²⁾	15	2	1	17

⁽¹⁾ Colin Acheson resigned as a Director on 3 October 2007

⁽²⁾ Colin Hale resigned as a Director on 14 January 2008. A final contribution of £24,000 was paid by the Company conditional upon his own contribution of £18,000 to the scheme

The following table sets out the transfer values of the Directors' accrued benefits under the defined benefit pension scheme calculated in a manner consistent with retirement benefit schemes

	Transfer values 31 March 2007 £'000	Contributions made by the Director £'000	Increase in accrued pension over the year £'000	Transfer value of pension increase (after inflation net of contributions) £'000	Transfer value 31 March 2008 £'000
R McGregor Smith	53	8	2	1	57
N R Goodman	368	8	2	12	389
W Robson	360	8	2	8	367
C S Acheson ⁽¹⁾	506	8	3	7	505
C S Hale ⁽²⁾	161	25	4	27	202

⁽¹⁾ Colin Acheson resigned as a Director on 3 October 2007

⁽²⁾ Colin Hale resigned as a Director on 14 January 2008

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 scheme.

Suzanne Baxter is not a member of the MITIE Group PLC Defined Benefit Pension Scheme as the Scheme was closed to new entrants in 2005. Pension contributions for Suzanne Baxter at a rate of 13.5% of base salary (2007: 13.5%) are paid into a separate defined contribution pension scheme.

Directors' interests in shares and share options

Share ownership

The beneficial interests of the Directors who were in office on 31 March 2008 in the share capital of the Company are as shown below

	Share ownership as % of base salary as at 31 March 2008	31 March 2008 Ordinary shares of 2.5p Number	1 April 2007 or if later date of appointment Ordinary shares of 2.5p Number
Executive Directors			
R McGregor Smith	69%	111,498	88,012
S Baxter	9%	10,000	10,000
N R Goodman	829%	872,108	1,237,213
W Robson	1,426%	1,500,713	1,500,713
Non Executive Directors			
D C Ord		244,451	222,761
I R Stewart		2,020,000	3,020,000
D S Jenkins		50,000	50,000
C McAlpine		40,000	40,000
I J S Macpherson		25,651	25,651
R Matthews		20,000	20,000
G Potts		15,000	15,000

Directors also had beneficial interests in the share capital of the following subsidiary companies

		31 March 2008 Number	1 April 2007 Number
R McGregor Smith			
MITIE Catering Services (London) Ltd	B Ordinary shares of £1 each	-	5,000
MITIE Engineering Services (Edinburgh) Ltd	B Ordinary shares of £1 each	2,000	2,000
MITIE Engineering Services (North East) Ltd	B Ordinary shares of £1 each	-	1,500
MITIE Engineering Services (West Midlands) Ltd	B Ordinary shares of £1 each	1,500	1,500
MITIE Security (South West) Ltd	B Ordinary shares of £1 each	-	3,200
MITIE Services (Retail) Ltd	B Ordinary shares of £1 each	10,000	10,000
MITIE Transport Services Ltd	C Ordinary shares of £1 each	4,500	4,500
N R Goodman			
MITIE Catering Services Ltd	B Ordinary shares of £1 each	8,333	8,333

On 31 March 2008 MITIE Group PLC acquired the minority interest in MITIE Catering Services (London) Limited including Ruby McGregor Smith's holding of 5,000 B Ordinary shares of £1 each. The consideration paid to Ruby McGregor Smith of £13,000 was paid in cash. On 20 December 2007, MITIE Group PLC acquired the minority interest in MITIE Engineering Services (North East) Limited including Ruby McGregor Smith's holding of 1,500 B Ordinary shares of £1 each. The consideration paid to Ruby McGregor Smith of £1 was paid in cash. On 24 September 2007, MITIE Group PLC acquired the minority interest in MITIE Security (South West) Limited, including Ruby McGregor Smith's holding of 3,200 B Ordinary shares of £1 each. The consideration paid to Ruby McGregor Smith of £11,200 was paid in cash.

Directors' remuneration report continued

Executive share option interests

Directors also had interests in share options as follows

	ESOS options outstanding at 1 April 2007	Granted during the year	Lapsed during the year	Exercised during the year	ESOS options outstanding at 31 March 2008	Exercise price p	Exercisable between
R McGregor Smith							
Unapproved scheme	100,000	-	-	100,000 ⁽¹⁾	-	127	
Unapproved scheme	100,000	-	-	-	100,000	162	24 06 2008 to 24 06 2015
Unapproved scheme	100,000	-	-	-	100,000	191	22 06 2009 to 22 06 2016
S Baxter							
Approved scheme	15,000	-	-	-	15,000	191	22 06 2009 to 22 06 2016
Unapproved scheme	35,000	-	-	-	35,000	191	22 06 2009 to 22 06 2016

⁽¹⁾ The mid-market price of MITE Ordinary shares on the date of exercise was 263p per share

The share options stated above were granted under the ESOS. The performance criterion for the Scheme that applied at the date of grant requires a percentage growth in the Company's earnings per share equal to or in excess of 10.0% 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 Executive Directors 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 2.5p each at 31 March 2008 was 242.00p.

Long Term Incentive Plan Interests

Directors also had interests in nil-cost share options granted under the LTIP as follows

	LTIP options outstanding at 1 April 2007	Granted during the year at 254.4p/share	Lapsed during the year	Exercised during the year	LTIP options outstanding at 31 March 2008	Exercise Price p	Exercisable between
R McGregor Smith	-	145,440	-	-	145,440	Nil cost	July 2010 July 2011
S Baxter	-	102,201	-	-	102,201	Nil cost	July 2010 July 2011
N R Goodman	-	94,340	-	-	94,340	Nil cost	July 2010 July 2011
W Robson	-	94,340	-	-	94,340	Nil cost	July 2010 July 2011
C S Hale ⁽¹⁾	-	94,340	62,894	31,446 ⁽¹⁾	-	Nil cost	July 2010 July 2011

⁽¹⁾ Colin Hale resigned as a Director on 14 January 2008. It was determined that in applying the LTIP scheme rules 31,446 shares vested upon termination with the balance of 62,894 share options lapsing. The mid-market price of MITE Ordinary shares on the date of exercise was 257.75p per share.

Other than as stated above, no other changes in Directors' interests have taken place since 1 April 2008 and no equity based incentives have been granted to any Director since 1 April 2008.

This report was approved by the Board and has been signed on its behalf by


Ishbel Macpherson
Chairman Remuneration Committee

19 May 2008

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Independent auditors' report to the members of MITIE Group PLC

We have audited the group financial statements of MITIE Group PLC for the year ended 31 March 2008 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related Notes 1 to 36. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of MITIE Group PLC for the year ended 31 March 2008.

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

The directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the group financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement, the Chief Executive's review, the Operating review, the Financial review and the Corporate governance statement that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 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 other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, 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 group financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, 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 group financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- The group financial statements give a true and fair view in accordance with IFRSs as adopted by the European Union of the state of the group's affairs as at 31 March 2008 and of its profit for the year then ended.
- The group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- The part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985, and
- The information given in the Directors' report is consistent with the group financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Bristol, United Kingdom

19 May 2008

Consolidated income statement

For the year ended 31 March 2008

	Notes	2008			2007		
		Before other items* £m	Other items* £m	Total £m	Before other items* £m	Other items* £m	Total £m
Continuing operations							
Revenue	3	1 407 2	–	1,407 2	1,228 8	–	1,228 8
Cost of sales		(1,145 2)	–	(1 145 2)	(999 8)	–	(999 8)
Gross profit		262 0	–	262 0	229 0	–	229 0
Other administrative expenses		(189 8)	–	(189 8)	(169 1)	–	(169 1)
Amortisation of intangible assets		–	(1 9)	(1 9)	–	(1 6)	(1 6)
Total administrative expenses		(189 8)	(1 9)	(191 7)	(169 1)	(1 6)	(170 7)
Operating profit	3 4	72 2	(1 9)	70 3	59 9	(1 6)	58 3
Investment revenue	6	1 2	–	1 2	0 8	–	0 8
Other finance costs		(2 8)	–	(2 8)	(2 5)	–	(2 5)
Unwinding of discount on deferred contingent consideration		–	(0 8)	(0 8)	–	–	–
Total finance costs	7	(2 8)	(0 8)	(3 6)	(2 5)	–	(2 5)
Profit before tax		70 6	(2 7)	67 9	58 2	(1 6)	56 6
Tax	8	(21 4)	0 8	(20 6)	(17 9)	0 5	(17 4)
Profit for the year		49 2	(1 9)	47 3	40 3	(1 1)	39 2
Attributable to							
Equity holders of the parent		46 9	(1 9)	45 0	38 1	(1 1)	37 0
Minority interests		2 3	–	2 3	2 2	–	2 2
		49 2	(1 9)	47 3	40 3	(1 1)	39 2
Earnings per share (EPS)							
– basic	10	14 9p	(0 6)p	14 3p	12 3p	(0 4)p	11 9p
– diluted	10	14 7p	(0 6)p	14 1p	12 1p	(0 3)p	11 8p

* Other items are non-cash acquisition related items being amortisation of intangible assets and unwinding of discount on deferred contingent consideration

Consolidated statement of recognised income and expense

For the year ended 31 March 2008

	Notes	2008 £m	2007 £m
Actuarial gains/(losses) on defined benefit pension schemes	34	6.8	(4.7)
Tax (charge)/credit on items taken directly to equity	28	(2.0)	1.5
Net income/(expense) recognised directly in equity		4.8	(3.2)
Profit for the year		47.3	39.2
Total recognised income and expense for the financial year		52.1	36.0
Attributable to			
Equity holders of the parent		49.8	33.8
Minority interests		2.3	2.2

Consolidated balance sheet

As at 31 March 2008

	Notes	2008 £m	2007 £m
Non current assets			
Goodwill	11	203.3	148.4
Other intangible assets	12	16.9	9.9
Property, plant and equipment	13	45.2	41.5
Deferred tax assets	19	6.6	7.7
Retirement benefit surplus	34	9.9	0.5
Total non current assets		281.9	208.0
Current assets			
Inventories	14	2.4	7.9
Trade and other receivables	16	314.4	272.8
Cash and cash equivalents	18	42.6	25.6
Total current assets		359.4	306.3
Total assets		641.3	514.3
Current liabilities			
Trade and other payables	21	(289.6)	(255.7)
Financing liabilities	22	(54.5)	(30.9)
Provisions	26	(2.0)	(0.3)
Current tax liabilities		(10.7)	(8.2)
Total current liabilities		(356.8)	(295.1)
Net current assets		2.6	11.2
Non current liabilities			
Financing liabilities	22	(3.7)	(2.8)
Provisions	26	(27.2)	(8.6)
Retirement benefit obligation	34	(2.4)	-
Deferred tax liabilities	19	(6.2)	(3.9)
Total non current liabilities		(39.5)	(15.3)
Total liabilities		(396.3)	(310.4)
Net assets		245.0	203.9
Equity			
Share capital	27	7.9	7.8
Share premium account	28	19.0	16.6
Merger reserve	28	60.4	54.9
Revaluation reserve	28	(0.2)	(0.2)
Capital redemption reserve	28	0.3	0.3
Other reserve	28	0.1	0.2
Share based payments reserve	28	2.9	1.9
Own shares reserve	28	(2.0)	-
Retained earnings	28	143.7	110.2
Equity attributable to equity holders of the parent		232.1	191.7
Minority interests		12.9	12.2
Total equity		245.0	203.9

The financial statements were approved by the Board of Directors and authorised for issue on 19 May 2008. They were signed on its behalf by



Ruby McGregor Smith
Chief Executive



Suzanne Baxter
Group Finance Director

Consolidated cash flow statement

For the year ended 31 March 2008

	Notes	2008 £m	2007 £m
Net cash from operating activities	30	58.1	63.9
Investing activities			
Interest received		1.1	0.7
Purchase of property, plant and equipment		(17.8)	(20.8)
Purchase of subsidiary undertakings		(26.9)	(3.9)
Purchase of other intangible assets		(6.6)	-
Disposals of property, plant and equipment		4.6	3.6
Net cash outflow from investing activities		(45.6)	(20.4)
Financing activities			
Repayments of obligations under finance leases		(1.4)	(0.9)
Proceeds on issue of share capital		3.5	2.5
Repayments of loan notes on purchase of subsidiary undertakings		(8.0)	(1.0)
Bank loans raised/(repaid)		30.0	(11.0)
Purchase of own shares		(2.0)	-
Equity dividends paid		(17.3)	(14.9)
Minority dividends paid		(0.3)	(0.2)
Net cash inflow/(outflow) from financing		4.5	(25.5)
Net increase in cash and cash equivalents		17.0	18.0
Net cash and cash equivalents at beginning of the year		25.6	7.6
Net cash and cash equivalents at end of the year		42.6	25.6
Net cash and cash equivalents comprise			
Cash at bank		42.6	25.6
		42.6	25.6

		2008 £m	2007 £m
Reconciliation of net cash flow to movement in net debt			
Net increase in cash and cash equivalents		17.0	18.0
Bank loans (raised)/repaid		(30.0)	11.0
Repayments of loan notes on purchase of subsidiary undertakings		8.0	1.0
Issue of loan notes on acquisition of subsidiary undertakings		(1.6)	(12.1)
Increase in finance leases		(0.9)	(0.8)
Movement in net debt during the year		(7.5)	17.1
Opening net debt		(8.1)	(25.2)
Closing net debt	25	(15.6)	(8.1)

Notes to the consolidated financial statements

1 Basis of preparation and significant accounting policies

Basis of preparation

The Group's financial statements for the year ended 31 March 2008 are prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and as adopted for use in the European Union

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007 except for the adoption of new standards and interpretations noted below. Adoption of these standards and interpretations did not have any significant effect on the financial position or performance of the Group.

- Amendment to IAS 1 'Presentation of Financial Statements - Capital Disclosures',
- IFRS 7 'Financial Instruments - Disclosures',
- IFRIC 8 'Scope of IFRS 2',
- IFRIC 9 'Reassessment of Embedded Derivatives',
- IFRIC 10 'Interim Financial Reporting and Impairment',
- IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions' and
- Amendment to IAS 23 'Borrowing Costs'

The following standards and interpretations have been issued but are not yet effective. The Directors do not anticipate that the adoption of these standards and interpretations will have a material financial impact on the Group's financial statements in the period of initial application.

- IFRS 8 'Operating Segments',
- IFRIC 12 'Service Concession Arrangements',
- IFRIC 13 'Customer Loyalty Programmes',
- IFRIC 14 'IAS 19 Ceiling and Minimum Funding Requirements',
- IAS 1 (Revised) 'Presentation of Financial Statements',
- IAS 27 (Revised) 'Consolidated and Separate Financial Statements',
- IFRS 3 (Revised) 'Business Combinations',
- Amendment to IFRS 2 'Share based Payments', and
- Amendment to IAS 32 'Financial Instruments - Presentation'

Significant accounting policies under IFRS

The significant accounting policies adopted in the preparation of the Group's IFRS financial information are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of MITIE Group PLC and all its subsidiaries. The financial statements of the parent Company and subsidiaries are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Adjustments are made in the consolidated accounts to bring into line any dissimilar accounting policies that may exist between UK GAAP and IFRS.

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Interests of minority Shareholders are measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 'Non Current Assets Held for Sale and Discontinued Operations' which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Cost of acquisition includes all deferred amounts that become payable in the future.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. It is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the consolidated financial statements continued

1 Basis of preparation and significant accounting policies continued

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Intangible assets

Intangible assets acquired separately are capitalised at cost. Intangible assets identified in a business acquisition are capitalised at fair value as at the date of acquisition.

Development expenditure relating to software is capitalised as an intangible asset if the asset created can be identified, if it is probable that the asset created will generate future economic benefits and if the development cost of the asset can be measured reliably.

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. Amortisation expense is charged to administrative expenses in the income statement on a straight line basis over its useful life.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue represents fee income recognised in respect of services provided during the period (stated net of value added tax) and is earned solely within the United Kingdom.

Revenue from multi service contracts consists of various components which operate independently of each other and for which reliable fair values can be established. Accordingly, each component is accounted for separately as if it were an individual contractual arrangement.

Revenue from long term contracts represents the sales value of work done in the year, including fees invoiced and estimates in respect of amounts to be invoiced after the year end. Profits are recognised on long term contracts where the final outcome can be assessed with reasonable certainty. In calculating this, the percentage of completion method is used based on the proportion of costs incurred to the total estimated cost. Cost includes direct staff costs and outlays. Full provision is made for all known or anticipated losses on each contract immediately such losses are forecast.

Gross amounts due from customers are stated at the proportion of the anticipated net sales value earned to date less amounts billed on account. To the extent that fees paid on account exceed the value of work performed, they are included in creditors as gross amounts due to customers.

Variations in contract work and claims are included to the extent that they have been agreed with the customer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the Shareholders' rights to receive payment have been established.

Operating profit

Operating profit is stated before investment revenue and finance costs.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leasing

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Any lease incentives are amortised over the lesser of the life of the operating lease or to the first opportunity for termination.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Retirement benefit costs

The Group operates two defined benefit pension schemes and participates in a number of other defined benefit schemes. In respect of the other schemes in which the Group participates, the Group accounts for its legal and constructive obligations over the period of its participation, which is for a fixed period only.

In addition, the Group operates a number of defined contribution retirement benefit schemes for all qualifying employees.

Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

1 Basis of preparation and significant accounting policies continued

For the defined benefit pension schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit and loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

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

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost of the assets over their estimated useful lives and is calculated on a straight line basis as follows:

Freehold buildings and long leasehold property	– over 50 years
Leasehold improvements	– period of the lease
Plant and vehicles	3–10 years

Annually the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value.

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

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises financial assets and liabilities only when the contractual rights and obligations are discharged or expire.

Assets that are assessed not to be individually impaired are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables includes the Group's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

Notes to the consolidated financial statements continued

1 Basis of preparation and significant accounting policies continued

Financial assets comprise loans and receivables and are measured at initial recognition at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised where there is objective evidence that the asset is impaired.

Cash and cash equivalents comprise cash in hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Interest bearing bank loans and overdrafts are stated at the amount of the net proceeds after deduction of issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are measured at fair value. There are no financial liabilities classified as fair value through profit and loss or held for trading.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Pre contract costs

All bid costs are expensed through the income statement up to the point where contract award (or full recovery of costs) is virtually certain. Bid costs incurred after this point are then capitalised within trade and other receivables. On the contract award these bid costs are amortised through the income statement over the contract period by reference to the stage of completion of the contract activity at the balance sheet date.

Share based payments

The Group operates a number of executive and employee share option schemes. For all grants of share options and awards, the fair value as at the date of grant is calculated using the Black Scholes model and the corresponding expense is recognised on a straight line basis over the vesting period based on the Group's estimate of shares that will eventually vest.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity settled awards and has applied IFRS 2 only to equity settled awards granted after 7 November 2002 that had not vested before 1 April 2005.

2 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 1 above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

Revenue is recognised for certain project based contracts based on the stage of completion of the contract activity. This is measured by comparing the proportion of costs incurred against the estimated whole life contract costs except where this would not be representative of the stage of completion.

Key sources of estimation uncertainty

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of cash generating units and also the selection of the appropriate discount rates, which involves judgement, to use in order to calculate present values. The carrying value of goodwill is £203.3m (2007: £148.4m) at the balance sheet date, see Note 11.

Retirement benefit obligations

The calculation of retirement benefit obligations is dependent on material key assumptions including discount rates, mortality rates, future returns on assets and future contribution rates. The present value of retirement benefit obligations at the balance sheet date is £129.4m (2007: £143.3m) see Note 34.

3 Business and geographical segments

The Group manages its business on a service division basis. These divisions are the basis on which the Group reports its primary segmental information.

Business segments

For management purposes, the Group is currently organised into three operating divisions – Facilities Services, Property Services and Engineering Services.

Principal activities are as follows:

Facilities Services offer integrated facilities management and a range of services including asset management, energy consultancy, document management, front of house, catering, cleaning, engineering maintenance, landscaping, pest control, security, waste and environmental management.

Property Services offer roofing, repairs and redecoration, interior fit out, plumbing and heating, social housing maintenance and refurbishment and fire protection.

Engineering Services offer services including mechanical and electrical, energy generation and management, technology and infrastructure.

Segmental information about these businesses is presented below:

	2008				2007			
	Revenue £m	Profit before interest tax and amortisation £m	Margin %	Profit before tax £m	Revenue £m	Profit before interest tax and amortisation £m	Margin %	Profit before tax £m
Facilities Services	820.4	48.9	6.0	44.6	732.1	41.5	5.7	37.4
Property Services	285.7	15.0	5.3	14.6	215.1	10.6	4.9	10.9
Engineering Services	301.1	8.3	2.8	8.7	281.6	7.8	2.8	8.3
Total	1,407.2	72.2	5.1	67.9	1,228.8	59.9	4.9	56.6

The revenue analysis above is net of inter segment sales which are not considered significant.

The prior period results set out above are stated after integration costs of £2.3m relating to acquisitions. The results of the Group before the effect of integration costs are as follows:

	2007			
	Revenue £m	Profit before interest tax and amortisation £m	Margin %	Profit before tax £m
Facilities Services	732.1	41.5	5.7	37.4
Add: Integration costs	–	2.3	–	2.3
Total	732.1	43.8	6.0	39.7
Property Services	215.1	10.6	4.9	10.9
Engineering Services	281.6	7.8	2.8	8.3
Total	1,228.8	62.2	5.1	58.9

Other segmental analysis:

	Facilities Services 2008 £m	Property Services 2008 £m	Engineering Services 2008 £m	Total 2008 £m
Assets by segment				
Goodwill and other intangible assets	152.7	50.1	17.4	220.2
Divisional assets	250.8	107.2	95.0	453.0
				673.2
Unallocated assets				(31.9) ⁽ⁱ⁾
Total assets				641.3
Liabilities by segment				
Divisional liabilities	(162.8)	(81.7)	(75.8)	(320.3)
Unallocated liabilities				(76.0) ⁽ⁱ⁾
Total liabilities				(396.3)
Total net assets				245.0
Capital expenditure				
Tangible assets	14.4	3.4	2.2	20.0
Depreciation charge	9.6	3.1	1.7	14.4
Intangible assets	13.8	44.7	5.3	63.8
Intangible amortisation	1.7	0.2	–	1.9

Notes to the consolidated financial statements continued

3 Business and geographical segments continued

	Facilities Services 2007 £m	Property Services 2007 £m	Engineering Services 2007 £m	Total 2007 £m
Assets by segment				
Goodwill and other intangible assets	140.6	5.6	12.1	158.3
Divisional assets	226.5	75.5	100.6	402.6
	367.1	81.1	112.7	560.9
Unallocated assets				(46.6) ⁽¹⁾
Total assets				514.3
Liabilities by segment				
Divisional liabilities	(159.7)	(55.0)	(81.2)	(295.9)
Unallocated liabilities				(14.5) ⁽¹⁾
Total liabilities				(310.4)
Total net assets				203.9
Capital expenditure				
Tangible assets	12.7	7.0	2.8	22.5
Depreciation charge	9.0	2.4	1.6	13.0
Intangible assets	3.9	0.2	0.5	4.6
Intangible amortisation	1.6	-	-	1.6

⁽¹⁾ Relates to interdivisional funding

Geographical segments

All Group operations are located in the United Kingdom and the Channel Islands. The Group considers all operations form part of that single geographical segment.

4 Operating profit

Operating profit has been arrived at after charging/(crediting)

	2008 £m	2007 £m
Depreciation of property, plant and equipment	14.4	13.0
Amortisation of intangible assets	1.9	1.6
Gain on disposal of property, plant and equipment	(1.7)	(1.1)
Staff costs (see Note 5)	697.7	583.3

A detailed analysis of auditors' remuneration is provided below

	2008 £'000	2007 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	40	35
Fees payable to the Company's auditors and their associates for other services to the Group – the audit of the Company's subsidiaries pursuant to legislation	390	350
Total audit fees	430	385
Tax services	90	40
Other services	99	56
Total non audit fees	189	96
Total	619	481

£13,000 (2007: £26,000) of fees were incurred in relation to acquisitions and have been included in acquisition costs. In addition to the amounts shown above, the auditors received fees of £14,500 (2007: £11,750) for the audit of the Group pension schemes.

5 Staff costs

	2008	2007
Number of people		
The average number of people employed during the financial year was		
Facilities Services	43,654	38,429
Property Services	2,761	2,697
Engineering Services	1,544	1,241
Total Group	47,959	42,367

The number of people employed at 31 March was

Total Group	49,505	44,866
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	2008 £m	2007 £m
Their aggregate remuneration comprised		
Wages and salaries	634.4	530.4
Social security costs	53.9	44.9
Other pension costs	7.9	6.9
Share based payments (Note 33)	1.5	1.1
	697.7	583.3

Details of Directors' remuneration and interests are provided in the audited section of the Directors' remuneration report and should be regarded as an integral part of this Note

6 Investment revenue

	2008 £m	2007 £m
Interest on bank deposits	0.2	0.1
Other interest receivable	1.0	0.7
	1.2	0.8

7 Finance costs

	2008 £m	2007 £m
Interest on bank overdrafts and loans	2.6	2.3
Interest on obligations under finance leases	0.3	0.2
Unwinding of discount on deferred contingent consideration	0.8	-
Total interest expense	3.7	2.5
Less amounts included in the cost of qualifying assets	(0.1)	-
	3.6	2.5

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.3% to expenditure on such assets

Notes to the consolidated financial statements continued

8 Tax

	2008 £m	2007 £m
Current tax	19.4	17.9
Deferred tax (Note 19)	1.2	(0.5)
	20.6	17.4

Corporation tax is calculated at 30.0% (2007 30.0%) of the estimated assessable profit for the year

The charge for the year can be reconciled to the profit per the consolidated income statement as follows

	2008 £m	2007 £m
Profit before tax	67.9	56.6
Tax at the UK corporation tax rate of 30.0%	20.4	17.0
Expenses not deductible for tax purposes	0.8	0.6
Tax losses not recognised	0.1	0.3
Profit on disposal of property	(0.1)	(0.1)
Prior year adjustments	(0.6)	(0.4)
Tax charge for the year	20.6	17.4

In addition to the amount charged to the consolidated income statement deferred tax relating to retirement benefit costs, share based payments and short term timing differences amounting to £2.3m has been charged directly to equity (2007 £1.8m credit) (see Note 19). The benefit of tax savings relating to retirement benefit costs and share based payments amounting to £0.8m (2007 £0.5m) has been credited directly to equity.

The reduction in the corporation tax rate next year to 28% has not materially impacted deferred tax.

9 Dividends

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 31 March 2007 of 2.7p (2006 2.4p) per share	8.4	7.6
Interim dividend for the year ended 31 March 2008 of 2.8p (2007 2.4p) per share	8.9	7.5
	17.3	15.1
Proposed final dividend for the year ended 31 March 2008 of 3.2p (2007 2.7p) per share	10.1	8.4

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

10 Earnings per share

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

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

	2008 million	2007 million
Number of shares		
Weighted average number of Ordinary shares for the purpose of basic EPS	314.3	310.6
Effect of dilutive potential Ordinary shares share options	4.9	4.4
Weighted average number of Ordinary shares for the purpose of diluted EPS	319.2	315.0

The weighted average number of Ordinary shares in issue during the year excludes those held by the MITIE Group PLC Employee Benefit Trust (see Note 28).

11 Goodwill

	£m
Cost	
At 1 April 2006	143.8
Acquisition of subsidiaries/assets	0.3
Decreased consideration for subsidiaries acquired in prior years	(0.1)
Acquisition of minorities	2.5
Changes in fair values of subsidiaries acquired in prior year	1.9
At 1 April 2007	148.4
Acquisition of subsidiaries/assets	49.5
Acquisition of minorities	5.4
At 31 March 2008	203.3
Accumulated impairment losses	
At 1 April 2006	-
At 1 April 2007	-
At 31 March 2008	-
Carrying amount	
At 31 March 2008	203.3
At 31 March 2007	148.4

Goodwill acquired in a business combination is allocated at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Goodwill has been allocated to CGUs in the following business segments, which is how goodwill is monitored by the Group internally

	2008 £m	2007 £m
Cost		
Facilities Services	140.2	130.7
Property Services	47.1	5.6
Engineering Services	16.0	12.1
	203.3	148.4

The Group tests goodwill at least annually for impairment

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 2% per annum. This rate does not exceed the average long term growth rate for the relevant markets.

The rates used to discount the forecast cash flows from CGUs are as follows

	2008 %	2007 %
Facilities Services	11.4	9.2
Property Services	11.4	9.2
Engineering Services	11.4	9.2

Notes to the consolidated financial statements continued

12 Other intangible assets

	Customer relationships £m	Software and development costs £m	Total £m
Cost			
At 1 April 2006 and 1 April 2007	117	–	117
Additions	23	66	89
At 31 March 2008	140	66	206
Amortisation			
At 1 April 2006	02	–	02
Charge for the year	16	–	16
At 1 April 2007	18	–	18
Charge for the year	19	–	19
At 31 March 2008	37	–	37
Carrying amount			
At 31 March 2008	103	66	169
At 31 March 2007	99	–	99

Customer relationships are amortised over the remaining period of the contract which currently ranges between six and eight years. Software and development costs are amortised over their useful life of between five and ten years once they have been brought into use.

13 Property, plant and equipment

	Freehold properties £m	Long leasehold properties £m	Plant and vehicles £m	Total £m
Cost				
At 1 April 2006	60	51	52.2	63.3
Additions	0.5	1.2	20.8	22.5
Disposals	(0.3)	(0.2)	(10.6)	(11.1)
At 1 April 2007	6.2	6.1	62.4	74.7
Additions	–	1.2	18.8	20.0
Acquisition of subsidiaries	–	–	1.0	1.0
Disposals	(1.4)	–	(11.7)	(13.1)
At 31 March 2008	4.8	7.3	70.5	82.6
Accumulated depreciation and impairment				
At 1 April 2006	0.6	0.8	27.4	28.8
Charge for the year	0.1	0.4	12.5	13.0
Disposals	–	(0.1)	(8.5)	(8.6)
At 1 April 2007	0.7	1.1	31.4	33.2
Charge for the year	0.1	0.7	13.6	14.4
Disposals	(0.2)	–	(10.0)	(10.2)
At 31 March 2008	0.6	1.8	35.0	37.4
Carrying amount				
At 31 March 2008	4.2	5.5	35.5	45.2
At 31 March 2007	5.5	5.0	31.0	41.5

The net book value of plant and vehicles held under finance leases included above was £3.8m (2007: £2.4m).

14 Inventories

	2008 £m	2007 £m
Work in progress	0.6	6.9
Materials	1.8	1.0
	2.4	7.9

15 Financial assets

	2008 £m	2007 £m
Trade receivables (Note 16)	170.9	165.5
Amounts recoverable on contracts (Note 17)	108.2	76.8
Other debtors	3.3	7.2
Cash and cash equivalents (Note 18)	42.6	25.6
	325.0	275.1

16 Trade and other receivables

	2008 £m	2007 £m
Amounts receivable for the sale of services	175.5	222.4
Reclassification to amounts recoverable on contracts	-	(53.4)
Allowance for doubtful debt	(4.6)	(3.5)
	170.9	165.5

Amounts recoverable on contracts (Note 17)	108.2	76.8
Other debtors	3.3	7.2
Prepayments and accrued income	32.0	23.3
	314.4	272.8

Ageing of trade receivables

	2008 £m	2007 £m
Neither impaired nor past due	127.2	125.7
Not impaired and less than three months overdue	39.8	33.3
Not impaired and more than three months overdue	4.4	3.7
Impaired receivables	4.1	6.3
Allowance for doubtful debt	(4.6)	(3.5)
	170.9	165.5

Movement in the allowance for doubtful debt

	2008 £m	2007 £m
Balance at the beginning of the year	3.5	3.9
Impairment losses recognised	3.7	0.6
Amounts written off as uncollectable	(1.0)	(0.5)
Amounts recovered during the year	(1.6)	(0.5)
	4.6	3.5

Before accepting new customers, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring are updated as appropriate. The maximum exposure to credit risk in relation to trade receivables at the balance sheet date is the fair value of trade receivables.

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debt.

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

Notes to the consolidated financial statements continued

17 Amounts recoverable on contracts

	2008 £m	2007 £m
Contracts in progress at the balance sheet date		
Amounts due from contract customers included in trade and other receivables	108 2	23 4
Reclassification from amounts receivable for the sale of services	-	53 4
	108 2	76 8
Amounts due to contract customers included in trade and other payables	(1 7)	(0 4)
	106 5	76 4
Contract costs incurred plus recognised profits less recognised losses to date	980 7	671 4
Less progress billings	(874 2)	(595 0)
	106 5	76 4

At 31 March 2008 retentions held by customers for contract work amounted to £19.1m (2007 £18.9m)

18 Cash and cash equivalents

	2008 £m	2007 £m
Cash and cash equivalents	42 6	25 6
	42 6	25 6

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying amount of the assets approximates their fair value. All balances are held in sterling.

Included in cash and cash equivalents are deposits totalling £12.4m (2007 £10.3m) held by the Group's insurance subsidiary which are not readily available for the general purposes of the Group.

The credit risk on liquid funds and financial instruments is limited because the counterparties are banks with high credit-ratings assigned by recognised international credit-rating agencies.

19 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Business combinations £m	Share based payments £m	Short term timing differences £m	Tax losses £m	Total £m
At 1 April 2006	0 8	(0 5)	(3 6)	1 3	2 0	0 2	0 2
Credit/(charge) to income	0 1	(1 1)	0 5	0 4	0 6	-	0 5
Credit to equity	-	1 5	-	0 3	-	-	1 8
(Charge)/credit to goodwill	-	-	(0 2)	-	1 5	-	1 3
At 1 April 2007	0 9	(0 1)	(3 3)	2 0	4 1	0 2	3 8
(Charge)/credit to income	(0 6)	(0 7)	1 0	0 3	(1 2)	-	(1 2)
Charge to equity	-	(2 0)	-	(0 3)	-	-	(2 3)
(Charge)/credit to goodwill	-	-	(0 7)	-	0 8	-	0 1
At 31 March 2008	0 3	(2 8)	(3 0)	2 0	3 7	0 2	0 4

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2008 £m	2007 £m
Deferred tax assets	6 6	7 7
Deferred tax liabilities	(6 2)	(3 9)
Net deferred tax asset	0 4	3 8

The Group has unutilised income tax losses of £3.5m (2007 £3.7m) that are available for offset against future profits. In addition the Group has £0.5m (2007 £0.8m) of capital losses. Deferred tax assets have not been recognised in respect of £3.1m (2007 £3.8m) of these losses as their recoverability is uncertain.

20 Financial liabilities

	2008 £m	2007 £m
Trade creditors (Note 21)	173.6	155.3
Other creditors	6.6	2.6
Accruals and deferred income	55.2	51.3
Financing liabilities (Note 22)	58.2	33.7
	293.6	242.9

21 Trade and other payables

	2008 £m	2007 £m
Payments received on account	1.1	1.0
Trade creditors	173.6	155.3
Other taxes and social security	53.1	45.5
Other creditors	6.6	2.6
Accruals and deferred income	55.2	51.3
	289.6	255.7

Trade creditors and accruals and deferred income principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 47 days (2007: 48 days).

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

22 Financing liabilities

	2008 £m	2007 £m
Bank loans	50.0	20.0
Secured loan notes	1.9	9.9
Unsecured loan notes	2.8	1.2
Obligations under finance leases (Note 24)	3.5	2.6
	58.2	33.7
Included in current liabilities	54.5	30.9
Included in non current liabilities	3.7	2.8
	58.2	33.7

Included in non current liabilities are £2.1m (2007: £1.6m) of obligations under finance leases (see Note 24) and £1.6m (2007: £1.2m) of unsecured loan notes which are repayable between 2008 and 2013. The secured loan notes are supported by a bank guarantee.

During the year £1.6m of loan notes were issued to the vendors of Robert Prettie (Note 29). £7.0m of loan notes in respect of MITIE Security (London) Limited (formerly MITIE Trident Security Limited) and £1.0m of loan notes in respect of The Watch Security Limited were redeemed.

All borrowings are in sterling. The Directors estimate that the carrying amount of the Group's borrowings approximates their fair value. The bank loans are repayable within one year and the overdrafts are repayable on demand.

	2008 %	2007 %
The weighted average interest rates paid during the year on the overdrafts and loans outstanding were as follows:		
Overdrafts	6.4	5.6
Bank loans	6.3	5.8
Loan notes	4.9	4.3

At 31 March 2008, the Group had available £180m (2007: £117m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The facilities have an expiry date of January 2012. The loans carry interest rates which are currently fixed at 6.1% and are currently determined at 0.4% over LIBOR. The overdraft carries interest at 0.9% over base rate. The secured loan notes are backed by a bank guarantee. Details of the Group's contingent liabilities are provided in Note 31.

Notes to the consolidated financial statements continued

23 Financial risk management objectives

The Group's Treasury function monitors and manages the financial risks relating to the operations of the Group. These risks include credit risk, foreign currency risk, liquidity risk and market risk.

Credit risk

The Group's principal financial assets are bank balances and cash and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. In addition, where appropriate, certain debts are subject to credit insurance.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Foreign currency risk

The Group has very limited trading transactions in foreign currency and currently there is no hedging of these exposures. Any material transactions would be appropriately hedged.

Liquidity risk

The Group monitors its risk to a shortage of funds using a cash flow projection model which considers the maturity of the Group's assets and liabilities and the projected cash flows from operations. Bank facilities which allow for appropriate headroom in the Group's daily cash movements are then arranged.

The tables below summarise the maturity profile of the Group's financial liabilities.

	Within one year £m	In the second to fifth years £m	Total £m
At 31 March 2008			
Trade creditors	173.6	–	173.6
Other creditors	6.6	–	6.6
Accruals and deferred income	55.2	–	55.2
Financing liabilities	54.5	3.7	58.2
Financial liabilities	289.9	3.7	293.6

	Within one year £m	In the second to fifth years £m	Total £m
At 31 March 2007			
Trade creditors	155.3	–	155.3
Other creditors	2.6	–	2.6
Accruals and deferred income	51.3	–	51.3
Financing liabilities	30.9	2.8	33.7
Financial liabilities	240.1	2.8	242.9

Market risk

The Group's activities expose it to the financial risks of interest rates. However, all Group debt is currently due to short term working capital fluctuations and hence is not hedged as at 31 March 2008. The Group's Treasury function reviews its risk management strategy on a regular basis.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2008 and reserves would decrease/increase by £0.1m (2007: £0.1m).

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the Group consists of net debt per Note 25 and equity per Note 28.

The Group's capital structure is reviewed regularly. The Group is not subject to externally imposed capital requirements.

24 Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2008 £m	2007 £m	2008 £m	2007 £m
Amounts payable under finance leases				
Within one year	1.4	1.0	1.4	1.0
In the second to fifth years inclusive	2.5	1.9	2.1	1.6
	3.9	2.9	3.5	2.6
Less future finance charges	(0.4)	(0.3)	-	-
Present value of lease obligations	3.5	2.6	3.5	2.6
Less Amount due for settlement within 12 months	(1.4)	(1.0)	(1.4)	(1.0)
Amount due for settlement after twelve months	2.1	1.6	2.1	1.6

The average remaining lease term is 23 months (2007 28 months). For the year ended 31 March 2008, the average effective borrowing rate was 5.8% (2007 5.3%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

25 Analysis of net debt

	2008 £m	2007 £m
Cash and cash equivalents (Note 18)	42.6	25.6
Bank loans	(50.0)	(20.0)
Net (debt)/cash before loan notes and obligations under finance leases	(7.4)	5.6
Loan notes (Note 22)	(4.7)	(11.1)
Obligations under finance leases (Note 24)	(3.5)	(2.6)
Net debt	(15.6)	(8.1)

26 Provisions

	Contingent deferred consideration £m	Insurance reserve £m	Total £m
At 1 April 2007	0.3	8.6	8.9
Additional provision in the year	20.0	2.9	22.9
Unwinding of discount on deferred contingent consideration	0.8	-	0.8
Utilised during the year	(0.2)	(3.2)	(3.4)
At 31 March 2008	20.9	8.3	29.2

Included in current liabilities	2.0
Included in non current liabilities	27.2
	29.2

	Contingent deferred consideration £m	Insurance reserve £m	Total £m
At 1 April 2006	15.4	6.5	21.9
Additional provision in the year	0.3	3.8	4.1
Converted to loan notes during the year	(12.1)	-	(12.1)
Utilised during the year	(3.3)	(1.7)	(5.0)
At 31 March 2007	0.3	8.6	8.9

Included in current liabilities	0.3
Included in non current liabilities	8.6
	8.9

During the year £0.2m of deferred consideration in respect of the purchase last year of the minority shareholdings in MITIE Engineering Maintenance (South West) Limited was settled by the issue of new MITIE shares giving rise to a merger reserve of £0.1m.

Provision is made for contingent deferred consideration which may become payable from 2008-2013 subject to profit targets being attained at the best estimate of the Directors. A total of £1.1m was provided for deferred consideration to the minority shareholders of MITIE Technology Limited and MITIE Engineering Services (Liverpool) Limited £1.53m in respect of Robert Prettie (including the unwinding of discounted deferred contingent consideration) and £4.5m in respect of other current year acquisitions.

The provision for insurance claims represents amounts payable by MITIE Reinsurance Company Limited in respect of outstanding claims incurred at the balance sheet dates. These amounts will become payable as each year's claims are settled.

Notes to the consolidated financial statements continued

27 Share capital

Ordinary shares of 2.5p	Number million	£m
Authorised		
At 1 April 2007	340.0	8.5
Authorised during the year	160.0	4.0
At 31 March 2008	500.0	12.5

2008

Allotted and fully paid	Number million	£m
At beginning of year	312.4	7.8
Issued for acquisitions	2.4	0.1
Issued under share option schemes	2.0	-
At end of year	316.8	7.9

2007

Allotted and fully paid	Number million	£m
At beginning of year	308.8	7.7
Issued for acquisitions	1.7	-
Issued under share option schemes	1.9	0.1
At end of year	312.4	7.8

At the Company's AGM on 26 July 2007 the Company's authorised share capital was increased from 340,000,000 to 500,000,000 Ordinary shares of 2.5p each

During the year 2.4m (2007: 1.7m) Ordinary shares of 2.5p were allotted in respect of acquiring minority interests at a mid market price of 237.2p (2007: 191.2p) giving rise to share premium of £nil (2007: £0.4m) and a merger reserve of £5.5m (2007: £2.9m)

During the year 2.0m (2007: 1.9m) Ordinary shares of 2.5p were allotted in respect of share option schemes at a price between 58p and 220p (2007: 58p and 174p) giving rise to share premium of £2.4m (2007: £2.4m)

28 Reserves

	Called up share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Other reserve £m	Share-based payments reserve £m	Own shares reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2007	7.8	16.6	54.9	(0.2)	0.3	0.2	1.9	-	110.2	191.7
Shares issued and net premium arising in respect of acquisitions	0.1	-	5.5	-	-	-	-	-	-	5.6
Shares issued and net premium in connection with exercise of share options	-	2.4	-	-	-	(0.1)	-	-	-	2.3
Profit for the year attributable to equity holders of the parent	-	-	-	-	-	-	-	-	45.0	45.0
Dividends paid	-	-	-	-	-	-	-	-	(17.3)	(17.3)
Purchase of own shares by Employee Benefit Trust	-	-	-	-	-	-	-	(2.0)	-	(2.0)
Share-based payments	-	-	-	-	-	-	1.0	-	0.5	1.5
Tax credit on items taken directly to equity	-	-	-	-	-	-	-	-	0.5	0.5
Net actuarial gain on defined benefit pension schemes	-	-	-	-	-	-	-	-	6.8	6.8
Tax charge on actuarial gain taken directly to equity	-	-	-	-	-	-	-	-	(2.0)	(2.0)
Net income on defined benefit pension schemes recognised directly in equity in the year	-	-	-	-	-	-	-	-	4.8	4.8
Balance at 31 March 2008	7.9	19.0	60.4	(0.2)	0.3	0.1	2.9	(2.0)	143.7	232.1

The Own shares reserve represents the cost of 0.8m shares in MITIE Group PLC purchased in the market and held by the MITIE Group PLC Employee Benefit Trust to satisfy options under the Group's share option schemes (see Note 33)

	Called up share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Other reserve £m	Share based payments reserve £m	Own shares reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2006	7.7	13.7	52.0	(0.2)	0.3	0.3	1.4	-	90.1	165.3
Shares issued and net premium arising in respect of acquisitions	-	0.4	2.9	-	-	-	-	-	-	3.3
Shares issued and net premium in connection with exercise of share options	0.1	2.5	-	-	-	(0.1)	-	-	-	2.5
Profit for the year attributable to equity holders of the parent	-	-	-	-	-	-	-	-	37.0	37.0
Dividends paid	-	-	-	-	-	-	-	-	(15.1)	(15.1)
Share-based payments	-	-	-	-	-	-	0.5	-	0.6	1.1
Tax credit on items taken directly to equity	-	-	-	-	-	-	-	-	0.8	0.8
Net actuarial loss on defined benefit pension schemes	-	-	-	-	-	-	-	-	(4.7)	(4.7)
Tax credit on actuarial loss taken directly to equity	-	-	-	-	-	-	-	-	1.5	1.5
Net expense on defined benefit pension schemes recognised directly in equity in the year	-	-	-	-	-	-	-	-	(3.2)	(3.2)
Balance at 31 March 2007	7.8	16.6	54.9	(0.2)	0.3	0.2	1.9	-	110.2	191.7

Notes to the consolidated financial statements continued

29 Acquisition of subsidiaries

Purchase of minority interests

	MITIE McCartney Fire Protection Ltd £m	KBS Fire Protection Systems Ltd £m	MITIE Technology Ltd £m	MITIE Engineering Services (Liverpool) Ltd £m	MITIE Security (South West) Ltd £m	MITIE Catering Services (London) Ltd and MITIE Catering Services (Northern) Ltd £m	Total £m
Minority interests	0.7	0.1	1.0	0.6	0.2	0.1	2.7
Goodwill	0.5	-	1.6	2.1	0.4	0.8	5.4
Total purchase consideration	1.2	0.1	2.6	2.7	0.6	0.9	8.1
Shares issued – MITIE Group PLC	1.2	0.1	2.0	2.1	-	-	5.4
Deferred contingent consideration	-	-	0.5	0.6	-	-	1.1
Cash consideration	-	-	0.1	-	0.6	0.9	1.6
Total purchase consideration	1.2	0.1	2.6	2.7	0.6	0.9	8.1

Purchase of Robert Prettie

On 2 April 2007 MITIE acquired 100% of Property Services company Robert Prettie for estimated total consideration of £23.6m. The transaction was accounted for by the purchase method of accounting. Below we provide final information on the fair value of net assets acquired.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	8.6	(6.7)	1.9
Deferred tax liability	-	(0.4)	(0.4)
Property, plant and equipment	0.2	-	0.2
Inventories	4.9	(0.4)	4.5
Trade and other receivables	1.2	-	1.2
Cash and cash equivalents	0.2	-	0.2
Trade and other payables	(6.3)	(0.2)	(6.5)
Current tax liabilities	(0.7)	-	(0.7)
Loans	(3.7)	-	(3.7)
Pension liabilities	(0.4)	(2.0)	(2.4)
Net assets acquired	4.0	(9.7)	(5.7)
Goodwill			29.3
Total consideration			23.6
Satisfied by			
Cash			7.0
Loan notes			1.6
Deferred contingent consideration			14.5
Directly attributable costs			0.5
Total consideration			23.6
Net cash outflow arising on acquisition			
Cash consideration			7.5
Cash and cash equivalents acquired			(0.2)
Loans repaid			3.7
Net cash outflow			11.0

The goodwill arising on the acquisition of Robert Prettie is attributable to the underlying profitability of the Company, expected profitability arising from new business and the anticipated future operating synergies arising from assimilation into the Group.

The Company contributed £49.1m to revenue and £3.3m to the Group's profit before tax for the period. Integration costs of £0.4m have been absorbed within the Property Services division. As the Group acquired Robert Prettie on 2 April 2007, there is no difference between the revenue and profit as reported from that which would have been made had the acquisition been made on the first day of the financial year.

The unwinding of the discounted deferred contingent consideration gave rise to a £0.8m finance charge in the year.

29 Acquisition of subsidiaries continued

Purchase of other companies

MITIE acquired 100% of catering company Catering Partnership (Holdings) Limited on 6 March 2008 and 100% of Property Services company DW Tilley Limited on 19 March 2008 for estimated total consideration of £22.7m. The transactions were accounted for by the purchase method of accounting. Below we provide provisional information on the fair value of net assets acquired.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	-	0.4	0.4
Deferred tax asset	-	0.5	0.5
Property, plant and equipment	0.9	(0.1)	0.8
Inventories	0.1	-	0.1
Trade and other receivables	3.8	(0.3)	3.5
Cash and cash equivalents	4.3	-	4.3
Trade and other payables	(4.0)	(1.9)	(5.9)
Current tax liabilities	(0.7)	(0.1)	(0.8)
Net assets acquired	4.4	(1.5)	2.9
Goodwill			19.8
Total consideration			22.7
Satisfied by			
Cash			17.7
Deferred contingent consideration			4.5
Directly attributable costs			0.5
Total consideration			22.7
Net cash outflow arising on acquisition			
Cash consideration			18.2
Cash and cash equivalents acquired			(4.3)
Net cash outflow			13.9

The goodwill arising on the acquisitions is attributable to the underlying profitability of the businesses expected profitability arising from new business and the anticipated future operating synergies arising from assimilation into the Group.

The companies contributed £1.2m to revenue and £0.1m to the Group's profit before tax for the period. Had the Group acquired the companies on the first day of the financial year they would have contributed £28.2m to revenue and £1.9m to profit before tax.

The unwinding of the discounted deferred contingent consideration gave rise to no material finance charge in the year.

Notes to the consolidated financial statements continued

30 Notes to the cash flow statement

	2008 £m	2007 £m
Reconciliation of operating profit to net cash from operating activities		
Operating profit	70.3	58.3
Adjustments for		
Share based payment expense	1.5	1.1
Pension charge	2.1	1.8
Pension contributions	(4.7)	(5.2)
Depreciation of property plant and equipment	14.4	13.0
Amorisation of intangible assets	1.9	1.6
Gain on disposal of property plant and equipment	(1.7)	(1.1)
Operating cash flows before movements in working capital	83.8	69.5
Decrease in inventories	10.1	0.9
Increase in receivables	(36.9)	(28.5)
Increase in payables	21.5	39.4
(Decrease)/increase in provisions	(0.3)	2.1
Cash generated by operations	78.2	83.4
Income taxes paid	(17.6)	(17.0)
Interest paid	(2.5)	(2.5)
Net cash from operating activities	58.1	63.9

Additions to fixtures and equipment during the year amounting to £2.2m (2007 £1.7m) were financed by new finance leases. Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

31 Contingent liabilities

The Company is party with other Group companies to cross guarantees of each other's bank loans, commitments and overdrafts of £270m (2007 £190m).

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

Contingent consideration relating to acquisitions has been accrued at the Directors' best estimate of the likely future obligation of £20.9m per Note 26. The actual amounts payable may vary up to a maximum of £31.2m dependent upon the results of the acquired businesses.

In addition, the Group and its subsidiaries have provided guarantees and indemnities in respect of performance, issued by financial institutions on its behalf amounting to £9.2m (2007 £19.0m) in the ordinary course of business. These are not expected to result in any material financial loss.

32 Operating lease arrangements

The Group as Lessee

	2008 £m	2007 £m
Minimum lease payments under operating leases recognised in income for the year	5.2	4.4

At the balance sheet date, the Group had total outstanding aggregate commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £m	2007 £m
Within one year	1.5	1.5
In the second to fifth years inclusive	5.8	4.8
After five years	7.6	6.2
	14.9	12.5

33 Share based payments

Equity settled share option schemes

The Company has five share option schemes

The MITIE Group PLC Long Term Incentive Plan (LTIP)

The LTIP was introduced in July 2007 following shareholder approval at the AGM. The awards of shares or rights to acquire shares (the awards) are offered to a small number of key senior management. Where offered as options the exercise price is nil. The vesting period is three years. If the awards remain unexercised after a period of four years from the date of grant, the awards expire. The awards may be forfeited if the employee leaves the Group. Before the awards can be exercised a performance condition must be satisfied, the number of awards that vest is determined by a sliding scale of between 5.0% and 14.0% above the Retail Price Index per annum compound growth in earnings per share over a three year period.

The MITIE Group PLC 1991 Executive share option scheme

The Executive share option scheme is open to all employees. The exercise price is equal to the market value of the shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group. No options have been granted under this scheme since August 2001.

The MITIE Group PLC 2001 Executive share option scheme

The Executive share option scheme is open to all employees. The exercise price is equal to the market value of the shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group. Before options can be exercised, the performance condition that must be satisfied is that the percentage growth in the earnings per share over a three year period must be equal or greater than 10.0% per annum compound in respect of awards prior to 26 July 2007 and 4.0% above the Retail Price per annum thereafter.

The MITIE Group PLC 1991 and 2001 Savings related share option scheme

The Savings related share option scheme is open to all employees. The exercise price is not less than 80.0% of the market value of the shares on the day preceding the date on which invitations to participate in the Scheme are issued. The vesting period is five years. If the options remain unexercised after a period of five years and nine months from the date of grant the options expire. Options may be forfeited if the employee leaves the Group. No options have been granted under the 1991 scheme since August 2001.

Details of the share options outstanding during the year are as follows

	2008		2007	
	Number of share options (million)	Weighted average exercise price (in p)	Number of share options (million)	Weighted average exercise price (in p)
Outstanding at beginning of the year	12.9	143	12.3	130
Granted during the year	4.5	194	3.9	177
Forfeited during the year	(1.6)	148	(1.4)	141
Exercised during the year	(2.0)	116	(1.9)	125
Outstanding at the end of the year⁽ⁱ⁾	13.8	163	12.9	143

Exercisable at the end of the year	1.7	132	1.7	126
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⁽ⁱ⁾ Included within this balance are 0.8m (2007: 2.3m) options that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The Group recognised the following expenses related to share based payments

	2008 £m	2007 £m
Long Term Incentive Plan share options	0.4	-
2001 Executive share options	0.5	0.6
2001 Savings related share options	0.6	0.5
	1.5	1.1

The weighted average share price at the date of exercise for share options exercised during the year was 264p (2007: 216p). The options outstanding at 31 March 2008 had exercise prices ranging from 58p–54p (2007: 58p–91p) and a weighted average remaining contractual life of 5.1 years (2007: 5.1 years). In the year ended 31 March 2008, options were granted in July and August 2007 in respect of the LTIP, Executive and Savings related share option schemes. The aggregate of the estimated fair values of the options granted on those dates is £3.0m. In the year ended 31 March 2007, options were granted in June and July 2006 in respect of the Executive and Savings related share option schemes. The aggregate of the estimated fair values of the options granted on those dates is £1.5m.

The fair value of options is measured by use of the Black Scholes model. The inputs into the Black Scholes model are as follows:

	2008	2007
Share price (p)	133–230	130–193
Exercise price (p)	0–254	120–191
Expected volatility (%)	27–30	28–30
Expected life (years)	4–6	4–6
Risk free rate (%)	4.17–5.25	4.17–5.12
Expected dividends (%)	1.43–2.29	1.43–2.29

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon historical data and has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes to the consolidated financial statements continued

34 Retirement benefit schemes

Defined contribution schemes

The Group operates a number of defined contribution retirement benefit schemes for qualifying employees. The assets of the schemes are held separately from those of the Group in funds controlled by the scheme providers.

Defined benefit schemes

Group defined benefit schemes

The Group operates two defined benefit pension schemes called the MITIE Group PLC Pension Scheme and the MITIE Group PLC Passport Pension Scheme where MITIE Group PLC is the principal employer.

The assets of the schemes are held separately from the Group. Contributions to the schemes are charged to the income statement so as to spread the cost of pensions over the employees' working lives with the Group.

Under the schemes, the employees are entitled to retirement benefits varying between 0 and 66% of final salary on attainment of a retirement age of 65. No other post-retirement benefits are provided. The schemes are funded schemes.

The most recent actuarial valuations of the Group schemes' assets and the present value of their defined benefit obligations were carried out at 1 April 2005 by Mr David Higgs, Fellow of the Institute of Actuaries.

Other defined benefit schemes

Grouped together under 'Other schemes' are three (2007: two) schemes in which the Group is a participating employer and several schemes to which the Group makes contributions under Admitted Body status to our customers' defined benefit schemes in respect of certain TUPE employees. These valuations are updated by the actuaries at each balance sheet date. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the Projected Unit Credit Method.

For the Admitted Body Schemes (principally the West Midlands Pension Fund), which are all part of the Local Government Pension Scheme, the Group will only participate for a finite period up to the end of the contracts. The Group is required to pay regular contributions as decided by the relevant Scheme Actuaries and detailed in the schemes' Schedule of Contributions. In a number of cases, contributions payable by the employer are capped and any excess recovered from the body that the employees transferred from. In addition, in certain cases, at the end of the contract, the Group will be required to pay any deficit (as determined by the Scheme Actuary) that is remaining for its notional section of the scheme.

	Group schemes		Other schemes	
	2008 %	2007 %	2008 %	2007 %
Key assumptions used for IAS 19 valuation				
Discount rate	6.30	5.30	6.30	5.30
Expected return on scheme assets				
Equity instruments	8.00	8.00	8.00	8.00
Debt instruments	5.00	5.00	5.00	5.00
Property	7.50	7.50	7.50	7.50
Other assets	5.25	5.25	5.25	5.25
Expected rate of salary increases	4.30	4.00	3.80	3.75
Future pension increases	3.30	3.00	3.30	3.00

The overall expected return on assets is calculated as the weighted average of the expected return of each asset class. The expected return on equities is the sum of dividend growth and capital growth net of investment expenses. The return on gilts and bonds is the current market yield on long-term bonds. The expected return on property has been set equal to that expected on equities less a margin. The expected return on other assets is the rate earned by the scheme on cash.

Amounts recognised in administrative expenses in respect of these defined benefit schemes are as follows:

	2008			2007		
	Group schemes £m	Other schemes £m	Total £m	Group schemes £m	Other schemes £m	Total £m
Current service cost	(3.2)	(2.0)	(5.2)	(3.2)	(1.5)	(4.7)
Interest cost	(4.5)	(3.3)	(7.8)	(3.7)	(2.7)	(6.4)
Expected return on scheme assets	6.2	4.7	10.9	5.3	4.0	9.3
	(1.5)	(0.6)	(2.1)	(1.6)	(0.2)	(1.8)

34 Retirement benefit schemes continued

Amounts recognised in the consolidated statement of recognised income and expense are as follows

	2008			2007		
	Group schemes £m	Other schemes £m	Total £m	Group schemes £m	Other schemes £m	Total £m
Actual return on scheme assets	1.8	(1.3)	0.5	4.8	4.0	8.8
Expected return on scheme assets	(6.2)	(4.7)	(10.9)	(5.3)	(4.0)	(9.3)
Experience adjustments arising on plan liabilities	12.0	5.2	17.2	(3.2)	(1.0)	(4.2)
	7.6	(0.8)	6.8	(3.7)	(1.0)	(4.7)

The cumulative amount of actuarial gains recognised since 1 April 2004 in the consolidated statement of recognised income and expense is £1.5m (2007: £5.3m loss)

The amounts included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes are as follows

	2008			2007		
	Group schemes £m	Other schemes £m	Total £m	Group schemes £m	Other schemes £m	Total £m
Fair value of scheme assets	88.6	52.3	140.9	83.2	61.4	144.6
Present value of defined benefit obligations	(78.7)	(50.7)	(129.4)	(82.7)	(60.6)	(143.3)
Surplus in scheme	9.9	1.6	11.5	0.5	0.8	1.3
Contract adjustment	-	(4.0)	(4.0)	-	(0.8)	(0.8)
Net pension asset/(liability)	9.9	(2.4)	7.5	0.5	-	0.5

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

	2008			2007		
	Group schemes £m	Other schemes £m	Total £m	Group schemes £m	Other schemes £m	Total £m
At 1 April	82.7	60.6	143.3	72.2	-	72.2
Service cost	3.2	2.0	5.2	3.2	1.5	4.7
Interest cost	4.5	3.3	7.8	3.7	2.7	6.4
Reclassification	-	-	-	(0.4)	0.4	-
Contributions from scheme members	2.7	0.5	3.2	2.1	0.5	2.6
Actuarial gains and losses	(12.0)	(8.2)	(20.2)	3.2	0.3	3.5
Benefits paid	(2.4)	(1.0)	(3.4)	(1.3)	(0.1)	(1.4)
Acquisition of subsidiaries	-	4.5	4.5	-	-	-
Contract transfers	-	(11.0)	(11.0)	-	55.3	55.3
At 31 March	78.7	50.7	129.4	82.7	60.6	143.3

Movements in the fair value of scheme assets were as follows

	2008			2007		
	Group schemes £m	Other schemes £m	Total £m	Group schemes £m	Other schemes £m	Total £m
At 1 April	83.2	61.4	144.6	74.0	-	74.0
Expected return on scheme assets	6.2	4.7	10.9	5.3	4.0	9.3
Actuarial gains and losses	(4.4)	(6.0)	(10.4)	(0.5)	-	(0.5)
Contributions from the sponsoring companies	3.3	1.4	4.7	3.9	1.3	5.2
Contributions from scheme members	2.7	0.5	3.2	2.2	0.5	2.7
Reclassification	-	-	-	(0.4)	0.4	-
Benefits paid	(2.4)	(1.0)	(3.4)	(1.3)	(0.1)	(1.4)
Acquisition of subsidiaries	-	2.1	2.1	-	-	-
Contract transfers	-	(10.8)	(10.8)	-	55.3	55.3
At 31 March	88.6	52.3	140.9	83.2	61.4	144.6

Notes to the consolidated financial statements continued

34 Retirement benefit schemes continued

The analysis of the scheme assets at the balance sheet date was as follows

	2008			2007		
	Group schemes £m	Other schemes £m	Total £m	Group schemes £m	Other schemes £m	Total £m
Equity instruments	44.3	37.2	81.5	47.8	46.6	94.4
Debt instruments	17.8	8.1	25.9	3.0	7.6	10.6
Property	14.9	4.3	19.2	15.3	5.1	20.4
Other assets	11.6	2.7	14.3	17.1	2.1	19.2
At 31 March	88.6	52.3	140.9	83.2	61.4	144.6

The pension schemes have invested in property occupied by the Group with a fair value of £3.2m (2007: £3.2m) generating rental of £0.3m (2007: £0.3m). At 31 March 2008 the pension schemes held 53,000 of MITIE Group PLC shares (2007: nil). The pension schemes have not invested in any other assets used by the Group. Transactions between the Group and the pension schemes are conducted at arm's length.

The mortality for the Group schemes is based upon up to date tables which project mortality improvements in the future. For a male aged 65.0 years the expected life is 85.1 years (2007: 85.1 years) and for a female aged 65.0 years the expected life is 88.0 years (2007: 88.0 years). Mortality for the other schemes is that used by the relevant scheme actuary.

The history of experience adjustments is as follows

	Group schemes			
	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	88.6	83.2	74.0	49.0
Present value of defined benefit obligations	(78.7)	(82.7)	(72.2)	(56.6)
Surplus/(deficit) in the scheme	9.9	0.5	1.8	(7.6)
Experience adjustments on scheme liabilities	12.0	(3.2)	(8.2)	(3.7)
Percentage of scheme liabilities	(15.2)%	3.9%	11.4%	7.0%
Experience adjustments on scheme assets	(4.1)	(0.5)	9.3	2.3
Percentage of scheme assets	4.8%	1.0%	12.6%	5.0%

	Other schemes			
	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets	52.3	61.4	-	-
Present value of defined benefit obligations	(54.7)	(61.4)	-	-
Deficit in the scheme	(2.4)	-	-	-
Experience adjustments on scheme liabilities	5.2	(1.0)	-	-
Percentage of scheme liabilities	(1.0)%	1.6%	-	-
Experience adjustments on scheme assets	(6.0)	-	-	-
Percentage of scheme assets	11.5%	-	-	-

The estimated contributions expected to be paid to the Group schemes during the current financial year are £3.0m (2007: £3.4m) and to other schemes £1.4m (2007: £1.2m). As at 31 March 2008, contributions of £0.7m (2007: £0.5m) due in respect of the current reporting period had not been paid over to the schemes.

35 Related party transactions

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

No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest with the exception of goods and services provided on arm's length terms to R McGregor Smith amounting to £215,000 (2007: £nil) in the ordinary course of business. No balances were outstanding at the year end.

Amounts paid to key management personnel are given in the audited section of the Directors' remuneration report. During the year MITIE's Long Term Incentive Plan (LTIP) was introduced and offered to a small group of key senior management.

36 Principal subsidiaries

The companies set out below are those which were part of the Group at 31 March 2008 and in the opinion of the Directors significantly affected the Group's results and net assets during the year. Principal subsidiaries are incorporated in the United Kingdom, shareholdings in companies marked * are held directly by MITIE Group PLC.

Division	Activities	Principal subsidiaries	At 31 March 2008 % Voting rights owned	At 31 March 2008 % Ordinary shares owned
Facilities Services	Offer integrated facilities management and a range of services including asset management, energy consultancy, document management, front of house, catering, cleaning, engineering maintenance, landscaping, pest control, security, waste and environmental management.	MITIE Facilities Services Ltd (formerly MITIE Facilities Management Ltd)*	100.0%	100.0%
		MITIE Cleaning & Support Services Ltd	95.9%	95.9%
		MITIE Services (Retail) Ltd	58.2%	58.2%
		MITIE Transport Services Ltd	86.1%	86.1%
		MITIE Security Holdings Ltd	95.7%	99.9%
Property Services	Offer roofing, repairs and redecoration, interior fit out, plumbing and heating, social housing maintenance and refurbishment and fire protection.	MITIE Property Services (UK) Ltd*	76.7%	76.7%
		MITIE Interiors Ltd*	54.0%	54.0%
		Robert Prettie & Co Ltd	100.0%	100.0%
Engineering Services	Offer services including mechanical and electrical, energy generation and management, technology and infrastructure.	MITIE Engineering Holdings Ltd*	100.0%	100.0%

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.

Independent auditors' report to the members of MITIE Group PLC

We have audited the parent company financial statements of MITIE Group PLC for the year ended 31 March 2008 which comprise the company balance sheet and the related Notes 37 to 50. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of MITIE Group PLC for the year ended 31 March 2008 and on the information in 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

The directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement, the Chief Executive's review, the Operating review, the Financial review and the Corporate governance statement that is cross-referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 parent company financial statements are free from material misstatement, 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 parent company financial statements.

Opinion

In our opinion:

- The parent company financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008;
- The parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' report is consistent with the parent company financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Bristol, United Kingdom
19 May 2008

Company balance sheet

As at 31 March 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Tangible assets	40	8 4	2 0
Investments in subsidiary undertakings	41	467 7	218 1
Total fixed assets		476 1	220 1
Current assets			
Debtors	42	33 4	43 3
Total current assets		33 4	43 3
Total assets		509 5	263 4
Creditors amounts falling due within one year	43	(133 1)	(114 0)
Provisions	45	(1 1)	(0 3)
Total current liabilities		(134 2)	(114 3)
Net current liabilities		(100 8)	(71 0)
Total assets less current liabilities		375 3	149 1
Creditors amounts falling due after more than one year	44	(1 6)	(1 2)
Provisions	45	(18 9)	-
Total liabilities		(154 7)	(115 5)
Net assets		354 8	147 9
Capital and reserves			
Share capital	46	7 9	7 8
Share premium account	47	19 0	16 6
Merger reserve	47	60 4	54 9
Capital redemption reserve	47	0 3	0 3
Share based payments reserve	47	3 2	2 2
Profit and loss account	47	264 0	66 1
Equity shareholders' funds		354 8	147 9

The financial statements were approved by the Board of Directors and authorised for issue on 19 May 2008. They were signed on its behalf by



Ruby McGregor Smith
Chief Executive



Suzanne Baxter
Group Finance Director

Notes to the Company financial statements

37 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by company law. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year with the exception of FRS 29 'Financial Instruments: Disclosures' which was adopted in the current year. The Company has taken advantage of the exemption allowed by paragraph 2D (b) of FRS 29 not to make these disclosures in its own entity financial statements as the consolidated financial statements include the required disclosures for the Group.

Investments

Fixed asset investments in subsidiaries are shown at cost less any provision for impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost of the assets over their estimated useful lives and is calculated on a straight line basis as follows:

Plant and vehicles	– 3–10 years
Software and development costs	– 5–10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of tangible fixed assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to the profit and loss account, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based 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.

Financial instruments

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account where there is objective evidence that the asset is impaired.

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables are measured at fair value.

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

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Share based payments

The Company operates a number of executive and employee share option schemes. For all grants of share options and awards, the fair value as at the date of grant is calculated using the Black-Scholes model and the corresponding expense is recognised on a straight-line basis over the vesting period. Options over the Company's shares awarded to employees of the Company's subsidiaries are accounted for as a capital contribution within the carrying value of investments in subsidiary undertakings.

37 Significant accounting policies continued

Pensions

Pension costs represent amounts paid to one of the Group's pension schemes. For the purposes of FRS 17 'Retirement Benefits' the Company has been unable to identify its share of the underlying assets and liabilities of the main Group defined benefit pension scheme on a consistent and reasonable basis. Therefore the Company is accounting for contributions to the scheme as if it were a defined contribution scheme. Note 34 to the consolidated financial statements sets out the details of the IAS 19 'Employee Benefits' net pension asset of £7.5m (2007: £0.5m).

38 Profit for the year

As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. MITIE Group PLC reported a profit after taxation for the financial year ended 31 March 2008 of £27.0m (2007: £33.6m) before an exceptional unrealised gain of £187.7m which arose on the insertion of intermediate holding companies within the Group.

The auditors' remuneration for audit services to the Company was £40,000 (2007: £35,000).

The average number of persons employed, being full time equivalents, by the Company during the year, including Directors, was 107 (2007: 76).

The costs incurred in respect of these employees were

	2008 £m	2007 £m
Wages and salaries	6.7	6.4
Social security costs	0.8	0.7
Pension costs	0.3	0.3
	7.8	7.4

Detailed disclosures of Directors' remuneration and share options are given in the audited section of the Directors' remuneration report contained in the consolidated financial statements.

39 Dividends

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 31 March 2007 of 2.7p (2006: 2.4p) per share	8.4	7.4
Interim dividend for the year ended 31 March 2008 of 2.8p (2007: 2.4p) per share	8.9	7.5
	17.3	14.9
Proposed final dividend for the year ended 31 March 2008 of 3.2p (2007: 2.7p) per share	10.1	8.4

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

40 Tangible fixed assets

	Plant and vehicles £m	Software and development costs £m	Total £m
Cost			
At 1 April 2007	3.7	-	3.7
Additions	0.4	6.6	7.0
Disposals	(0.4)	-	(0.4)
At 31 March 2008	3.7	6.6	10.3
Accumulated depreciation			
At 1 April 2007	1.7	-	1.7
Charge for the year	0.6	-	0.6
Disposals	(0.4)	-	(0.4)
At 31 March 2008	1.9	-	1.9
Carrying amount			
At 31 March 2008	1.8	6.6	8.4
At 31 March 2007	2.0	-	2.0

Notes to the Company financial statements continued

41 Investments in subsidiary undertakings

	£m
Shares at cost	
At 1 April 2007	229.7
Additions	60.9
Increase in investments due to restructuring	187.7
Capital contribution re share based payments	1.0
At 31 March 2008	479.3
Provision for impairment	
At 1 April 2007	11.6
At 31 March 2008	11.6
Carrying amount	
At 31 March 2008	467.7
At 31 March 2007	218.1

Details of the acquisitions in the year are provided in Note 29 of the consolidated financial statements and a listing of principal subsidiaries in Note 36

42 Debtors

	2008 £m	2007 £m
Amounts owed by subsidiary undertakings	28.0	34.7
Other debtors	1.5	4.3
Prepayments and accrued income	2.1	2.4
Corporation tax	1.8	1.9
	33.4	43.3

The Directors consider that the carrying amount of debtors approximates their fair value

43 Creditors amounts falling due within one year

	2008 £m	2007 £m
Trade creditors	0.8	1.8
Amounts owed to subsidiary undertakings	15.3	15.5
Other taxes and social security	2.5	1.8
Overdraft	56.4	63.7
Bank loans	50.0	20.0
Loan notes	3.1	9.9
Deferred tax	0.3	-
Accruals and deferred income	4.7	1.3
	133.1	114.0

The Directors consider that the carrying amount of creditors approximates their fair value

The Company's bank overdrafts are part of the Group's banking arrangements and are offset against credit balances within the Group. The Company has adequate liquidity to discharge all current obligations.

Details of the loan note movements in the year are provided in Note 22 of the consolidated financial statements.

44 Creditors amounts falling due after more than one year

	2008 £m	2007 £m
Unsecured loan notes	1.6	1.2
	1.6	1.2

Details of the unsecured loan notes are provided in Note 22 of the consolidated financial statements.

45 Provisions

	Contingent deferred consideration £m
At 1 April 2007	0.3
Additional provision in the year	19.9
Utilised during the year	(0.2)
At 31 March 2008	20.0
Falling due within one year	1.1
Falling due after more than one year	18.9
	20.0

Details of provisions are provided in Note 26 of the consolidated financial statements

46 Share capital

	Number million	£m
Ordinary Shares of 2.5p		
Authorised		
At 1 April 2007	340.0	8.5
Authorised during the year	160.0	4.0
At 31 March 2008	500.0	12.5
2008		
Allotted and fully paid		
At beginning of year	312.4	7.8
Issued for acquisitions	2.4	0.1
Issued under share option schemes	2.0	-
At end of year	316.8	7.9
2007		
Allotted and fully paid		
At beginning of year	308.8	7.7
Issued for acquisitions	1.7	-
Issued under share option schemes	1.9	0.1
At end of year	312.4	7.8

Details of movements in share capital during the year are provided in Note 27 of the consolidated financial statements

Notes to the Company financial statements continued

47 Reserves

	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share based payments reserve £m	Profit and loss account ⁽ⁱ⁾ £m	Total £m
At beginning of year	7.8	16.6	54.9	0.3	2.2	66.1	147.9
Shares issued and net premium arising in respect of acquisitions	0.1	-	5.5	-	-	-	5.6
Shares issued and net premium in connection with exercise of share options	-	2.4	-	-	-	-	2.4
Share based payments	-	-	-	-	1.0	0.5	1.5
Profit for the year	-	-	-	-	-	27.0	27.0
Unrealised gain on restructuring ⁽ⁱ⁾	-	-	-	-	-	187.7	187.7
Dividends paid to shareholders	-	-	-	-	-	(17.3)	(17.3)
Balance at 31 March 2008	7.9	19.0	60.4	0.3	3.2	264.0	354.8

⁽ⁱ⁾The unrealised gain on restructuring is non distributable

48 Contingent liabilities

Details of contingent liabilities have been given in Note 31 to the consolidated financial statements

49 Share based payments

Equity settled share option schemes

The Company has five share option schemes as described in Note 33 to the consolidated financial statements

The Company recognised the following expenses related to share based payments

	2008 £m	2007 £m
Long Term Incentive Plan share options	0.4	-
2001 Executive share options	0.1	0.1
2001 Savings Related share options	0.0	0.0
	0.5	0.1

The fair value of options is measured by use of the Black Scholes model. The inputs into the Black Scholes model are as described in Note 33 to the consolidated financial statements

50 Related parties

Directors' transactions

Details of related party transactions have been given in Note 35 to the consolidated financial statements

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

Shareholder information

Results

2008 Interim management statement	1 February 2008
2008 Preliminary statement of annual results	19 May 2008
2009 Interim management statement	31 July 2008
2009 Half yearly results	24 November 2008

Dividends

2008 Half yearly dividend 2.8p (2007 2.4p)	Paid	8 February 2008
2008 Final (proposed) 3.2p (2007 2.7p)	Ex dividend date	2 July 2008
	Record date	4 July 2008
	Last date for receipt/revocation of DRIP dividend mandate	14 July 2008
	Payment date	4 August 2008

Annual General Meeting

The Merchants' Hall
The Promenade
Clifton Down
Bristol
BS8 3NH

31 July 2008

Capital History

Mid market price 2 April 2001 (date of sub-division)	152.50p
Mid market price 31 March 2008	242.00p
2008 low/high	223.25p/287.00p

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Registered number SC 19230

Dividend reinvestment plan

MITIE Group PLC has set up a dividend reinvestment plan (DRIP) to enable you to build your shareholding by using your cash dividends under a standing election to buy additional shares in MITIE Group PLC. If you would like to receive further information, including details of how to apply, please call 0870 707 1158 or apply online at www.computershare.com/Investor/UK

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