MITIE Group PLC
Annual Report and Accounts 2011
The strategic outsourcing
and energy services company

Big plans.

Bigger aspirations.

Like

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It's our ability to adapt and change that will help us achieve our aspirations – and it's what continues to set us apart.

We're equally proud of the things that remain the same...

as always, we are driven by the quality, commitment and passion of our people,

who enable us to deliver consistently strong growth year after year.

The shape of our business. Created by our clients.

We specialise in outsourcing and energy services. Everything we do is driven by meeting the outsourcing needs of our clients.

We work in close partnership with each client to provide everything from strategic consultancy to service delivery.

In simple terms, we think, we manage and we deliver on their behalf.

Facilities Management

Security; Cleaning; Catering; Document management and reprographics; Reception and front of house; Waste management; Environmental services; Landscaping; Pest control

Review of operations
32

Clients include

Technical Facilities Management

Integrated FM; Mechanical and electrical engineering maintenance; Mobile multi-site FM; Specialist technical services; CarbonCare energy services; Lighting design and maintenance; Building Management Systems and controls; Compliance services

Review of operations
32

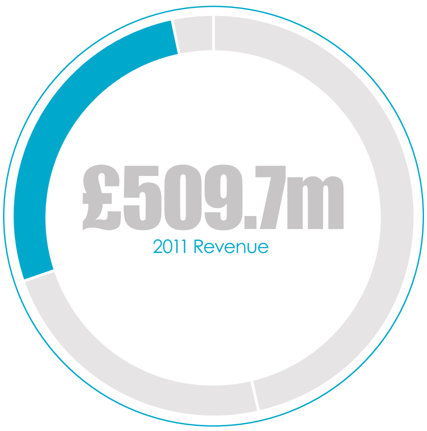
Clients include

One of the 'ingredients' caterers who is part of our 1team on the Rolls-Royce contract

Property Management

Property maintenance; Building refurbishment; Painting; Roofing; Interior fit-out; Fire protection; Plumbing; Mechanical and electrical engineering installation; Solar photovoltaic panels; Insurance claims management and repairs

Review of operations 32

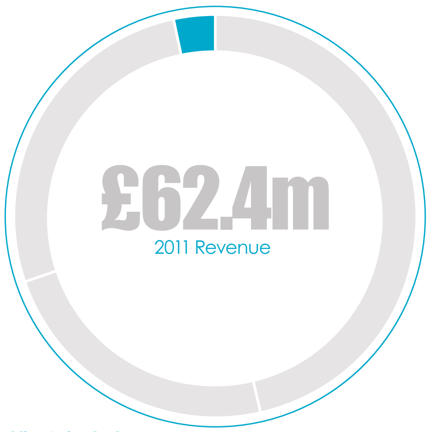


Clients include

Asset Management

Decentralised energy centre development; Low-carbon data centre development; Renewable energy integration; Energy services company (ESCo) management; Community infrastructure

Review of operations 32

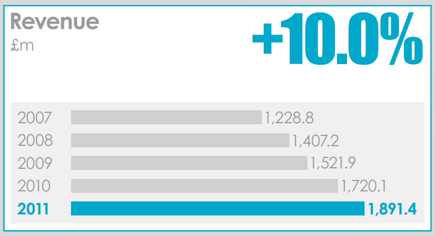


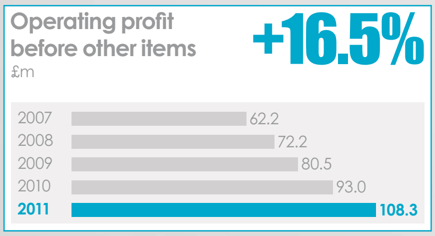
Clients include

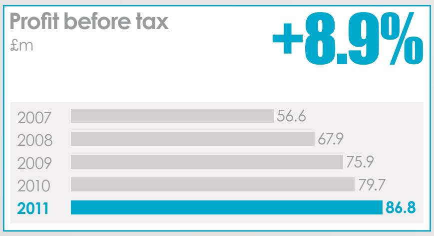
Chairman's statement

Roger Matthews Chairman

Strong results... and exciting market opportunities







Overview

We have had another year of strong progress at MITIE, with double-digit growth in revenue, earnings and dividends. This is an excellent performance against a UK economic backdrop that remains challenging and is a testament to the passion and hard work of our people.

During the year, we have made excellent progress on our key strategic initiatives, continuing to invest in our people, technology, facilities management (FM) and energy propositions as well as our overseas capability. We were delighted to retain and expand contracts with Rolls-Royce and Vodafone which confirmed our strategy of providing integrated FM and energy services. We also acquired Dalkia FM in Ireland and made a significant investment in the fast developing decentralised energy market. We start the new financial year in a strong and confident position.

Results

During the year, revenues grew by 10.0% to £1,891.4m (2010: £1,720.1m). Operating profit before other items increased by 16.5% to £108.3m (2010: £93.0m), reflecting an improved margin of 5.7% (2010: 5.4%). Profit before tax and other items increased by 15.3% to £105.7m (2010: £91.7m). Earnings per share before other items grew by 15.9% to 22.6p per share (2010: 19.5p per share).

We have retained our strong focus on cash, reporting cash inflows from operations of £102.5m (2010: £98.4m) for the year, which represents excellent conversion of EBITDA to cash of 86.7% (2010: 95.2%). The balance sheet is extremely strong with net debt at the year end at 0.65 times EBITDA at £76.5m (2010: £86.6 m), after using debt funding of £7.3m for an acquisition.

We have recently refinanced our bank facilities and now have committed bank facilities of £250m until September 2015, which will be available for draw down after the AGM. We also drew down £100m equivalent of US Private Placement debt in December 2010, in a mix of notes which mature between seven and nine years. Both of these facilities leave us in a strong position to take advantage of value-creating acquisition opportunities as they arise.

We continue to see strong growth in our order book, which increased by 6.3% during the year and now stands at a record £6.8bn (2010: £6.4bn).

Our sales pipeline currently stands at £11.4bn and our contracted revenue for the year ending 31 March 2012 is 81% of budgeted revenue (2010: 75%).

Dividend

We continue to generate attractive dividends and dividend growth for our shareholders. The Board has recommended an increased final dividend of 4.9p per Ordinary share, providing a total dividend per share for the year of 9.0p, a 15.4% increase on 2010. This is consistent with our dividend policy to maintain dividends in line with underlying earnings per share growth at a cover ratio of 2.5 times adjusted earnings. Subject to shareholder approval at the Annual General Meeting, the dividend will be paid on 12 August 2011 to shareholders on the register at 24 June 2011.

Board

After serving for 17 years at MITIE, of which nine have been on the Board, Roger Goodman stepped down as a PLC Director on 31 March 2011. We thank him for his valuable contribution to the Board.

People

We would like to thank all of our people for their exceptional efforts and support and to welcome the 5,327 people who joined us during the year. We are now a company of 61,906 individuals, which makes us one of the UK's largest private sector employers.

In particular, we would like to welcome those who joined us following our acquisition of Dalkia FM in Ireland.

It is our talented, dedicated people who allow us to achieve consistently strong results and maintaining the motivation of our people is critical to our future success. We remain focused on recognising and rewarding exceptional team performance, nurturing talent and providing opportunities for our people to succeed in their careers.

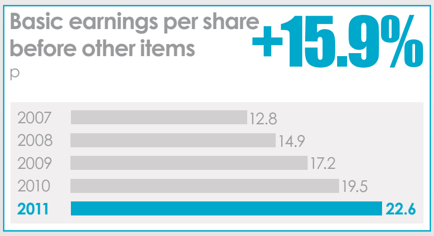
Outlook

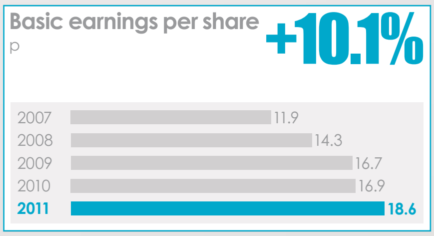
MITIE is in an excellent position. We continue to focus on organic growth, supplemented by selective acquisitions and the development of our integrated business model overseas.

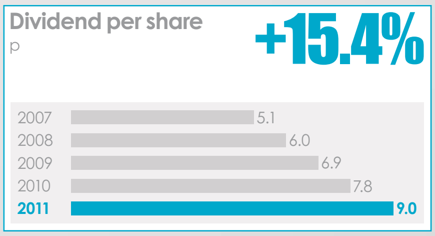
We have a diverse, high-quality client base across both the public and private sectors, which underpins our consistent track record. This has enabled us to continue investing in our people, technology and new markets, all of which supports our strong order book and growing sales pipeline.

There are exciting opportunities in our markets, as clients across the board look to introduce further innovation and efficiencies into their businesses. We are financially robust and have a clear strategy for the development of our business. We are confident that MITIE will continue to build on its long track record of sustainable, profitable growth.

Roger Matthews
Chairman







Chief Executive's strategy overview

Ruby McGregor-Smith Chief Executive

Responding to changing client needs

This has been another good year for MITIE, with double-digit growth in revenues, operating profit and EPS.

But you probably know that already. The figures are well reported in the media and feature prominently throughout this report for all to see.

In this statement, I intend to focus on the story behind that success and how as an aspirational company, we achieve aspirational goals.

Join the discussion, or keep up-to-date!

Social media gives our people a forum where they can discuss the things that matter most to them.

Where our clients go, we go...

We're there for our clients and support them with everything they need as they progress and develop.

See what we did for Rolls-Royce
18–19

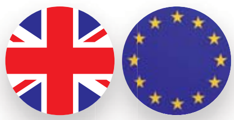
Overview

MITIE's strength is that we never forget that we're a service company – we deliver the everyday outsourced services that clients need in order to build their own businesses. Our broad scope and capabilities mean that we are the people responsible for everything from managing property estates and reducing energy consumption to providing engineers, cleaners and security officers, controlling pests, gritting roads and much more besides.

We can do these things very efficiently, which is how we can save our clients money. Our approach starts with getting the specification exactly right, and agreeing service levels with the client. Then, with contracts in place, we mobilise our teams very effectively. People transfer is complex and made even more so by legislation – but it is vital to get it absolutely spot on. Then we blend our experience and skills, innovative IT processes and industry-leading training and development to deliver exactly what we say we will deliver, exactly how we promised it. That's why MITIE clients tend to stay MITIE clients, and why our business has grown for 23 consecutive years.

At all times, the markets are driven by our clients, as are we. The evolution of the outsourcing market is neatly encapsulated in the chart below – and what it shows, in a nutshell, is that the industry is on a long journey, from providing single services to bundled services and then, in some cases, more integrated services.

But what the chart doesn't show is that each client is on a journey of their own. They are all at different stages, and they all have dramatically different needs which are changing at their own individual pace. Life at MITIE is never dull because every day somebody asks us to do something different. It's our job to meet those needs, as and when they change.



Spreading our wings

The international side of our business is growing as our clients want support beyond the UK.

Outsourcing market evolution

1980 In-house	1990 Single service	2000 Bundled services	2010 Integrated FM	2015 Strategic outsourcing
Shift	Security	Broader cost savings	Integrated delivery	Buildings management and services
	M&E engineering	Single point contact	Management information systems	Business process outsourcing
	Catering	Standardised provision	Property Management	Technology
	Cleaning	Best practice	Overseas	Data management
	Maintenance		**Add-on specialist services**	Asset investment
	Pest control		Consultancy	Energy/carbon
			Supply chain	
			Project management	

Price → Value

Chief Executive's strategy overview

"I'm glad I'm part of the MITIE staff group."

@leondinzy
Twitter comment, February 2011

The more things change...

The recession has been a major driver for change in our marketplace. Clients are restructuring and rethinking to reduce costs and they are turning to us for assistance. At the same time, they are looking to improve the way they manage energy, and taking advantage of our energy services offering, which helps cut carbon while also reducing costs. This is ensuring that in the UK, our core market, attractive opportunities for growth remain.

75% of our contract awards this year have come from the private sector and we are seeing a lot of activity at the moment. There is also a move towards more integrated facilities management – not only in the UK but also overseas. When clients tell us that they would like the MITIE services they enjoy in the UK to be available in other countries, we will do everything in our power to make it happen. Our relationship with Rolls-Royce is a case in point, where during 2010 we went from being a UK supplier to one who partners with them across Europe.

The international opportunities for our business are growing fast and will continue to do so as we help more clients like Rolls-Royce be more efficient outside the UK. Around 40% of our top 100 clients are multinationals, so the opportunity is clear, and we are actively looking at how we can support them.

The acquisition of Dalkia FM in Ireland, which was finalised in June, is an important step along this pathway. Dalkia provides outsourcing solutions to clients in several different sectors and their experience has given us proven FM capability in a new territory.

In the public sector, budgetary pressures remain, which will create further opportunities for MITIE in the coming months and years. We are well-placed to support our public sector clients and have close working relationships with the Cabinet Office and other bodies. Local government, justice and health are just three of the sectors where we can see great opportunities. Indeed, several of these have already come to fruition, including the contract to provide a full custody and detention service at the Campsfield House immigration centre. This is our first contract in the prisons sector – and I am confident that we can go on to win many more.

The need for all organisations to use fewer natural resources is changing our marketplace, as our clients rethink the way they supply and consume energy. Energy management is, and should be, integral to facilities management and we have invested considerably in these capabilities – we are now one of the top two energy services companies in the UK. We believe energy services will, in time, be part of every contract we operate, and are well-positioned to take advantage of this opportunity.

...the more they stay the same

Entrepreneurial spirit has always been one of the qualities that makes MITIE different. It is part of our DNA and goes right back to the birth of the company. Examples of that entrepreneurship in action are everywhere – not only in the creative way we approach contracts, but also in the practical support we have given people to help them develop their careers and grow successful outsourcing businesses. Since 1988, we have consistently backed the idea of equity and opportunity with funds and support, and have helped over 80 successful start-ups in that time. In fact the acronym MITIE stands for 'Management Incentive Through Investment Equity'.

During the year, we refreshed this idea by launching the 'MITIE Entrepreneurial Programme', a £10m fund to back teams with innovative ideas for starting mutually-owned businesses. The 'MITIE model' gives management teams an equity stake in a business, which they then grow over a five to ten-year period and which is eventually acquired by us in full.

Public sector opportunities
Budgetary pressures will create further opportunities for MITIE in the coming months and years.

Moving into new sectors
We continue to identify opportunities in new markets, sectors and regions.

42%
of our top 100 customers are multinational businesses

£10m
Entrepreneurial fund to attract dynamic management teams to our business – find out more at www.mitie.com/entrepreneurs

Acquiring new skills – building our offering and providing new solutions

Read about how we use woodchips to provide the energy for a supermarket…
20

"…saying hello to all the newest European and UK colleagues who join us tomorrow, MITIE – 1 team for Rolls-Royce EMEA – 6th Dec 2010 – What an exciting future ahead."

Leon Jones
Facebook comment, October 2010

"#cardiff airport goes green! 75% of waste now being #recycled with the help of partner company @MITIE-Group-PLC."

@Cardiff-Airport
Twitter comment, March 2011

Our strategy

A strategy to deliver stakeholder value through a focus on sustainable, profitable growth lies at the heart of our business and has done so for five years. The strategy has worked well and is largely unchanged, although each year the areas of focus can change.

As we introduce new services and ways of delivering them in order to meet the changing needs of our clients, there will be an increased emphasis on entering new markets. In particular, we anticipate that energy-related services will be a growing focus for us over the next few years, as will our presence in overseas markets. Just as our clients are seeking to make their operations more efficient, so too are we, which is why we have added operational excellence as an element that underpins our strategy. We have made some changes to the KPIs we report to reflect these changes, and these can be found on pages 12–14.

Sustainable profitable growth strategy:

1. Clients
Provide world-class services to attract new clients and retain and expand contracts with existing clients

2. People
Recruit, motivate, retain, train and develop the best talent in the industry

3. Risk
Take a long-term view to protect our business and manage risk

4. Responsibility
Act responsibly and build a reputation that enhances our brand to all stakeholders

5. New markets
Expand our capabilities in complementary markets and different countries and increase the proportion of our energy services revenues

6. Operational excellence
Improve the operational efficiency of everything we do

7. Acquisitions
Support our growth with selective acquisitions

A strategy which underpins our customer proposition… Why MITIE?

- We have an **entrepreneurial culture** that is embedded in our DNA
- We **motivate our people** by developing their careers and rewarding excellent performance
- We provide the **essential services** our clients need to run their buildings and infrastructure
- We have the largest range of both **hard and soft Facilities Management** services and broadest coverage across the UK, plus a growing European presence
- We are experts at **mobilising contracts**
- We have sector **specialists** to tailor our services to specific industries
- We use the best **technology** to provide the most efficient services
- We develop energy solutions that offer a secure and sustainable **decentralised energy** supply
- We develop, secure and maintain **critical technology infrastructure**
- We **manage energy** with our end-to-end CarbonCare offering

Chief Executive's strategy overview

Focused on our people

Our new HR director, Katherine Thomas, is putting a spotlight on talent.

MiTec

Our new technology centre in Northern Ireland is a totally secure hub for remote monitoring.

Giving our people a voice

We communicate with our people in the ways they are most comfortable with.

Sustainability

MITIE has always been a responsible business and we focus our sustainability activities in seven areas which are aligned to our profitable growth strategy. This is explained in detail on pages 36–38.

Investing in technology

We approach all our contracts from the perspective of partnership – we want to work with our clients, not just for our clients, and to win their trust in all that we do. Technology plays a key role here, because it enables us to show clients exactly what we are doing and when we are doing it, in real time.

For example, our MiWorld system allows a client to see everything from the temperature of a factory to the current status of an engineer visit or when the security guard last clocked on and off – it is all at the click of a mouse, on a dashboard on his or her PC. Such knowledge can highlight inefficiencies and duplications and create further opportunities to manage costs.

Handheld PDAs (personal digital assistants) are now used across our business, over a large number of sectors and service lines. The technology is designed to meet the diverse requirements of all our different contracts and is quick and easy to deploy. PDAs allow us to do operational tasks, including the scheduling of our mobile workforce, in a much more efficient way. For example, each month we use PDAs to conduct in excess of 1,400 audits and to schedule over 25,000 planned and reactive activities.

Supporting our people

The other way we build trust is through our people, all 61,906 of them. Most are based on-site and work at the sharp end of the business. Whether they are facing our clients each day, or working behind the scenes, we work hard to engage and develop all of our people.

Communication with so many people on so many different sites, many of them working shifts, can be a real challenge. Just as we deliver services in the way that our clients want them delivered, so we also communicate with our people in the ways that they're most comfortable with. In addition to all of the traditional methods of communication, that means social media – and in particular Facebook, Twitter and YouTube. Our view is that these sites give our people an important forum where they can discuss the things that matter most to them. We take on board what people are saying, and when issues are raised we always respond.

In October 2010, we appointed Katherine Thomas as our new group HR director. She brings a wealth of experience to the role, having previously worked at BT as group talent and leadership director, and has already begun to formalise our people agenda.

We now have a more structured approach to HR issues, with a clear vision for where we want to be in 2014, with an emphasis on issues such as recruitment and retention, talent management, succession planning and leadership development.

£6.8bn
2012 order book

£11.4bn
Sales pipeline

In 2010 we launched the first MITIE graduate programme. We also established a Diversity and Inclusion Steering Group with the purpose of strengthening our commitment to achieving equality, diversity and inclusion in the workplace and community.

The consistent hard work of our people was recognised in the form of a number of awards throughout the year. Our Real Apprentice scheme was the winner in the innovation category at the first European Employee Volunteering Awards. The groundbreaking programme helps to break down barriers and get the long-term unemployed and people with a physical or mental disability back into the world of work. At the other end of the spectrum, we were recently awarded Global Supplier of the Year by Rolls-Royce. These are just a sample of the enormous achievements of our people which regularly attract industry recognition.

"...very excited about the new MiTec ARC Building in Northern Ireland. any updates would be much appreciated."

Paul McCormick
Facebook comment, October 2010

"...hello all. I have just realised I have broken my own record by being employed by the same firm for 5 years. So MITIE or I must be doing something right."

Joy Mutlow
Facebook comment, October 2010

Looking Forward

These are very good results and this year we have been awarded a number of transformational contracts. We have secured some significant work in the private sector where we have excellent relationships with our clients and are differentiated by our energy services capabilities and use of technology. We have been appointed to several large public sector frameworks and have a strong pipeline of opportunities in local government, social housing, justice and health.

The opportunities in outsourcing and energy services in the UK and abroad are significant. Our strong balance sheet and excellent cash conversion, as well as a record order book and sales pipeline, will enable us to achieve our growth aspirations. The business is well positioned for continued sustainable, profitable growth.

Finally, I'd like to place on record my thanks to all the people who have made MITIE what it is today. It's your drive, expertise, passion and, at times, great sense of humour that underpins what we do. It has been a real privilege to work alongside you all during the year.

Ruby McGregor-Smith
Chief Executive

www.facebook.com/group.mitie
twitter.com/mitie_group_plc
www.youtube.com/user/MITIEGroupPLC

Here's what all this means for our performance...

Key performance indicators

Monitoring and managing performance.

Delivering sustained profit growth.

We look at a range of indicators to assess our performance against our stated strategy. These include KPIs that are aligned to each of the elements of our strategy, as well as the financial indicators that we as a business are focused on.

Non-financial KPI

Financial KPI

Our strategy
1. Clients
2. People
3. Risk
4. Responsibility
5. New markets
6. Operational efficiency
7. Acquisitions

Retention of existing contracts within Facilities Management %

2007	85.0
2008	86.0
2009	88.0
2010	87.0
2011	**84.2**

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

Target:
Achieve contract retention rates in excess of 90%.

Comment:
Our contract retention rate in our Facilities Management division stands at 84.2%.

Our strategy
1. Clients
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4. Responsibility
5. New markets
6. Operational efficiency
7. Acquisitions

Reportable accidents per 1,000, employees

2007	5.1
2008	4.0
2009	3.9
2010	3.5
2011	**3.1**

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 3.1 per 1,000 employees.

Our strategy
1. Clients
2. People
3. Risk
4. Responsibility
5. New markets
6. Operational efficiency
7. Acquisitions

Carbon dioxide emissions

2007	not measured
2008	not measured
2009	not measured
2010	0.87
2011	**0.82**

Description:
In previous years emissions have been reported as CO_2. This year they are reported as CO_2e to allow for all six Greenhouse Gases (GHG) and broken down into scopes 1, 2 and 3 in accordance with the GHG protocol. Emissions are calculated using the Defra guidance on how to measure and report GHG emissions and apply the 2010 guidelines for company reporting. Last year's total CO_2 emissions have been recalculated using CO_2e for Scope 1 (direct emissions, gas and transport) and Scope 2 (indirect energy, purchased electricity) but excludes landlord managed energy and expensed business fuel (part of Scope 3). We have also restated the 2010 data to allow for changes to the property portfolio and acquisitions. The rate of CO_2e 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:
Emissions per employee are lower than the prior year.

Our strategy
1. Clients
2. People
3. Risk
4. Responsibility
5. New markets
6. Operational efficiency
7. Acquisitions

Energy services % of revenue

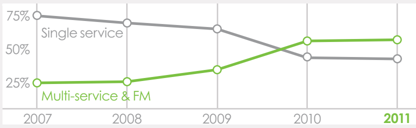
2007	not measured
2008	not measured
2009	not measured
2010	not measured
2011	**34.0**

Description:
Sustainability will be an increasingly competitive advantage for us going forward as our clients look to us to help them improve their performance and reduce their costs.

Target:
Increase the proportion of energy services related revenue each year.

Comment:
This is the first year that we have been analysing our performance in this area.

Contract types split within MITIE



Description:
As a substantial portion of our revenue was historically generated through single service contracts, one of our opportunities for growth is through expanding our relationships with existing clients by providing other services. We have seen a trend in the markets towards multi-service and FM contracts over the past few years and we are well positioned to meet the demands of this trend due to our broad range of services.

We measure the percentage of revenue that is generated by these types of contracts in order to measure how well we are performing in this arena.

Comment:
58% of revenues are now attributable to multi-service and integrated FM contracts.

Secured revenue %

2007	75.0
2008	78.0
2009	74.0
2010	75.0
2011	**81.0**

Description:
We are focused on long-term recurring revenue streams. At the start of each financial year, we calculate the percentage of our budgeted revenues that are already contracted.

Target:
Secure greater than 75% of budgeted revenues at the start of each financial year.

Comment:
At the start of the financial year 2012, 81% of budgeted revenues were secured.

Our strategy

1. Clients
2. **People**
3. Risk
4. Responsibility
5. New markets
6. Operational efficiency
7. Acquisitions

Management retention %

2007	91.4
2008	92.0
2009	93.0
2010	92.0
2011	**89.5**

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%.

Comment:
Our management retention rate was 89.5% for the year.

International
% of revenue

2007	n/a
2008	n/a
2009	n/a
2010	n/a
2011	**1.3**

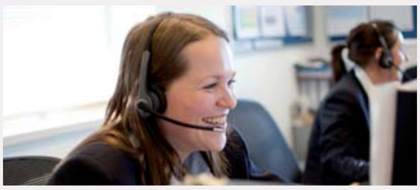
Description:
We see increasing opportunities in international markets as our clients look to expand procurement and we benefit from diversifying our revenue base.

Target:
Increase our proportion of international revenues.

Comment:
Our international revenues were 1.3% of group.

Our strategy

1. Clients
2. People
3. Risk
4. Responsibility
5. New markets
6. **Operational excellence**
7. Acquisitions



All of our divisions are focused on operating more efficiently, and use many different measures to assess performance.

From a group perspective, the best way to assess our productivity is our group operating profit margin, which is also one of our key financial performance indicators and found on the following spread.

Our strategy

1. Clients
2. People
3. Risk
4. Responsibility
5. New markets
6. Operational efficiency
7. **Acquisitions**

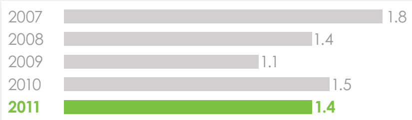
This year we invested £7.3m in the acquisition of Dalkia FM in Ireland, and £6.8m in minority interest acquisitions in six companies under the MITIE model. Our strong cash flows, committed banking facilities and strong balance sheet have ensured that these investments can be made against a backdrop of limited gearing, with net debt to EBITDA at 31 March 2011 at 0.65 and interest cover of 33.1 for the year.

Key performance indicators

Financial key performance indicators

Our financial KPIs are focused on the quality of our earnings and cash flows, the control of capital expenditure and the sustainability of dividends. We have performed strongly against these measures again this year.

Capital expenditure as a % of revenue

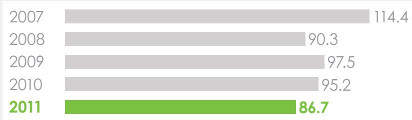


Description:
Our strength lies in the management of people and in the provision of suitable assets to support their work, but our business is not capital intensive. We continue to monitor and control capital expenditure, and target growth and acquisitions in areas that do not require substantial capital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

Target range:
Maintain below 2.0% of revenue.

Comment:
Capital expenditure was 1.4% of revenue.

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 earnings before interest, tax, depreciation and amortisation (EBITDA) to cash is one of the significant cash-flow indicators for MITIE.

Target range:
Over 80.0% of EBITDA converted to cash.

Comment:
We have achieved our target this year with 86.7% of EBITDA being converted to cash.

Group operating profit margin (before other items*)

Description:
Our operating profit margin (before other items*) provides us with a good indicator of the profitability of our business. Where we have material restructuring and acquisition related items, such as integration costs, we exclude these from our measure.

Target range:
Maintain operating profit margins between 5.0% and 6.0% per annum.

Comment:
We have improved our margin by 0.3ppts to 5.7%.

* Other items are restructuring and acquisition related items.

Dividend growth

Description:
It is important that we continue to target a dividend policy that provides an appropriate return to shareholders with a dividend which grows in line with the underlying earnings of the Group. Dividend cover is calculated by reference to our underlying earnings which we measure using our basic EPS before other items*. EPS before other items is 22.6p (2010: 19.5p) giving rise to growth of 15.9%.

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 was 15.4%, providing cover of 2.5 times adjusted earnings.

New awards. New services. New ways of delivering them.

Same passionate approach.

→ Key client case studies
→ New contract summary

Integrated solutions:

Ringing the changes for Vodafone, across the UK and Ireland.

Our relationship with Vodafone started with a technical facilities management contract that came into MITIE through our acquisition of Dalkia FM in 2009.

This had a base contract value of £6m per annum and last year, Vodafone moved to a fully integrated FM model across the UK and Ireland, with a base value of £16m.

Energy management is an important part of what we do for Vodafone. One of our goals is to help them meet their target of a 50% carbon reduction by 2020.

We have expanded our work for Vodafone significantly, bringing together our soft FM capabilities with the technical facilities and energy management skills that were enhanced through our acquisition of Dalkia FM.

David Richards
Transition Director

vodafone

£16m

Annual contracted revenues

5

Year contract with two one-year extension periods

Overview of services provided

We are providing total facilities and energy management for Vodafone across the UK and Ireland. The contract covers all properties, including commercial offices, the retail portfolio, data centres, mobile telephone exchanges, warehouses and call centres.

- Maintenance
- Security
- Cleaning, landscaping and pest control
- Front of house services
- Supply chain management of a range of other services

Recent achievements and developments

Vodafone wanted a fully-integrated FM model to drive efficiencies with its suppliers and FM team. We offered:

- One seamless delivery model
- Intelligent information systems and KPIs to achieve cost efficiencies
- Ten core service commitments
- A joint board to hold innovation forums

This is a significant contract for MITIE as it reinforces the strategic rationale that underpinned the acquisition of Dalkia FM. It also demonstrates how we are working with our clients to introduce further innovation and efficiencies into their organisations by increasing the scale and scope of outsourced services. We are looking forward to building upon this relationship with Vodafone and supporting its property strategy in the years to come.

Not only do we provide Vodafone with an unmatched breadth of services – we also pride ourselves on consistent quality and on our ability to meet our client's needs at multiple sites across the UK and Ireland.

We have set up a new-look integrated facilities service brand '1 team' which will replace MITIE branding on all services across the contract and is unique to our Rolls-Royce contract.

We have grown our passionate team which will work together to take service excellence to a whole new level.

MITIE now manages facilities across the UK and six European countries – Norway, Finland, Sweden, Germany, France and Poland – with 61 sites in total.

Integrated solutions:

Helping Rolls-Royce on its journey as an organisation.

Our relationship with Rolls-Royce started life as a single-service cleaning contract in East Kilbride, Scotland in 1992.

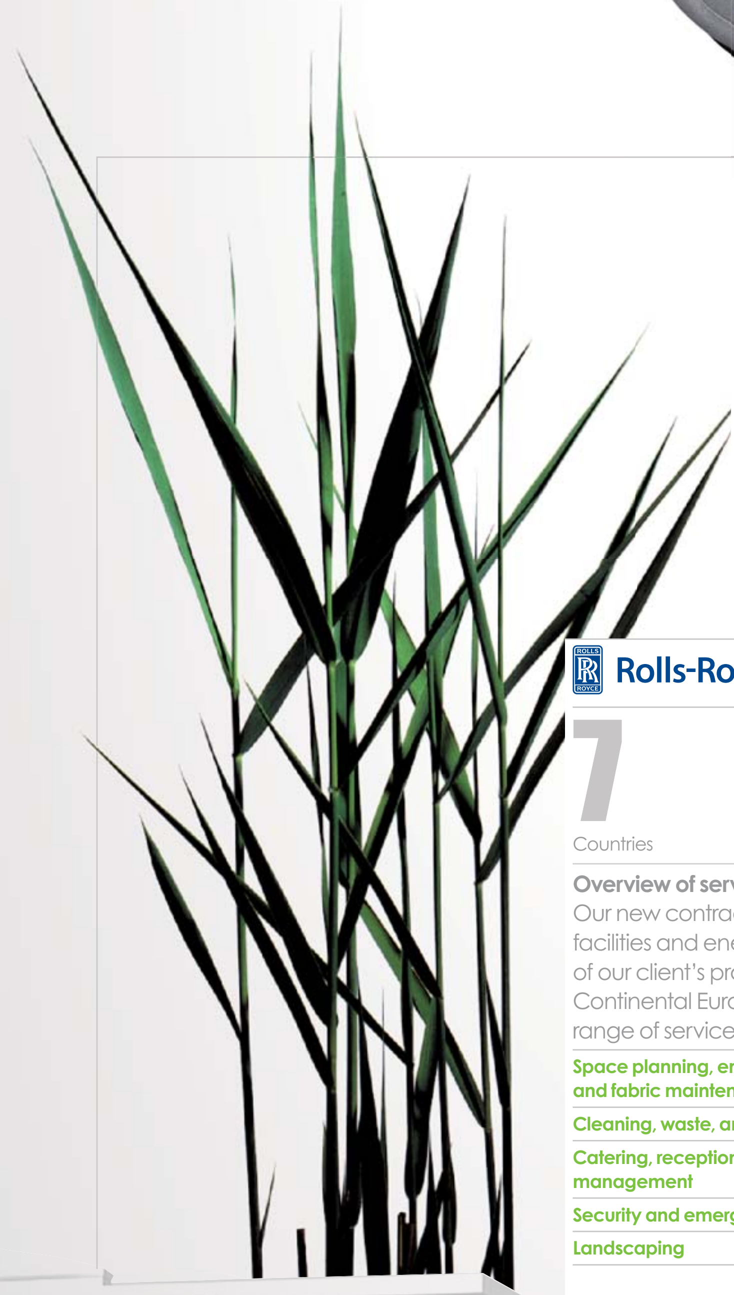
Over nearly two decades, a lot has changed...

Chris Franklin
Operations Director EMEA

1,000+
MITIE employees on the contract

We now work closely with Rolls–Royce in support of its global property strategy. From our single service cleaning contract in 1992, to a national cleaning contract in 1998, to UK-wide facilities management in 2003, we have a proven delivery model and long-term relationship. The new pan-European agreement represents a significant increase in the scope of our existing UK facilities management contract.

We will provide its property management team with asset and estate performance data from MiWorld – our integrated management information and data management platform.



Rolls-Royce

7	61
Countries	Sites

Overview of services provided

Our new contract is for integrated facilities and energy management of our client's properties in the UK and Continental Europe. We deliver a large range of services including:

- **Space planning, engineering and fabric maintenance**
- **Cleaning, waste, and pest control**
- **Catering, reception and document management**
- **Security and emergency services**
- **Landscaping**

Recent achievements and developments

The new contract commenced in December 2010 and was awarded on the basis of several key success factors:

- **Cost savings**
- **Service quality and culture**
- **Consistent and standardised delivery with a flexible model**
- **Performance management and continuous improvement**

This is our largest contract and its expansion both at home and abroad represents trust in our ability to deliver integrated facilities management across the UK and Europe. We really value our 18-year relationship with Rolls-Royce and we are looking forward to supporting its property and energy management strategy over the coming years.

Waitrose is part of the John Lewis Partnership, which has a vision to create off-grid energy centres for stores and other sites.

This project places the East Cowes Waitrose at the heart of its local community and means that the store has a negative carbon footprint.

Innovative solutions:

Reducing energy prices and enhancing sustainability for Waitrose.

We are working with Waitrose to deliver the retailer's first biomass powered, carbon-negative store, at East Cowes on the Isle of Wight.

All of the energy needs of the store and more will be met by the energy centre.

The energy centre is fuelled by woodchip biomass.

Waitrose

90%

reduction in consumption of grid electricity

Overview of services provided

Part of a major regeneration scheme for the area, the new supermarket at East Cowes will be the first Waitrose on the Isle of Wight. Its energy requirements will be provided by an innovative decentralised energy centre – designed, built and operated by MITIE.

Waitrose will purchase its energy from MITIE, saving up to £1m over the contract term, with no requirement for capital investment from the client

The energy centre will produce electricity, heat and chilled water for the store – known as tri-generation

MITIE offers guaranteed energy cost certainty over the lifetime of the centre

Support for events and other functions

Recent achievements and developments

This energy centre will help our client to meet its sustainability commitments and provide them with energy security.

In a typical 2,000m² store it will reduce consumption of grid electricity by 90%, gas by 80% and cut carbon emissions by 1,257 tonnes per annum

Surplus energy will be exported to nearly 170 local homes and a medical centre in the surrounding area

Woodchip biomass fuel is sourced from sustainable woodlands of Waitrose' local suppliers on the Isle of Wight

This innovative model is able to be rolled out across other premises and establishes the kind of sustainable stores that Waitrose can use in the future. East Cowes is the first project to be delivered under a partnership between Waitrose and MITIE.

David Mackey
Key Account Director

During our long relationship with Historic Royal Palaces, we have been finalists four times, and winners twice, in the Kimberley Clark Golden Service Awards – known in the industry as The Cleaning Oscars.

Proven solutions:

Raising the standards through long-term partnership.

Our relationship with Historic Royal Palaces started in 1993 with the award of a cleaning contract for Kensington Palace.

Many years and several awards later, we now help look after four of London's most iconic and best-loved premises.

85%
Recycling rates achieved

David Johnson
Managing Director, Cleaning and Environmental Services

We assist Historic Royal Palaces with some of the more unusual events which are held on their premises, including ice skating, fireworks displays, weddings and music festivals.

We regularly provide increased flexibility to assist with functions such as dinners, receptions, conferences and Christmas parties.

Historic Royal PALACES

100+

MITIE employees on the contract

Overview of services provided

Whilst many of our clients want a fully integrated FM offering, others love us for our specialist single service capabilities – we have been providing cleaning and environmental services to Historic Royal Palaces for 18 years now.

- **Kensington Palace, Hampton Court Palace, Banqueting House, Tower of London**
- **Daily cleaning, washroom services, pest control, window cleaning**
- **Waste & recycling**
- **Support for events and other functions**

Recent achievements and developments

We have recently renewed our contract with Historic Royal Palaces. This is the fifth time since the contract was first awarded back in 1993.

- **We now employ in excess of 100 MITIE staff across the Palaces**
- **We have achieved recycling rates of 85%**
- **Our team has provided assistance during extreme weather to help keep all of the Palaces open**

Orbit has an ambition of 'building brighter futures for people and communities' which we are supporting with our long-term commitment to investing in the community.

Our expanded contract is a tribute to the outstanding results we already deliver for Orbit. We are committed to continuing to deliver a first-class service to both Orbit and its residents.

Sustainable solutions:

Bringing home the benefits to win additional business.

Having successfully worked with Orbit South to provide reactive repairs to its social housing stock, we were the natural choice when they decided to extend the contract across more regions and services.

John Lewthwaite
Regional Manager, Social Housing

ORBIT EAST ORBIT SOUTH

£110m

Partnering contract over 10 years

Overview of services provided

Since 2007, EPS Ltd, which we acquired in 2009, held a contract with Orbit South to provide reactive housing repairs in the Bexley, Kent and Surrey areas. Orbit's vision is to develop long-term partnerships. We were recently awarded additional work for Orbit South, as well as a new contract for Orbit East.

£110m partnering contract for ten years with an optional five-year extension

We will deliver reactive repairs, voids and planned improvement works

The agreement covers 14,000 homes across East Anglia, London and the South East

Recent achievements and developments

Not only was MITIE the choice of Orbit South and East, we were also the favoured option for the organisation's residents too. Orbit residents were involved in the selection process, and wanted a contractor who was going to deliver a great service and also provide real value for money. In addition to our strong track record, we were able to offer residents a community investment package as part of the contract.

£110,000 community investment annually

Typically includes refurbishment projects, charitable work, support for community initiatives

We will run events such as DIY workshops and training days

One apprentice employed for every £1m turnover

We will create training opportunities and long term employment for local people

Orbit's vision for a long-term partnership and the length of the contract means we can continue to improve the service while keeping costs down.

New contract summary

Some more of our recent successes

Private sector

Technology and communications

Client	Contract	Timeframe	Total value
Vodafone	Total facilities and energy management for Vodafone's entire UK property portfolio, including commercial offices, retail portfolio, data centres, mobile telephone exchanges, warehouses and call centres. MITIE will self-deliver cleaning, maintenance, security, business services, landscaping and pest control, and manage the supply chain of a range of other services including catering, reprographics and transport	5 years +1 year +1 year	£80m +£16m +£16m
RWE npower	Integrated facilities management contract to provide services which include mechanical and electrical maintenance, security and cleaning	5 years	£45.5m
WTE plant consortium	Design, build and operate a renewable energy power plant	10 years	£28m
A leading provider of global IT, security, and communication solutions	Power and cooling resilience project coupled with multiple data hall fit-outs, and other DC upgrade works across their estate	18 months	£20m
Cable&Wireless	Retained our contract to provide integrated facilities management. The scope of services has been designed to encompass all manned sites within its UK and Ireland portfolio. Services include: facilities management, security, help desk, landscaping, waste management, recycling, meeting room services, mail services and couriers, reception, archiving, car parking, cleaning, pest control, catering and vending, stationery, health, safety and environmental and transport services	3 years	ND
Oracle	Security services in the UK and Ireland	3 years	£5m

Finance and professional services

Client	Contract	Timeframe	Total value
European investment bank	Out of hours works on a building management system infrastructure upgrade for an occupied building	18 months	£14m
Kleinwort Benson	Fit-out of six floors at Kleinwort Benson's London office. Scope of works included fitting-out meeting rooms, general office space and a high quality reception area	22 weeks	ND
Cushman & Wakefield	Design, development and installation of the M&E services as part of an extensive redevelopment project involving the remodelling and reconstruction of a tower block	14 months	£5m
Leading law firm	Full suite of business services including reception, telephony, office moves, mail, reprographics and desktop publishing	3 years	£3m
Allianz Insurance	Provide technical FM building services maintenance for new HQ building in London, as well as soft services including cleaning, switchboard, post-room and reception	3 years	£3.5m
UK Bank	Lighting project in retail banking branches to provide improved, more energy efficient, lighting	6 months	£2.5m
Savings and investments company	Security services across a range of locations in the Edinburgh area	3 years	£2.2m
International law firm	Renewed a contract to provide document management, distribution services and stationery provision	3 years	£1.8m

Retail

Client	Contract	Timeframe	Total value
Tesco	Retained 100% of our existing business and added £13m of new business to our cleaning portfolio. This now encompasses eight new regions covering the South West, the South East and the West country, adding 330 additional stores. In total we now clean 30% of the estate	3 years	£80.4m
Marks & Spencer	Working at the new flagship store at Westfield Stratford City to install all of the mechanical and electrical services in a 200,000 square feet retail space	9 months	ND
Capital Shopping Centres	Roof refurbishment of the MetroCentre Newcastle using liquid plastics built up roofing system	24 weeks	£2.1m
LloydsPharmacy	Lighting projects in retail pharmacies to provide improved, more energy efficient, lighting	3 months	£1.9m
Value Retail Plc	Contract to provide security services at Bicester Village from May 2011, which includes the redevelopment of the site's CCTV control room	3 years	£1.4m
Waitrose	Contract to design, build and operate first biomass-powered store, at East Cowes. The new supermarket will have its energy requirements provided by an innovative off-grid energy centre, designed, built and operated by MITIE	ND	ND
	Letter of intent to design, build and operate a biomass-powered store at Bracknell	ND	ND

ND = Not disclosed

Transport

Client	Contract	Timeframe	Total value
The Manchester Airport Group	Major cleaning contract with Manchester Airport which involves terminal cleaning, car park and road sweeps and internal waste management	4 years	ND
Greater Manchester Passenger Transport Executive	Planned and reactive painting works to public transport properties throughout Greater Manchester	3 years	ND
Transport for London	Secured a contract to provide technical facilities management services to the Transport for London head office portfolio, commencing in April 2011	5 years	£15.5m
BAA Airports Ltd	Air and landside technical facilities management at Heathrow	3 years	£4.2m
Network Rail Ltd	Contract extension to include our broad range of FM services around the UK, including their office building portfolio, encompassing a full range of physical and electronic security	1 year	£2.6m
Low cost airline	Aircraft cleaning and associated services at one of their airport bases	5 years	£4m

Manufacturing

Client	Contract	Timeframe	Total value
Rolls-Royce	Pan-European contract to deliver integrated facilities and energy management	Rolling	ND
Luxury automobile and engine manufacturing company	Cleaning and waste services for this carmaker's UK premises which includes their head office, showrooms and industrial cleaning and waste at their manufacturing sites	2.5 years	£6.3m
AgustaWestland	Security contract for manned guarding at the rotacraft manufacturer's locations in Yeovil and Farnborough	3 years	£1.9m

Leisure

Client	Contract	Timeframe	Total value
Royal Opera House	Integrated facilities management contract to deliver services which include engineering, cleaning, security, telephony, mail and reprographics at the prestigious Covent Garden premises	5 years	£19m
Historic Royal Palaces	Successful retender of the HRP cleaning contract, covering Hampton Court Palace, Kensington Palace, Banqueting House and the Tower of London – services include daily cleaning of public areas, especially after high profile events, specialist cleaning of historic areas, window cleaning, waste management, feminine hygiene and pest control	3 years	£3.4m
Edinburgh Castle	Awarded a contract to provide cleaning and environmental services for Edinburgh Castle as a Historic Scotland Collaborative Partner through the Cleaning and Associated Services Framework agreement	3 years	£0.8m

Healthcare and pharmaceutical

Client	Contract	Timeframe	Total value
Large pharmaceutical company	Re-awarded a three-year contract for facilities management of two sites, with a guaranteed maximum price and innovative approach to helpdesk provision	3 years	£3.2m

Utilities

Client	Contract	Timeframe	Total value
Astrium Ltd	Integrated facilities management contract for three years (with a possible two year extension) which covers the Stevenage and Portsmouth sites, providing reception, mail room, cleaning, grounds maintenance, catering and vending services	3 years +2 years	£5.6m
Centrica	Installation of heating systems as part of the Scottish government's heating incentive	3 years	£2m

Property

Client	Contract	Timeframe	Total value
Telereal Trillium	Following a retender exercise, we have significantly extended our cleaning contract for Telereal Trillium, however our technical FM contract was not renewed. The net reduction in contracted revenue is around £9m per annum, although there is the potential to offset this with future project works as part of an existing property management framework arrangement. We have delivered cleaning, pest control and waste management services on the Department for Work & Pensions estate in the North and Scotland for 13 years and will now be adding the southern portfolio of 600 buildings to the contract for a further seven years	7 years	£177m
NMK Eiendom AS, Norway	Facilities management contract including catering as well as other technical and soft FM services	7 years	£14m equivalent
Buying Force, DTZ	Retained the security contract at Follingsby Park industrial estate and awarded two new contracts at Castlegate shopping centre, and Coliseum leisure and retail park. We were also successful in securing the L&G portfolio for both security and cleaning at four of their locations in the UK	3 years	£1.1m
Persimmon Homes	Plumbing and heating installations for 170 new build housing plots	18 months	£1m

ND = Not disclosed

New contract summary

Public sector

Central and Local Government

Client	Contract	Timeframe	Total value
Home Office	Awarded our first immigration centre contract with the Home Office through the UK Border Agency for Campsfield House Immigration Removal Centre, where we will deliver a full custody and detention service including all aspects of hard and soft facilities management, catering and energy management	5 years	£25m
Scottish Government	New cleaning and waste contract which covers 144 buildings across Scotland	4 years	£15m
National Assembly for Wales	Expanded renewed FM contract	5 years	£10m
Kent County Council	Mechanical services for public and educational buildings including planned service and maintenance for heating and hot water services	4 years	£6m
Department for International Development	Following our appointment to the Office of Government Commerce (Buying Solutions) framework agreement, we have been awarded a contract with the Department for International Development to provide FM services including helpdesk, M&E maintenance, fabric maintenance, cleaning, catering and landscaping	3 years	£2.4m
Palace of Westminster	Programme of works to renovate and improve the primary M&E services to the House of Commons, House of Lords and the Palace of Westminster	7 months	£1.5m

Education

Client	Contract	Timeframe	Total value
Luton Borough Council	Awarded the FM contract to deliver services at Lea Manor, Ashcroft, Lealands and Challney Girls Schools	25 years	£73m
University of the West of England	Engineering and maintenance services with building fabric provision across student accommodation	5 years	£12.5m

Health

Client	Contract	Timeframe	Total value
Hull & East Yorkshire Hospitals NHS Trust	Retained a contract to provide cleaning services for two large acute hospitals, Hull Royal Infirmary and Castle Hill Hospital	5 years +2 years	£73m £35m
Mersey Care NHS Trust	Retained and expanded our technical facilities management contract providing planned and reactive building maintenance services throughout the Trust's estate along with strategic energy management support	4 years	£10.4m
London hospital	Added services to our existing cleaning contract, including the supply and delivery of consumables on site	6 years	£3m (additional)
West Midlands Ambulance Service	Cleaning of ambulances and buildings over 84 sites. New integrated contract previously held by four contractors	3 years	£4.2m
Tameside Hospital NHS Foundation Trust	Awarded a contract to provide cleaning and portering services at Tameside General Hospital	5 years	£15m

Social housing

Client	Contract	Timeframe	Total value
Orbit Group	Contract to deliver reactive repairs, voids and planned improvement works to 14,000 homes for Orbit Group across East Anglia, London and the South East	10 years +5 years	£110m
Somer Housing Group	Programme to upgrade over 3,700 kitchens and bathrooms across homes provided by Somer Housing Group	5 years	£20m
Lambeth Living	Contract for domestic gas servicing and responsive repairs, communal and heating hot water service and repairs, cold water services and landlord communal services which include lighting and emergency lighting	7 years	£17.5m
Homes for Islington	Expansion of existing contract to cover gas servicing, repairs, boiler replacement and upgrades for approx 9,500 homes	4 years	£8m
Fareham Borough Council	Contract for kitchen and bathroom refurbishments – approximately 140 kitchens and 50 bathrooms per annum	5 years	£2.5m
Ealing Council	Fire door replacement and associated works for up to 1,000 properties per annum	3 years	£2.6m
South Lanarkshire Council	Central heating installations	15 months	£1.5m
Port of Leith Housing Association	SHQS refurbishments	6 months	£1m

ND = Not disclosed

An evolving marketplace.

Consistent performance.

→ Market overview
→ Operating review

Marketplace overview

Good opportunities.
In existing markets and beyond.

As a strategic outsourcing and energy services company, we serve both private and public sector clients.

Our marketplace continues to evolve, driven by the needs of all clients to improve efficiency while reducing costs. Energy remains a major expense for many clients and frequently outstrips other factors in terms of potential savings.

We are working with clients to look at how best to structure outsourcing solutions, in new and innovative ways. We initiate capital expenditure projects and deliver new energy contracts that lead to significant reductions – not only in monetary terms, but also in carbon emissions, which is an important issue for all sectors.

"@MITIE_Group_PLC – it is good to see companies that we work with committing to a strategy for growth. #startupbritain."

Richard Betts
Twitter comment,
April 2011

"Isams online is great and convenient! Well done MITIE for introducing it, especially as a floating security officer it is very useful!"

Nezam Uddin
Facebook comment,
April 2011

Private sector

63% £1.2bn
2011 Revenue

Sector	Market size pa	MITIE share
Finance and professional	£5bn	4.7%
Manufacturing	£5bn	2.7%
Technology and communications	£4bn	3.0%
Retail	£5bn	3.7%
Property management	£6bn	3.2%
Utilities	£8bn	1.2%
Transport and logistics	£11bn	1.1%
Construction	£9bn	0.5%
Leisure	£6bn	0.9%

Organisations are seeking to drive down costs by focusing on integrated services, supplier rationalisation, retendering and innovation. As companies consolidate, they are examining their cost base and identifying opportunities for outsourcing.

Our ability to deliver integrated services is again proving a key differentiator. As we have seen with the recent contract awards from Vodafone and Rolls-Royce, many clients are keen to access our strengths in a broader range of integrated services. Technology is another important driver, as more clients appreciate the value of instant information being displayed via a dashboard on their PC. We are also experiencing a number of clients choosing to take a 'whole life' view and linking the initial capital expenditure to the lifetime operating expenditure of their contracts.

Critical infrastructure projects such as data centres will be a major challenge for all sectors in the coming years. A data centre is the hub of a modern organisation, with failure causing the loss of company-critical facilities including email and access to the internet. Many organisations are currently initiating plans to invest significant funds in data centre infrastructure and the low-carbon energy solutions to power them.

Looking at outsourcing activity in the various sectors, the financial and professional services area remains particularly active. Many clients are changing their procurement models and this has led to high levels of private sector tenders, most especially in the retail, transport and utilities sectors.

Public sector

37% £0.7bn

2011 Revenue

Sector	Market size pa	MITIE share
Government	£6bn	3.9%
Social housing	£9bn	2.3%
Education	£12bn	1.4%
Healthcare	£10bn	1.0%

The UK Government, local authorities and other bodies are initiating cutbacks, many of them significant. They are looking at expenditure in fine detail – from headcount to energy cost and this is creating opportunities for outsourcing. We expect this trend to remain in place during the coming years. We believe that outsourcing has the potential to reduce costs while also improving services, and we are well-positioned to support the UK Government's agenda of addressing the deficit, particularly in our focus areas of justice, health, social housing and education.

Mutual ownership models have a part to play in reducing the costs of management and administration. These have worked well in the private sector and are likely to deliver similar benefits in the public sector. Partnerships between the public and private sector are expected to be important as the Government seeks to transform the way in which services are provided.

Energy costs are a key issue for the public sector – but so too are carbon emissions. The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme came into effect in April 2010.

The CRC is a huge part of the Government's pledge to reduce greenhouse gas emissions by at least 80% from 1990 levels by 2050. The scheme will see organisations with total half-hourly metered electricity consumption greater than 6,000 mega watt hours a year (equivalent to approximately £460,000 electricity spend) forced to buy allowances for each tonne of carbon dioxide (CO_2) they emit and be placed in a league table according to their energy performance.

Through our CarbonCare service, we are helping all organisations, including those in the public sector, to manage their energy use and carbon footprint.

International

An increasing number of clients are taking a pan-European view on procurement. They want to leverage their spend in order to reduce costs and improve efficiency across national boundaries. For example, during the year Rolls-Royce appointed us for the facilities and energy management of its European properties. Many of our clients have an international presence. As they centralise their procurement operations, we expect that business through pan-European contracts will increase.

As part of our international strategy, we acquired Dalkia FM in Ireland and have developed a senior management team with global experience.

This team works closely with our partners in Service Management International (SMI) to develop international opportunities for MITIE.

According to research, the value of the EMEA (Europe, Middle East and Africa) market for outsourced FM services is in excess of £250 billion, of which around 10% is integrated services. As we look at value-creating opportunities across Europe for specific clients, we are increasingly well-placed to exploit this tremendous potential.

Emerging growth markets

We continue to identify opportunities in new markets, and recently we were awarded contracts in two sectors which are new to us.

In February 2011 we signed our first agreement for the energy provision for a waste-to-energy plant. All energy to the plant will be sourced from local wood, with surplus energy being sold back into the national grid. Towards the end of 2010, we were awarded a five-year contract by the Home Office to deliver a full custody and detention service at Campsfield House immigration centre. This is our first contract in the prisons sector, an area where we anticipate significant future opportunity.

Using the MITIE model to enter niche markets

Wayne Felton is Managing Director of Property Solutions, our latest start-up and living proof that we are passionate about providing opportunities for entrepreneurs using the MITIE model. Property Solutions complements our existing Property Management business, managing both domestic and commercial property insurance claims. It manages large, non-emergency insurance claims, as well as emergency response services via a 24-hour customer service centre.

Heading to Ireland

In June 2010, we acquired the integrated Facilities Management business of Dalkia in Ireland. It provides integrated FM solutions for a range of clients in both the public and private sectors, operating in a variety of industries including technology and communications, transport and logistics, manufacturing, utilities and finance. This acquisition allows us to further support our clients overseas, and we are delighted to welcome the management team and employees.

Operating review

Exceptional capability. Well-placed for future growth.

Since 1 April 2010, we have operated primarily in four divisions: Facilities, Technical Facilities, Property, and Asset Management.

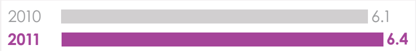
Each division brings together a selection of services that naturally fit together – from both an operational and a client perspective. As we grow, more of our contracts incorporate two, three or even all of our divisions.

Facilities Management

Revenue **+7.0%**

Operating profit before other items **+11.3%**

Operating profit margin **+0.3pp**



Order book **£4.1bn**

Our Facilities Management (FM) business is responsible for delivering 'soft' FM services. The division's offering ranges from fully integrated FM and consultancy, to any of our specialist single services which include:

Security; Cleaning; Catering; Document management and reprographics; Reception and front of house; Waste management; Environmental services; Landscaping; Pest control.

We made significant progress during the year, particularly in our ability to bid for and win large contracts that span many regions and draw on the services of all of our divisions. As our clients look to create value from all of their assets, we have responded with a flexible model that uses our broad range of expertise in asset, energy and property management alongside any or all of our FM capabilities.

The savings that clients can achieve by transitioning to a full FM service continue to drive growth in our business. Energy management is also an important differentiator for us and the development of CarbonCare has given us a market-leading offering.

We tailor all of our services to suit our clients' needs and this has seen us increasingly develop niche offerings for specific sectors, such as retail, transport, healthcare and, more recently, justice and prisons.

We have made several enhancements to our security business and now offer a total security management solution, which includes manned guarding, response services, key holding and remote monitoring via our newly-opened technology centre in Northern Ireland.

Specialist services to the police and justice markets is a growing area for us. There are opportunities in prisons, a range of police support services, and we have already commenced work in our first immigration detention centre.

We are also developing our catering offering, with a brand refresh and the appointment of a new managing director and a sales director.

Our recent investments in customer relationship management and our integrated offering are bearing fruit: we achieved a 84.2% retention rate for rebid contracts during the year. We are also the third biggest player in both cleaning and security in the UK and one of the top ten providers for all of our other FM services.

Looking ahead, our ability to save costs for both new and existing clients, along with our focus on retaining clients and expanding into new markets, will support continued growth in FM.

Technical Facilities Management

Revenue **+26.8%**

2010	344.8
2011	**437.1**

Operating profit before other items **+58.7%**

2010	15.5
2011	**24.6**

Operating profit margin **+1.1pp**

2010	4.5
2011	**5.6**

Order book **£1.4bn**

Our Technical Facilities Management (TFM) business focuses on 'hard services' facilities management (FM) that is led by technology, engineering and the need to reduce energy consumption. Services include:

Integrated FM: mechanical and electrical engineering maintenance; Mobile multi-site FM; Specialist technical services; CarbonCare energy services; Lighting design and maintenance; Building Management Systems and controls; Compliance services.

Energy reduction is a key growth driver and an area where our CarbonCare offering has successfully helped differentiate TFM in the marketplace. In 2010, BSRIA placed MITIE in the top two energy services companies in the UK. A significant number of CarbonCare services are provided by TFM. It delivers a total energy solution that increases awareness of environmental issues, introduces innovative ideas and technologies, manages energy and carbon footprint data, ensures legislative carbon compliance and delivers guaranteed energy reductions. We also provide decentralised and cleaner renewable energy solutions, working in conjunction with our Asset and Property Management businesses.

The shift towards integrated FM is also a major driver for TFM. Our technical FM expertise underpins our integrated FM offering, and is particularly important where clients' businesses are focused on hard services, for example in our Vodafone and Rolls-Royce contracts, which are led by TFM, as is the Royal Opera House contract.

We have recently launched National Mobile Services, which delivers fast and responsive mobile technical FM services (MobileTech) across the UK, most especially to organisations with widely spread property portfolios. Our multi-skilled technicians provide services to clients within a local geographic area, helping to build strong local relationships. We anticipate that MobileTech will be attractive to retail clients, where we are seeing an increasing number of contracts which require us to act as a 'managing agent' and take responsibility for their entire technical FM budgets.

As the number of cross-selling opportunities increases, the maintenance of data intensive sites is a market where we will be leveraging our Asset Management installation capabilities. A well-maintained data environment is critical for many clients. Our role is to understand the drivers for individual clients and the factors that make their environment unique. We work hard to understand and monitor the plant and equipment in order to put effective risk management programmes in place. This enables us to identify potential points of failure in advance and make sure we have the appropriately trained engineers who can deliver an immediate response to any issues that arise.

We focus on people and training at every level. A recent employee engagement survey achieved a 62% (class leading) response rate, and concluded that our people have an above average level of engagement.

Current market trends, particularly in energy reduction and integrated FM, coupled with the investments we have made to supplement our capabilities in these areas, mean that we are well-positioned to support our clients in the fast-growing TFM arena.

Property Management

Revenue **+2.7%**

2010	496.2
2011	**509.7**

Operating profit before other items **-14.7%**

2010	25.1
2011	**21.4**

Operating profit margin **-0.9pp**

2010	5.1
2011	**4.2**

Order book **£1.2bn**

Our Property Management business provides a full suite of integrated services, from total fit-out and refurbishment to ongoing repairs, including:

Property maintenance; Building refurbishment; Painting; Roofing; Interior fit-out; Fire protection; Plumbing; Mechanical and electrical engineering installation; Solar photovoltaic panels; Insurance claims management and repairs.

We have recently made a series of changes to our business, in order to offer our clients more integrated, end-to-end solutions, and to operate in a more efficient and flexible way.

The integration of our engineering contracting business into Property Management is complete. As part of this process, we discontinued some of our engineering activities in certain parts of the country.

Local and Central Government Departments, together with the Social Housing market, are an important focus for us. The EPS Ltd acquisition has been fully integrated and has strengthened us in the South East. We have launched a new partnering model, Localcare, which uses shared ownership between a local authority or housing association, a private sector partner and the employees who are delivering the services. It enables the creation of mutually owned local organisations which deliver cost-effective services to their communities.

Operating review

We have combined our interiors and mechanical and engineering installation businesses into one integrated fit-out business. Increased confidence in the UK retail sector has generated new demand for store fit-out and refurbishment and we are confident of gaining further market share as capital spending returns. In addition, our Residential Solutions offering now combines our capabilities in plumbing, heating, installation, carpentry and decoration to provide a complete internal fit-out solution to the new build housing market.

We completed a renewable energy pilot project to install photovoltaic (PV) roof mounted panels that use solar cells to convert energy from the sun into electricity. The installations took place on an initial pilot of 200 properties, which are owned by registered social landlords. The residents benefit from cheaper electricity costs while the homeowner receives an income from feed-in tariffs for any excess energy generated. We anticipate significant opportunities in this market, with potential for up to 15,000 further properties during 2011.

We are also working overseas for the first time, in conjunction with TFM and FM, to deliver space planning and project work on the Rolls-Royce Property Estate throughout Europe.

Our order book is significant and we are seeing signs of optimism in many of our markets. Property Management is now in a strong position to take advantage of the various growth opportunities in our chosen sectors as markets improve.

Asset Management

Revenue +14.5%

2010	54.5
2011	**62.4**

Operating profit before other items +5.3%

2010	1.9
2011	**2.0**

Operating profit margin -0.3pp

2010	3.5
2011	**3.2**

Order book £0.1bn

Our Asset Management division develops bespoke energy assets that offer a secure and sustainable energy supply. Carbon efficient technologies are used to create energy infrastructure which provides the electricity, heating or cooling required by our clients. Decentralised energy delivers the long-term benefits of guaranteed cost savings, reduced carbon emissions and supply certainty. Services include:

Decentralised energy centre development; Low-carbon data centre development; Renewable energy integration; Energy services company (ESCo) management; Community infrastructure.

We are seeing increased opportunities in the decentralised energy market. Both public and private sector clients recognise that this is an effective way to reduce energy costs and consumption, without an upfront capital investment in many cases. The ability to achieve sustainability targets whilst retaining funding for core services is a compelling argument in the current economic climate, particularly for our public sector clients.

The good progress made during the year is a result of the significant investments we have made to develop our capabilities. We have been awarded several transformational contracts which, when completed, will provide us with world-class reference sites from which to roll-out similar models.

At the Royal Free Hospital we successfully completed a gas turbine energy centre development and are now engaging with the client to look at cooling upgrades. We developed a sustainable biomass energy centre for a Waitrose store in East Cowes, the first of its kind for the John Lewis Partnership, and we have also entered into a joint venture to develop a biomass-fuelled energy centre for a large UK manufacturer.

In addition, we have established a reputation as a leader in the data centre market, where our skills in understanding and mitigating risk profiles have brought us an impressive portfolio of projects and accounts. We completed several major data centre projects during the year, including one for a leading global telecommunications company.

This series of flagship developments has given us validation and visibility in the marketplace and supported the growth of a healthy forward sales pipeline. We are now able to show how organisations with intensive energy needs can meet their own requirements, securely and efficiently, while supporting their communities through local networks. We are recognised as one of the few providers in the UK that has the track record, scale and expertise to deliver substantial decentralised energy centres that will guarantee availability over a sustained contract term. Our business will be driven forward by this momentum and by our continuing focus on key sectors where we have a strong competitive capability.

Our approach to sustainability.

An approach which links our corporate and sustainability strategies.

→ Sustainability review

Sustainability review

Identifying the issues. Committing to addressing them.

Sustainability at MITIE

We have already talked about the significant commercial opportunities opening up to us in the field of sustainability – both through the comprehensive services under our CarbonCare offering, and through the work we do every day to help clients generate locally produced energy.

However we haven't discussed how we've also worked hard to improve our own sustainability performance over the last few years. We have always believed that this makes good business sense and have made it a priority accordingly. We've improved our own environmental performance, and set ourselves challenging targets in areas like energy and fuel use. We've started to engage directly and more regularly with our suppliers to help raise environmental and social standards across our whole supply chain. We've extended the quality and range of the training we offer to employees, and reinforced our commitment to diversity and inclusion. And we've continued to work actively in the community, both through sponsoring life-changing projects like our Real Apprentice programme, and through encouraging our own employees to volunteer in their own local neighbourhoods.

We're proud of what we have achieved, but as sustainability has become more mainstream, the public and our own stakeholders have started to expect more of us, both in the UK and around the world. With this in mind we have worked actively with the Sustainability team at PricewaterhouseCoopers to understand the areas where we might improve, setting ourselves a new, more focused and demanding strategy going forward, which will ensure that our business is resilient and sustainable not just economically, but in every other way.

A new simplified, streamlined strategy

The challenge for all companies now – and especially for those that aspire to leadership, as we do – is to fully integrate sustainability into their corporate strategy, and the way decisions are made in the business, day to day. This means understanding and addressing strategic sustainability risks and opportunities, and linking these to our commercial activities and ambitions. It means having robust KPIs and targets that relate directly to our sustainability strategy, and ensuring that our reporting to stakeholders is transparent and comprehensive about all of the most material issues we face.

It was clear from our review that we've already made real progress in all these areas, but there is always room for improvement. Our new sustainability strategy is designed to help us do this. Our goal is to ensure that our corporate and sustainability strategies are mutually supportive, so that over the long term the work we do to improve our sustainability performance will create value for our shareholders, and our efforts to make MITIE a more profitable business will also make it a more sustainable one. In simple terms, it's about fulfilling the 'sustainable' part of our corporate strategy, which aims to deliver stakeholder value through a focus on sustainable and profitable long-term growth.

Environmental data

	Resource	Units	2011	2010 full year restated (baseline)*	% Change against baseline
Scope 1	Gas and fleet transport fuel	Tonnes of CO_2e	44,248	42,779	3%
Scope 2	Electricity	Tonnes of CO_2e	3,728	4,022	-7%
	Intensity	Tonnes of CO_2e/employee	0.82	0.87	-6%
	Intensity	Tonnes/£m	25.36	27.21	-7%
Scope 3 Upstream	Energy and business car travel	Tonnes of CO_2e	12,341	13,467	-8%
	Water	Tonnes of CO_2e	8	9	-11%
	Intensity	Tonnes of CO_2e/employee	0.0001	0.0002	-50%
	Created waste	Tonnes	994	1,436	-31%
	Created waste per employee	Kg	17	27	-37%
	General waste	Tonnes	606	989	-39%
	Recycled waste	Tonnes	388	447	-13%
	% Recycled		39%	31%	26%

GHG Emissions data for 1 April 2010 to 31 March 2011 in line with financial accounting period.

Notes:

In 2010, we participated in the global voluntary reporting programme, The Carbon Disclosure Project and were rated 76 with a performance rating of B.

Transport: Despite an increase of 447 vehicles due to business growth, our average annual consumption per vehicle has dropped by just over 3% against our 2010 baseline.

Energy: Consumption has decreased by 13% against baseline primarily through the reduction in property portfolio and improvements in heating and lighting refits. Although MITIE's energy emissions are not covered under the EU ETS, Climate Change Agreement or Carbon Reduction Commitment Energy Efficiency Scheme, we are committed to driving down energy wastage through better management and the purchase of 100% renewable energy tariff electricity.

Waste: The total amount of waste created has reduced by 31% resulting in a lower recycled percentage.

Water: Our water consumption had decreased by 11% against baseline through improved awareness and reduction in managed properties.

*2010 data has been restated in line with improved management information and to include a full year of extrapolated Dalkia FM and EPS Ltd acquisition data to enable year on year comparison

Six focus areas

We are re-aligning everything we do on sustainability behind six key areas, which build on the work we've already been doing and are directly aligned with our corporate strategy drivers. Each has a clearly-defined objective, and performance measures, so that we can track our progress and build momentum. Acquisitions, our seventh corporate strategy driver, has not been incorporated as a separate area of focus since the necessary sustainability considerations are carried out as standard during due diligence, and the relevant performance measures applied post integration. Taking this approach will allow us to focus our time and resources on those issues that are of the highest priority, both to the business and to our stakeholders.

We want to build a reputation as a provider of world-class, sustainable services that delivers exactly what our clients want. That's why our first two objectives are concerned with our service delivery. If we achieve both of these goals we'll build more long-term partnerships, become more productive, and generate more value, both for our clients and for ourselves.

Looking after our clients properly

Underpinning our group strategy:
Clients

Client service is the heart of our business, and will drive our long-term success as a company. This objective covers everything related to customer relationship management, and how we meet and – we hope – anticipate their needs.

What does this mean in practice?

We'll be surveying our key clients at least once a year, and learn as much as we can from the feedback we receive, by integrating the results into our group-wide customer relationship management system.

We'll also make our own expertise available to help our clients to set up programmes like our pioneering and award-winning Real Apprentice placement scheme, widening our community footprint and nurturing relationships at the same time.

Operating contracts smarter

Underpinning our group strategy:
Operational efficiency

A more efficient business is always a more sustainable one, which is why we're working hard to become more productive, cut out unnecessary costs and push for all the suppliers we work with to have high sustainability standards. Challenging our own cultural practices will make us more price competitive and give a better service to clients.

What does this mean in practice?

We'll be using an employee communications campaign to spearhead a reduction in fuel consumption across our whole fleet by 10% by 2013. We'll also be promoting the take-up of more sustainable business practices to all our team leaders through new e-learning programmes, and interactive workshops.

Alongside this we'll run audits of at least 40 major suppliers every year, and will expect all of them to meet or exceed the targets we set within a 12-month period. Environmental issues are particularly important here, so one of our first objectives will be to identify any particular climate change risks and carbon emission hot spots in our supply chain, and set a baseline against which we can measure future performance.

The next two objectives are closely related. Our own environmental objective is one of the most important ones for us, and an area where we believe we can make a significant impact. Like many other businesses, we can do more to improve our own environmental performance; unlike many businesses we can help our clients do this as well.

Using fewer natural resources

Underpinning our group strategy:
Responsibility/sustainability

There's more we can do to raise awareness of issues like climate change among our own people. We need to ensure every one of our employees understands what our stakeholders expect of us, and what they can do in their own everyday work to help reduce our environmental impact.

What does this mean in practice?

Once again, this is an area where actual rather than estimated data can make a real difference. We can use this data to help engage our own people and target areas for quick wins. By doing this, we hope to achieve a 15% reduction in office energy use by 2013 compared with the 2010 baseline, which has been restated to take into account acquisitions and other changes to the business, and an overall recycling rate of 80%.

We're also encouraging the use of ultra-low emissions, zero-emission, and hybrid vehicles in our fleet, and hope to see a further reduction in our average car fleet emissions to 135g CO_2 per km in the next year. At the same time, we'll work more actively with our suppliers to reduce packaging waste, targeting our top five office suppliers as a first priority. We also aim to establish the percentage of suppliers signed on for paperless communication and to improve on that position going forward by early 2012.

Sustainability review

Doing more for our clients with less, wherever they are in the world

Underpinning our group strategy:
New markets

What we do for ourselves, we can also do for our clients. Sustainability will be an increasingly competitive advantage for us going forward, as our clients look to us to help them improve their performance and cut their costs.

What does this mean in practice?

Our innovative low carbon and environmental technologies are some of the best in the market, and no-one else offers such a complete or integrated range. We want to grow this area of our business and really capitalise on this expertise. We'll begin by assessing how well our actual and potential clients understand our 'green' capabilities, and then set ourselves targets to grow the business from there. We'll reinforce this by ensuring all our employees are fully aware of what we can do for clients in this increasingly important area, both in the UK and abroad.

The next objective relates to our own people, who have always been our real competitive advantage, and the reason for our success.

Nurturing our people's talent

Underpinning our group strategy:
People

We want to offer our clients the best service in the market, and we can only do that if we have the best people. One way we'll be doing this is by setting ourselves the specific goal of recruiting, retaining and motivating our people better than any of our peers. We want all our people to fulfil their utmost potential, and support that through formal training and development, plus opportunities to develop their personal skills through volunteering.

What does this mean in practice?

Earlier in this report we talk about our business goals for 2012. If we're to meet these challenges we'll need to have outstanding leaders across the business, so management development will be especially important over the next year. This will include identifying the roles where succession planning is either an imminent need or a particular challenge.

It's also vital that all our people understand exactly what's expected of them, both as individuals and as members of teams. This is why we'll be refreshing our performance management framework, and aligning it even more closely with our core values. We'll be strengthening our internal engagement programme, establishing a core set of measures across MITIE so we understand the road ahead and setting appropriate targets to achieve complete reach across the group. We'll also encourage people to take part as volunteers in a wide range of activities, whether it's supporting our regional charities' fundraising efforts or getting stuck into our three new biodiversity community projects.

Last but definitely not least, our sixth objective is in the area of health and safety. We have a proven track record in this area, both on our own account, and in the work we do for clients. Few companies have the extensive expertise we do in the management, mitigation and elimination of risks in the workplace. It is without doubt one of our greatest strengths.

Enabling people to work safe, and go home safe

Underpinning our group strategy:
Risk

This sounds simple enough as an idea, but given the complexity of our business, and the sophisticated technical services many of our people provide, it can be a challenge ensuring that every working area is as safe as it can possibly be. Our aim is to be even better at doing that.

What does this mean in practice?

One of the most effective ways to improve health and safety performance in any business is to share the lessons learned from previous incidents – those that happened, those that were near-misses, and those that were successfully prevented. One way we're doing this is by providing a new incident management platform that will enable more effective measurement of a better range of health and safety-related KPIs. Another is by implementing a new approach to assessing the root causes of incidents, and we aim to apply this thinking to all major and high potential incidents that occur.

We'll also be launching the third phase of our health and safety risk management leadership programme, which is all about ensuring that the most senior people in the business lead by example when it comes to safety and well-being at work and further embed this focus culturally in the business. The programme will run in tandem with the latest Work Safe Home Safe! campaign, which raises awareness of the specific hazards our people might encounter on a daily basis of the expected behaviours required and to stay safe on the job.

You can read more about what we're doing in all of these areas and see our latest performance data at:
mitie.com/sustainability2011

A great set of results.

In fact, the 23rd consecutive year of growth.

→ Financial review
→ Factors that could affect our business

Financial review

Suzanne Baxter Group Finance Director

Strong performance on all fronts

MITIE has delivered another set of strong financial results that are underpinned by our focus on both organic and acquisitive growth, cash conversion and the maintenance of a strong balance sheet.

During the year we completed the integration of the prior year acquisitions of Dalkia FM and EPS Ltd and have enhanced our portfolio on an international basis through the acquisition of Dalkia FM in Ireland and the commencement of activities in continental Europe in support of Rolls-Royce.

We have strengthened our long-term funding position by completing an issue of US private placement loan notes and through the renewal and extension of our existing banking facilities. These facilities provide long-term debt financing capacity for a range of periods up to December 2019.

We enter the new financial year in a strong position with good prospects, low gearing and enhanced capacity for future growth.

Financial performance

Revenue

Revenue has increased by 10.0% to £1,891.4m (2010: £1,720.1m) through a combination of organic and acquisitive growth, in line with our strategy. The increase in revenue is attributable to the full year impact of prior year acquisitions of £113.5m, £19.4m from the acquisition of Dalkia FM in Ireland during the year and organic growth of £38.4m. Proforma prior year revenue including the full year effect of acquisitions made in the year ended 31 March 2010 was £1,833.6m and organic growth was 2.1% on that basis.

We have experienced growth in revenue during the year. The analysis by operating division is set out below:

	2011 £m	Total growth %	Organic growth %
Facilities Management	882.2	7.0	4.6
Technical Facilities Management	437.1	26.8	6.8
Property Management	509.7	2.7	(6.5)
Asset Management	62.4	14.5	14.5
Total revenue	1,891.4	10.0	2.1

After the exclusion of discontinued activities in our engineering contracting business, underlying organic revenue growth for the year was 3.5% (first half 1.6%; second half 5.3%).

The strong growth experienced in our Facilities, Technical Facilities and Asset Management businesses reflects the continuation during the year of clients' demand for efficiency enhancing energy and facilities management solutions. Challenging conditions continued in certain construction related markets, which negatively affected the overall growth profile achieved in our Property Management business.

Operating profit before other items

Operating profit before other items increased by 16.5% to £108.3m (2010: £93.0m) and our margin improved to 5.7% (2010: 5.4%).

The increase in operating profit before other items is attributable to the full year impact of prior year acquisitions of £2.4m, £1.3m from the acquisition of Dalkia FM in Ireland during the year and organic growth of £11.6m. Proforma prior year operating profit before other items including the full year effect of acquisitions made in the year ended 31 March 2010 was £95.4m and organic growth was 12.2% on that basis. Included in operating profit before other items is income of £4.1m from an amendment to the past service cost of certain defined benefit pension schemes as the result of the change from RPI to CPI for the valuation of liabilities, as explained on page 43.

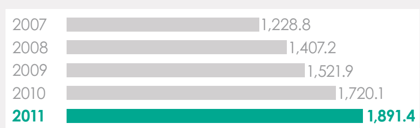
Other items comprise restructuring and acquisition related items as explained on the following page.

We have experienced growth in operating profit before other items during the year. The analysis by operating division is set out below:

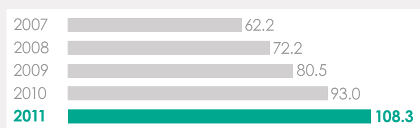
	2011 £m	Margin %	Total growth %
Facilities Management	56.2	6.4	11.3
Technical Facilities Management	24.6	5.6	58.7
Property Management	21.4	4.2	(14.7)
Asset Management	2.0	3.2	5.3
	104.2	5.5	12.0
Amendment to defined benefit pension scheme past service cost	4.1	–	–
Total operating profit before other items	108.3	5.7	16.5

The trends in operating profit growth reflect the market conditions that drove our revenue, as well as the positive contribution from the synergies within Technical Facilities Management in respect of the acquisition of Dalkia FM in 2009.

Revenue
£m
+10.0%



Operating profit before other items
£m
+16.5%



Financial review

Other items

Other items for the year were £18.8m (2010: £11.9m) and comprised the amortisation of acquisition related intangible assets of £8.9m (2010: £5.3m) and integration, acquisition and reorganisation costs of £9.9m (2010: £6.6m).

The increase in the amortisation of intangible assets of £3.6m in the year reflects the full year effect of the amortisation of assets identified in respect of the prior year acquisitions of Dalkia FM and EPS Ltd (incremental charge £3.1m) along with a charge of £0.5m in respect of the amortisation of intangible assets identified during the year following the acquisition of Dalkia FM in Ireland.

Integration and acquisition costs of £5.1m (2010: £6.6m) were incurred during the year in respect of the acquisitions of Dalkia FM, EPS Ltd and Dalkia FM in Ireland. These charges mainly comprised costs associated with the implementation of new management, internal control and back office systems and structures. Furthermore, costs of £4.8m have been incurred in respect of the restructuring of certain parts of the group's Property Management business. These costs are not expected to recur.

After the impact of other items, the operating profit for the year was £89.5m (2010: £81.1m).

Finance costs

Net finance costs for the year were £2.7m (2010: £1.4m). The increase in net costs during the year reflects the impact of funding costs associated with recent acquisitions and the increase in interest rates payable by the group attributable to £100m sterling equivalent borrowings drawn down under US private placement loan notes in December 2010 as part of our refinancing activities.

Profit before tax

Profit before tax and before other items for the year increased by 15.3% to £105.7m (2010: £91.7m).

Reported profit before tax for the year was £86.8m (2010: £79.7m), an increase of 8.9% on the prior year.

Taxation

The tax charge for the year was £21.4m (2010: £22.2m), an improvement in the effective rate of tax to 24.7% (2010: 27.9%). The improvement in the effective tax rate is attributable to the £0.5m positive impact of recalculating the group's overall deferred tax liability at the lower corporation tax rate of 26% which is effective from 1 April 2011 along with a credit of £3.2m in respect of prior year items.

Profit after tax

Reported profit after tax for the year was £65.4m (2010: £57.5m), an increase of 13.7% on the prior year.

Earnings per share

Our track record of delivering stakeholder value through earnings growth continued this year. Basic EPS before other items increased by 15.9% to 22.6p per share (2010: 19.5p per share).

Basic EPS was 18.6p per share (2010: 16.9p per share), an increase of 10.1%. This latter measure showed lower growth due to the impact of in-year integration and restructuring costs that are non-recurring.

Dividend

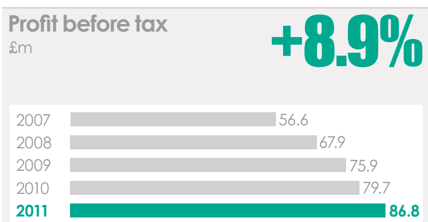
It is MITIE's policy to grow its dividend in line with adjusted earnings per share. The final dividend proposed by the Board has increased by 19.5% to 4.9p per share (2010: 4.1p per share). This brings the full year dividend to 9.0p per share (2010: 7.8p per share), an increase of 15.4%. The full year dividend reflects a cover of 2.5 times adjusted earnings per share, in line with our dividend policy.

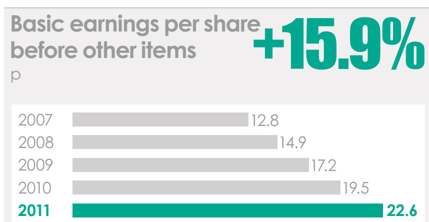
Cash flow, funding and liquidity

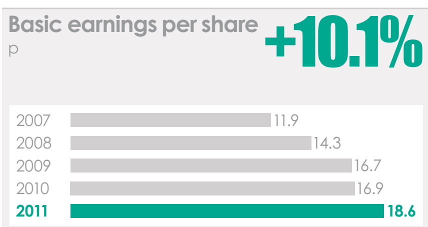
The conversion of group earnings before interest, tax, depreciation and amortisation (EBITDA) to cash for the year was achieved at a rate of 86.7% (2010: 95.2%). The cash performance of the group remains strong and in excess of our stated key performance indicator which targets the conversion of EBITDA to cash, at or above 80% on a rolling 12 month basis.

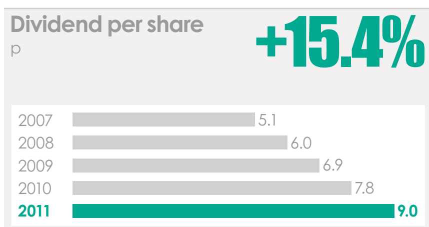
Cash conversion measures the success of the group in converting operating profit (measured by EBITDA) to cash and demonstrates the quality of earnings and effective cash management.

MITIE has consistently delivered cash conversion in excess of 90% over the last five years. We commented in last year's annual report that we had consciously reduced the cash conversion target for the current year to 80% as we expected to invest in working capital to support the organic growth of the business. We recognised that larger scale FM contracts that were expected to enter our portfolio during the year would require the support of working capital during their early months of operation. We maintain our focus on cash, which has allowed us to deliver consistently strong performance in cash conversion over the last five years.









The gearing of the group has remained modest and net debt at 31 March 2011 was £76.5m (2010: £86.6m), representing a net debt to EBITDA ratio of 0.65 (2010: 0.84).

During the year we have focused on establishing a renewed and longer term funding platform for the group as part of our refinancing strategy. On 16 December 2010, MITIE successfully completed an issue of US private placement loan notes with institutional investors for a value of £100m. The issue consists of £40m of notes denominated in sterling and fixed at an interest rate of 4.38% maturing in December 2019 and £60m of notes denominated in US dollars ($96m) maturing in December 2017. The US dollar denominated private placement proceeds have been swapped into sterling debt, with half fixed at an interest rate of 3.88% and half with a floating sterling interest rate of LIBOR + 1.26%. The proceeds were used to repay shorter dated bank facilities which were due to expire in 2012.

In addition, on 29 March 2011, MITIE secured new committed banking facilities of £250m which will fall due for renewal in September 2015 and will be available for drawdown following the AGM in July 2011. The group also has further overdraft facilities of £40m.

Key performance indicators (KPIs)

MITIE uses a set of clear financial and non-financial KPIs to measure and communicate critical aspects of our performance. These KPIs are aligned with our strategic objective of achieving sustainable profitable growth and our financial KPIs are specifically focused on the level and quality of our earnings and cash flows, the control of capital expenditure and the sustainability of dividends.

We have performed strongly against these measures again this year and have now demonstrated a five-year track record of strength in each.

Details of our financial KPIs are set out on page 14 of this report.

Pensions

Our financial strength remains unaffected by any significant deficit in respect of the defined benefit pension schemes to which the group contributes. The net funding position of all the defined benefit pension arrangements included on the balance sheet is a deficit of £3.0m (2010: £10.5m). This included a deficit of £3.0m on the principal group scheme (2010: £6.8m).

The group also contributes to a number of defined contribution pension schemes as well as making contributions to its customers' defined benefit pension schemes under Admitted Body Local Government status as well as to other arrangements in respect of certain employees who have transferred to the group under TUPE. The group's defined benefit pension obligations in respect of schemes in which it is committed to funding amounted to £0.0m (2010: £3.7m).

Following the announcement in the June 2010 budget, the UK government has announced that it will use the CPI measure of inflation rather than RPI to determine the level of future statutory pension increases. As CPI is lower than RPI, the application of CPI to the valuation of future pension liabilities results in a reduction in the value of pension obligations on the balance sheet. The move to a CPI based valuation base affects certain of the group's defined benefit pension liabilities. The financial implication of this has been treated as a change in defined pension benefits and recognised as a negative past service cost in the income statement. As a result of this change, a credit of £4.1m has been recognised in the income statement for the year ended 31 March 2011.

Acquisitions

On 25 June 2010, MITIE acquired the integrated facilities management business of Dalkia in Ireland. This business provides integrated FM solutions for a range of clients in the public and private sectors operating across a range of industries including technology and communications, transport and logistics, manufacturing, utilities and finance.

The total consideration payable will be up to €12.5m (£10.6m), with up to €2m (£1.8m) only payable dependent upon the business achieving a minimum level of earnings before interest, tax, depreciation and amortisation for the year ended 31 December 2010 and other specific targets. Initial consideration of €9.5m (£7.9m) and €1.0m (£0.9m) of deferred consideration was paid in cash during the year. From the date of ownership, the business has contributed revenue of £19.4m and operating profit before other items of £1.3m which is in line with our acquisition business case. Acquisition and integration costs of £0.3m and £1.0m respectively were incurred during the year ended 31 March 2011.

MITIE also increased its stake to 50% in Service Management International for £0.5m. SMI uses a network of FM service providers in 34 different territories to tender global contracts in which MITIE delivers the UK services. Further details of these acquisitions can be found within Note 31 to the accounts.

MITIE's entrepreneurial investment model

In August 2010, MITIE purchased certain minority shareholdings of six MITIE subsidiary companies under their respective articles of association and shareholder agreements in accordance with arrangements under our entrepreneurial investment programme known as the MITIE Model. The total consideration for all six purchases amounted to £6.8m being satisfied as to £0.4m in cash and as to the remaining £6.4m by the issue of 3.0m new Ordinary shares of 2.5p each in MITIE Group PLC valued at 209.2p per share, being the closing market price per share on 28 July 2010.

Suzanne Baxter
Group Finance Director

Factors that could affect our business

A thorough review. Of our principal risks and uncertainties.

A comprehensive approach to risk identification, mitigation and management is critical to MITIE and allows us to operate and develop our business in the knowledge that key risks have been considered accurately and planned for robustly. The principal risks and uncertainties we face are set out below.

Strategic risks

Category	Areas of risk	Mitigation
Loss of competitive position	Identification of appropriate markets and strategies. Investment in infrastructure. Attraction and retention of talented people. Bid strategy. Maintenance of competitive funding structure. Identification of and compliance with key certification/standards.	Focus on clear strategic priorities. Business case for investment in new infrastructure. Ongoing recruitment of new talent. Attractive reward and retention models for key teams. Strong relationships with equity and debt funders. Internal and external audits.
Inadequate management and infrastructure to support development	Knowledge of local regulations and practices. Political/exchange rate risk. Management control over operations. Management of people, suppliers, infrastructure and culture.	Approval process for entry into overseas markets. Building overseas knowledge through existing work in some overseas jurisdictions. Formal Delegated Authorities. Involvement of external specialists. Insurance. Management of foreign currency exposure.
Significant damage to brand reputation	Market perception. Traditional and social media attention. Consistent brand management.	Operational framework and risk management processes. Clear policies and procedures on internal and external communication. Dedicated Corporate Affairs team. Media training. Brand standards. Dedicated Marketing teams.
Failure of acquisitions to deliver expected benefits	Strategic and cultural fit. Due diligence. Synergies. Integration issues. TUPE and pension considerations. Increased gearing. Management.	Clear strategy. Experienced due diligence team. Integration governance and framework. Deferred consideration. Post acquisition reviews.
Growth opportunities are not optimised	Adaptability of bid teams to market changes. Pricing of tenders. Agreement of contractual terms and conditions.	Relationship management programmes in place with key targets. Investment in and a regular review of bid pipeline. Tender and contractual review process with clearly defined approval process.
Responsibility objectives are not met	Delivering on our commitment to act sustainably and responsibly. Compliance with social, ethical and environmental standards. Consistency of approach.	Governance structure and policies. Data capture and impact analysis. Awareness training. Carbon management strategies.

Financial risks

Category	Areas of risk	Mitigation
Failure to achieve financial objectives	Approach to and application of financial management procedures.	Group policies and procedures on financial management. Dedicated Group functions. Clear financial Key Performance Indicators to measure and communicate financial performance. Formal Delegated Authorities. Tiered level of review and challenge on financial results. Clear internal financial controls and statement of compliance. Internal and external audits.
Market conditions negatively impact on company performance	Client credit risk. Change in customer requirements and circumstances. Change in stock, financial and operational markets. Price competition. Change in government policy/spending. Inflation and interest rate uncertainty.	Limits in place to manage exposure to individual customers and sub-contractors. Hedging. Group-wide credit exposure consolidation tool. Credit insurance. Ongoing dialogue with financial community. Change control procedures.
Inadequate liquidity to meet obligations	Facility maturity risk. Terms of borrowing instruments. Short-term cashflow movements. Changes in funding markets.	Diversification of funding sources and tenure. Regular reporting on key indicators. Cash flow forecasting for visibility of short and long term funding requirements. Daily and weekly monitoring of bank balances. £250m facility spread across six banks and ongoing relationships with funders. US Private placement funds of £100m and long term maturity. £40m overdraft facility in place.
Counterparty or company fails to meet obligations leading to significant financial loss	Availability and cost of funding. Covenants. Credit risk of insurers and funding providers. Pension and share scheme administration. Client and supply chain exposure.	Daily review of bank balances and quarterly review of covenants. Controls over acceptance of counterparty risk. Audit of key counterparties. Governance over pension schemes.
Significant financial loss due to fraud or other economic crimes	Volumes of transactions driven by numbers of employees, customers, suppliers and other stakeholders, and impact of economic climate.	Processes and systems designed to prevent fraud/economic crimes, confidential whistleblowing and reporting channels to investigate and take remedial action on identified instances.

Operational risks

Category	Areas of risk	Mitigation
Major health, safety or environmental incident	Working at height. Working with electricity, gas or asbestos. Driving and vehicle safety. Fire, water and waste management. Food safety. Manual handling and hazardous materials. Slips, trips and falls.	Ongoing training for all employees supported by QHSE professionals. Provision of appropriate equipment and PPE. Specific procedures in place for high risk areas. Internal and external audits.
Inability to trade	Access to premises, systems and utilities. Payment of employees. Adverse weather/event. Legislation and licence to operate. Industrial relations. Provision of technology based management information solutions to clients. Control over portfolio and implementation of new systems.	Malicious software protection. Multiple network routes to data centres. Experienced in-house IT resources. Process and governance for implementation of new and existing systems. Systems support and back-ups. Diversity and geographic spread of operations. Flexible workforce and network access. Disaster Recovery/Business Continuity Plans. Application of due process.
Failure to deliver/retain existing business	Mobilisation within specific timescales. Co-ordination of multi-service delivery. Complex technical specification. Changes to scale and scope of contract works. Client retention. Availability of appropriately skilled personnel.	Management of mobilisation plans. Teams skilled to deal with existing and changing technical and operational requirements. Contract management and review protocols and plans. Comprehensive business management and controls systems. Focus on innovation and use of technology to add value to client service proposition. Relationship management programmes in place with clients.
Lack of appropriately skilled people	Attraction, motivation and retention of talented people. Resourcing at appropriate levels. Performance management. Management training. Legislative compliance.	Competitive remuneration. Employee reward system. Management and personal development plans. Succession planning. Apprenticeship and MITIE talent programmes. Governance and audit structures to ensure legislative compliance.
Sub-contractors/suppliers perform poorly/are not appropriately insured	Performance of sub-contractors and suppliers affecting client relationships. Third party health and safety procedures and insurance. Financial penalties, consequential loss/damages. Over reliance on key service providers.	Vetting and induction procedures to meet key certification/standards. Document monitoring. Relationship management and performance monitoring. Divisional T&Cs in place. Maintenance of appropriate insurance both internally and of sub-contractors/suppliers.
Loss of confidential information	Availability and security of key systems, data storage devices and corporate information.	Malicious software protection. Policies and procedures over use and loss of data. Physical and IT access controls and segregation of duties.

Compliance risks

Category	Areas of risk	Mitigation
Lack of insurance cover or material litigation	Insurance covenants. Visibility of claims. Increasing operational scale. Balance of internally held risk versus risk borne by the market.	Group and divisional management systems. Annual review of insurance cover and self-insurance. All incidents reported within 48 hours. Risk reduction programmes run in conjunction with insurers.
Non-compliance with legislation	Awareness of relevant laws, regulations and amendments. Industry licensing. Capital market regulations. Banking covenant compliance.	Departmental responsibility for relevant regulatory requirements including new Senior Accounting Officer, Equality and Bribery & Corruption Act requirements. Expert external advisors. Specific compliance systems in place. Ongoing training and guidance. Conformance monitoring. Internal & external audits.

Directors' report

Introduction

The Directors submit their report together with the audited consolidated financial statements of the MITIE group of companies for the year ended 31 March 2011. The Directors' report includes the Business review, the corporate governance statement, the Remuneration report, the Directors' responsibility statement, all other parts of this Annual Report and Accounts and those documents that are referred to within this report and are available at www.mitie.com/investors_corporate-governance.

Principal activities

MITIE Group PLC is the holding company of the group. The principal activity of the Company is to provide management services to the group. The group's activities are focused on the provision of strategic outsourcing and energy services in support of the buildings, facilities and infrastructure of its clients. Further details of the subsidiary undertakings of the Company principally affecting the profits or net assets of the group in the reporting period are listed in Note 37 to the financial statements.

Basis of report

This report (together with the other parts of this Annual Report and Accounts and other documents 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.

Board of Directors

Roger Matthews

Non-Executive Chairman

Chairman of the Nomination Committee
Member of the Remuneration Committee

Roger was appointed as a Non-Executive Director of MITIE Group PLC in December 2006 and was later appointed as Non-Executive Chairman in July 2008. 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 LSL Property Services PLC, a Non-Executive Director of Zetar PLC and Trustee of Cancer Research UK.

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 in March 2007. Ian was a founding member of MITIE. He is a 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 MITIE, 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. During the year, Ruby was appointed to the board of trustee directors for the Business in the Community (BitC) organisation and continues to act as Chair of Race for Opportunity, a part of the BitC organisation with a focus on diversity in the workplace.

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 BitC organisation with a focus on gender diversity in the workplace, and is also a member of the Finance and Risk Committee of BitC.

Bill Robson

Executive Director

Bill joined MITIE Group PLC in January 1992 following the acquisition of Trident Maintenance Services Limited. He was appointed as an Executive Director in August 2001 and now holds the position of Managing Director of the Group's Property Management division.

Larry Hirst CBE

Non-Executive Director

Member of the Audit Committee

Larry joined MITIE as a Non-Executive Director on 1 February 2010. He held the position of Chairman of IBM Europe, Middle East and Africa until July 2010 and held a number of senior positions during his 32 year career with IBM including General Manager, IBM Northern Region and Chief Executive IBM UK and Ireland. Larry was previously appointed as Chairman of e-skills Sector Skills Council. Larry was appointed as a Non-Executive Director of ARM Holdings plc in January 2011 and is also Non-Executive Chairman of UK Trade and Industry Technology Board, a Commissioner of the UK Commission for Employment and Skills and a UK Business Ambassador.

David Jenkins

Senior Independent Director

Chairman of the Audit Committee
Member of the Nomination and Remuneration Committees

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

Terry Morgan CBE

Non-Executive Director

Chairman of the Remuneration Committee
Member of the Audit and Nomination Committees

Terry was appointed as a Non-Executive Director in July 2009. He is currently Chairman of Crossrail and holds positions at M J Gleeson Group PLC, Invest in Thames Gateway London Limited, Manufacturing Technology Centre Limited and the National Skills Academy for Railway Engineering. Terry was previously Chief Executive of Tube Lines Limited and has also held positions with BAE Systems, Rover Group PLC and Lucas Girling Limited.

Graeme Potts

Non-Executive Director

Member of the Remuneration Committee

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

Directors' report

Compliance with the Code

The Board recognises that the manner in which the group is governed is critical to the long-term success of the business and is committed to the principles of corporate governance, for which the Board is accountable to shareholders, as detailed in the Combined Code on Corporate Governance 2008 (the Code). In May 2010, the Financial Reporting Council ('FRC') introduced the UK Corporate Governance Code 2010 (the 'New Code'). The disclosure requirements of the New Code apply to companies with accounting periods commencing on or after 29 June 2010. Accordingly, the disclosure requirements of the New Code will be reported in the 2012 corporate governance statement, however all other provisions of a continuing nature are referred to where relevant within this statement. This report, together with the 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 Code and the New Code where relevant.

Throughout the reporting period, significant consideration has been given to the balance of the Board and its Committees and the Board is conscious of any non-compliance with the Code. During the year and before the retirement of Roger Goodman on 31 March 2011, the Board reflected a ratio of 4:5 of independent Directors to non-independent Directors (excluding the Chairman) compared to a 1:1 requirement under the Code. The Board confirms that the group has complied with all relevant provisions set out in Section 1 of the Code throughout the year other than as noted above.

With effect from 1 April 2011, the Board complies with the provisions of Code A.3 and has going forward an equal number of independent and non-independent Directors (excluding the Chairman).

Board structure and leadership

Role of the Board

The Board is collectively responsible for the long-term success of the Company and accordingly, reviews and agrees the strategy for the group proposed by the Executive Directors on an annual basis. In setting the strategy, the Board takes account of key matters such as market trends, competitive environment, private/public sector approach, international aspects, people and talent and the MITIE model (as explained further below) ensuring at all times that sufficient consideration is given to risk and internal controls. 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 acquisitions, disposals and business start-ups, including any material transactions outside of the normal course of business, approving the Group's Half-yearly and Annual Report and Accounts, appointing and removing the Chairman, Directors and Company Secretary, management of the group's risk profile and monitoring the group's corporate governance arrangements. Approvals are managed in accordance with the group's delegated authorities and matters are also set out in a schedule of matters reserved for the Board which is available at www.mitie.com/investors_corporate-governance.

Roles and responsibilities

There is a clear division of responsibility between the roles of Chairman and Chief Executive as formally set out in the terms of reference for each of these roles. The Chairman is a Non-Executive Director and is responsible for the effective running and leadership of the Board, ensuring its effectiveness. The Chairman liaises with the Company Secretary on the annual Board plan, agrees and sets the Board agendas, ensuring at all times that there is sufficient time allocated for strategic discussions. The Chairman encourages openness and fluid communication between Executive and Non-Executive Directors, a culture which has been facilitated by meetings between the Chairman and individual Directors. The Chairman ensures that the Non-Executive Directors contribute effectively and that the Executive and Non-Executive Directors are 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 will be available at the Annual General Meeting ('AGM').

The Chief Executive is responsible for all aspects of the operation and management of the group and its business within the authorities delegated by the Board. She is responsible for developing and effectively implementing strategy following approval of the strategic and financial plan by the Board. The Chief Executive's remit includes proposing investment into new business and geographical areas and ensuring at all times that the group's risk profile is appropriately considered. She ensures the timely and accurate disclosure of information to the Board and to shareholders. She leads the Executive Directors and senior management team in the day-to-day running of the group's business under clear delegation of authority from the Board. The Chief Executive maintains regular dialogue with the Chairman on all important Company matters and together they provide coherent leadership of the group.

Non-Executive Directors are responsible for exercising their independent skill and judgement. In reviewing the proposals for the strategic direction of the group, the Non-Executive Directors constructively challenge and probe the Executive Directors, offering a breadth of knowledge, experience and individual skills. In addition, the Non-Executive Directors are responsible for contributing to the formulation and development of strategy. During the reporting period, the Non-Executive Directors held one-to-one meetings with certain senior divisional management teams to gain wider understanding and appreciation for the business when approving strategy. In addition, the Non-Executive Directors monitor high level corporate reporting and satisfy themselves as to the integrity of financial information and the operation of key financial controls. 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. The role of the Senior Independent Director is to make himself available to shareholders should they have concerns which have not been resolved through the normal channels of Chairman, Chief Executive or Group Finance Director or for which such contact is inappropriate in the circumstances. The Senior Independent Director in particular reviews information on major shareholders and financial analysis to obtain a balanced understanding of the issues and concerns of shareholders. Explained further below is the Senior Independent Director's role in succession planning and performance evaluation for the Chairman.

The Company Secretary is responsible for ensuring good communication flows within the Board and its committees and ensuring that Board procedures are complied with.

Director indemnity

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

Directors' report: corporate governance statement

Board effectiveness

Composition of the Board

The membership of the Board as at 31 March 2011 and biographical details of the Directors (including details of committee chairmanships and other positions held) are given on page 47. During the year one Executive Director, Roger Goodman, retired from the Board. To comply with provision B.7.1 of the New Code, all Directors will submit themselves for re-election at the forthcoming AGM and details are provided in the Notice of AGM which is also available at www.mitie.com/investors.

During the year, Non-Executive Director independence was considered by the Board. The Board determined that all Non-Executive Directors as at 31 March 2011, 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 LLP MITIE's external auditors and his term of appointment. 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 LLP in May 2004. The Board has determined that David continues to provide independent influence and constructive support to the Group in his role as Senior Independent Director.

As part of the ongoing review of Board performance the Nomination Committee and the Board specifically reviewed the roles of Chairman and Senior Independent Director, and the composition and chairmanship of each of its committees. The Board is satisfied that its composition is appropriate having regard in particular to the integrity, skills, knowledge and experience of its Directors and the size and nature of the business, and having regard to its desire that the Board does not become too large and unwieldy. The Board as at 31 March 2011, following Roger Goodman's retirement, was comprised of four independent Non-Executive Directors; a Non-Executive Director deemed non-independent as a result of his prior role as Chief Executive of the group, the Non-Executive Chairman and three Executive Directors.

The Board has four formally constituted committees: the Audit Committee, the Executive Committee, the Nomination Committee and the Remuneration Committee for which the duties and responsibilities of each are set out in the terms of reference which are available at www.mitie.com/investors_corporate-governance. All Board committees are provided with sufficient resources to undertake their duties. Further details in relation to the composition, role and functioning of each committee are set out within this Directors' report, with the exception of the Remuneration Committee which is explained further in the Remuneration report on page 61.

The Executive Committee members are Ruby McGregor-Smith, Suzanne Baxter, Bill Robson and, until his retirement as a Director on 31 March 2011, Roger Goodman. It functions primarily as an approval and signing committee and meets on an ad hoc basis, as and when required. Powers are specifically delegated to the Committee by the Board as evidenced in the Board minutes and the group Delegated Authorities Register, and the Committee are instructed to revert to the Board should any further decision making be required. In addition, the group operates an Executive Board. It is not a formally constituted committee of the Board, operating solely under the delegated powers of the Chief Executive, but is charged with supporting the Chief Executive in the operational management of the group.

Board appointments

The Nomination Committee leads the process for appointments to the Board and makes appropriate recommendations to the Board. Directors are appointed and may be removed in accordance with the Articles of Association of the Company and the provisions of the Companies Acts. As at 23 May 2011, the members of the Committee are: Roger Matthews (Committee Chairman), David Jenkins and Terry Morgan. Ruby McGregor-Smith stepped down from the Committee during the year but continues to attend meetings at the invitation of the Chairman.

During the year, the Committee met to evaluate the balance and composition of the Board. The Committee is committed to ensuring that new Directors bring the requisite skills, knowledge and experience required for the role being considered. It oversaw the Board succession planning with relation to the retirement of Roger Goodman and determined that his responsibilities be maintained by the Executive Board members. In considering any succession for the role of the Chairman, the Senior Independent Director chairs the Committee. In addition, with support from the newly appointed Group HR director, the Committee has introduced a separate meeting in the coming year, which will be attended by the Chief Executive and Group HR director, to address succession planning for the Board and across the Group to ensure that there is a sufficient mix of experience and skills. The Committee recognises the need for the Board to have a balance of skills, experience, independence and knowledge of the Company as outlined in B.1 of the New Code and in the search for new candidates, the Committee has due regard for the benefits of diversity, including gender, in line with section B.2 of the New Code. New Director appointments recommended to the Board by the Committee are undertaken in accordance with the Committee's objective appointment and recruitment process.

Director commitments

Executive Directors are permitted to accept appointments outside the group provided permission is sought from the Chairman and the Chief Executive and that the additional appointments do not interfere with the Directors' ability to discharge their duties effectively. The commitments outside the group of the Executive Directors are detailed in the Remuneration report on page 64. Executive Directors are entitled to retain any fees earned from these external appointments.

Director development

The Board has a general policy that each new Director receives a tailored induction suitable to their role which includes visits to Company and key client sites, 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 addition to the induction pack, all Directors receive a copy of the Board Handbook, which contains essential information such as Board and committee terms of reference, an overview of Directors' statutory duties, corporate governance and regulatory guidelines, a copy of the Board delegated authorities and an overview of the Company's insurance arrangements. The Handbook is reviewed and updated regularly as and when regulatory developments arise.

Director information and support

Directors are supplied with an agenda and supporting papers for all Board meetings in a timely manner and, in the same timeframe, have access to a secure facility for accessing board packs electronically. This ensures that each Director is appropriately briefed and able to discharge their duties properly. Papers submitted regularly for the Board's review include reports on health and safety, current trading and performance, corporate development activities and briefings from the Company Secretary on 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. In addition to scheduled Board and committee meetings during the year, the Chairman met the Non-Executive Directors on several occasions without the Executive Directors being present and the chairman of the Audit Committee meets with the Group Finance Director on a regular basis.

All Directors are expected to allocate sufficient time to the Company to discharge their responsibilities effectively and, where possible, attend all Board meetings and the AGM. Any time commitment matters are addressed by the Chairman with the Director concerned. During the year ended 31 March 2011, there were six scheduled Board meetings. Additional unscheduled Board meetings were held to deal with the review and approval of acquisitions and issues relating to shares and other administrative matters. Each year, the Board holds a dedicated strategy meeting and a budget meeting. 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	8	1
R J Matthews	6	–	8	1
I R Stewart	6	–	–	–
R McGregor-Smith[1]	6	–	–	–
S C Baxter	6	–	–	–
N R Goodman[2]	6	–	–	–
W Robson	6	–	–	–
D S Jenkins	6	3	8	1
G J Potts	6	–	7	–
T K Morgan CBE	6	3	8	1
L Hirst CBE	6	3	–	–

Note:
1 Ruby McGregor-Smith stepped down from the Nomination Committee in May 2010.
2 Roger Goodman retired from the Board on 31 March 2011.

Directors' Interests

With regards to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Code, the New Code, the Companies Acts and related legislation. The Articles may be amended by special resolution of the shareholders.

Director conflicts

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

Directors' report: corporate governance statement

Board evaluation and re-election

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 meetings and discussions. This process includes feedback on the performance of the Chairman which is reviewed by the Senior Independent Director and independent discussions are held as required with the Non-Executive Directors in order to appraise the performance of the Chairman. 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. Notwithstanding this, several further improvements in Board operation have been implemented during the reporting year, including introducing a separate meeting to deal with strategic planning each year which is followed up with defined actions to be reported back to the Board, clearer focus within management reporting on strategic matters and a strengthening of the HR support for the Remuneration Committee. As part of the formal Board evaluation, the Board has considered the performance of each Director and is satisfied that they continue to be effective and demonstrate clear commitment to their role. To comply with provision B.7.1 of the New Code all Directors are subject to annual re-elections. The Board is currently considering its approach to the externally facilitated performance evaluation of Directors every three years in accordance with B.6.2 of the New Code.

Board accountability

Financial and business reporting

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 the Business review are contained in this Directors' and Governance report and the following sections of this Annual Report and Accounts:

- the Chairman's statement on page 4 and 5;
- the Chief Executive's review on pages 6 to 11;
- the Key Performance Indicators on pages 12 to 14;
- the Marketplace overview on pages 30 and 31;
- the Operating review which includes the business model on pages 31 to 34;
- the Sustainability review on pages 35 to 38;
- the Financial review on pages 39 to 43; and
- Factors that could affect our business on pages 44 and 45.

Collectively these sections present a balanced assessment of the Company's position and prospects. They demonstrate how the Directors have acted in the way most likely to promote the success of the Company, explaining how the Company generates and preserves value over the longer term and provides an overview of the strategy for delivering the Company's objectives.

Going concern

The Directors acknowledge the Financial Reporting Council's Going Concern and Liquidity Risk: Guidance for Directors of UK Companies issued in October 2009. The group's business activities, together with factors likely to affect its future development, performance and position are set out in the Business review as referred to on pages 6 to 45. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 40 to 43. In addition, Note 25 to the consolidated financial statements includes details of the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

The group's financial forecasts, taking into account possible sensitivities in trading performance, indicate that the group will be able to operate within the level of its committed borrowing facilities.

The group's committed borrowing facilities comprise £100m of US Private Placement Loan Notes expiring between December 2017 and December 2019 which were issued in December 2010 and its committed banking facilities. The group renegotiated its banking facilities in March 2011 and its new committed facility of £250m will be available for drawdown in July 2011, subject to the approval of an amendment to the Articles of Association at the forthcoming AGM to clarify the definition of borrowing limits. Until that point, the group's existing committed banking facility of £230m remains available for use by the group. The new committed facility will remain in place until September 2015.

The Directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Annual Report and Accounts.

Risk management and internal control

The Board recognises that it is responsible for determining the level of risk acceptable that is appropriate for the group when establishing and operating to achieve the group's strategic objectives. The Board 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 MITIE and upon 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.

Internal control framework

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. This framework is designed to balance the need for group-wide consistency and control with the autonomy that 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 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.

Monitoring the system of internal control

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 internal audit reports from the business risk function and via meetings with the Head of Business Risk. 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 Business Risk who reports to the General Counsel and independently to the Audit Committee. 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 auditors. To further encourage a culture of risk management within the business, the Executive Board regularly reviews the programme of risk management undertaken across the group to demonstrate the importance of the management and assessment of risk at a senior level.

Risk management

The Board confirms that there is a continuing process for identifying, evaluating and managing significant risks faced by the group which has been reviewed and improved during the reporting period with support from Grant Thornton. This work has focused on the assurance framework that exists within the group, the use and compilation of risk registers and an increase in the use of computer assisted audit techniques. The Board confirms that its risk assessment process has been in place throughout the reporting year 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. Specifically, the Board considers the nature and extent of the significant risks it takes in setting strategy which are detailed further in the section regarding risk factors that could affect the business on pages 44 and 45. The process for identifying, evaluating and managing 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 periodically by the Board. The risk register forms the basis of the internal audit programme for each year with risk areas reviewed on an annual to triennial basis dependent upon materiality and inherent risk assessment. During the reporting period, the Board has been considering the introduction of the Bribery Act 2010 and accordingly, has implemented a revised Fraud Policy and accompanying procedures to mitigate the risks posed within the business. 'Whistleblowing' activity is communicated to the Audit Committee along with the results of investigations carried out. These investigations have not identified any risks that result in a material, unmitigated exposure to the group.

Directors' report: corporate governance statement

Reviewing the effectiveness of the system of internal control
In line with Turnbull Guidance and C.2.1 of the New Code, the Board performs a formal annual assessment of the operation and effectiveness of the system of internal control covering all material controls, including financial, operation and compliance controls, and updates this assessment prior to the signing of the Annual Report and Accounts. 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 Head of Business Risk attends each Audit Committee meeting to provide regular updates on the effectiveness of the group's internal controls. The Board confirms that management has taken steps during the year to improve 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 at executive level to ensure they are implemented appropriately and that they are effective.

Consolidated accounts preparation and financial reporting
The consolidated accounts of the group are prepared by the Group Finance function that is responsible for the review and compilation of reports and financial results from each of the operating divisions and subsidiaries within the group, in accordance with the group internal control and reporting procedures. Each operating division supports its report and results submission with a statement of compliance with the group's principal internal controls which is subject to review and sample audit by the internal audit function. In addition, the representations made by the Board in support of the consolidated financial statements including those in relation to the operating divisions are supported by detailed papers and cascaded reporting requirements throughout the group, which are reviewed by either the group finance team or internal audit and presented to the Audit Committee and the Board for final approval as appropriate.

Internal control systems: 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 board and management 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 also regularly attend these meetings.

The Audit Committee
The Company has a formally constituted Audit Committee comprised of independent Non-Executive Directors. The Audit Committee is generally responsible for:

– monitoring and reviewing the integrity of the group's corporate reporting which includes any formal announcements relating to the group's financial performance, and any significant financial reporting judgements therein;

– monitoring and reviewing the independence and objectivity of the group's external auditors, the objectivity and effectiveness of the audit process and the effectiveness and implementation of the group policy on the provision of non-audit services (the Non-Audit Services Policy);

– monitoring and reviewing the integrity and effectiveness of the group's internal financial controls environment, internal audit function and business risk management structures; and

– making recommendations to the Board on shareholder resolutions for the appointment of, and remuneration for, external auditors.

The chairman of the Committee will be available at the AGM to answer any questions about the work of the Committee.

Committee composition
The Committee consists entirely of independent Non-Executive Directors and is chaired by David Jenkins. During the year the Audit Committee comprised: David Jenkins, Terry Morgan and Larry Hirst. The composition of the Committee meets the requirements of the Code.

All members of the Committee are considered as being appropriately experienced to fulfil their duties and David Jenkins continues to be deemed by the Board as at the date of this report, to have significant, recent and relevant financial experience through his qualifications and held appointments.

Meetings of the Committee
During the year the Audit Committee held three meetings (see summary of meeting attendance on page 51). The Audit Committee invited the external auditors, Chairman, Chief Executive, Group Finance Director and Head of Business Risk to attend relevant parts of the meetings of the Committee. The matters under consideration at these meetings included:

– generally monitoring the group's corporate reporting process and the statutory audit of the annual Group accounts;

– the 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 Non-Audit Services Policy 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 2011;
- the review of key internal audit reports and findings; and
- generally monitoring the effectiveness of the internal control, audit and risk management systems and functions.

The Committee also met separately with the external auditors and the Head of Business Risk met with the Chairman of the Audit Committee without the presence of the Executive Directors.

Internal audit function
The remit of the Audit Committee includes the monitoring of the internal audit function and the arrangements by which employees may raise concerns regarding any matters of financial reporting or other perceived improprieties across the group. The group's internal audit function reports directly to the Group Counsel and the Chairman of the Audit Committee. The Committee continues to review the size and composition of the internal audit function to ensure that it remains effective given the increasing size and complexity of the group and the emphasis placed upon remediation, rectification and re-audit of issues identified through the internal audit programme.

External auditor
Prior to 1994, MITIE was audited by BDO Binder Hamlyn who merged their practice with Deloitte. Since 1994, MITIE Group PLC has been audited by the firm now known as Deloitte LLP (previously Touche Ross & Co, Deloitte & Touche and Deloitte & Touche LLP). Each year the Audit Committee reviews auditor performance in respect of audit services, audit related services and non-audit services. The Audit Committee is committed to ensuring the independence and objectivity of the external auditors and confirms that the requirements of the Non-Audit Services Policy have been met throughout the year. When considering the appointment of the external auditor, there are no contractual obligations that restrict the Audit Committee's capacity to recommend a particular firm for appointment. The lead audit engagement partner is rotated every five years, with the next rotation due in respect of the year ending 31 March 2014. The Audit Committee is satisfied with the performance of the external auditor and after due consideration, has recommended the re-appointment of Deloitte LLP to the Board.

The Audit Committee has approved a Non-Audit Services Policy that ensures that the Audit Committee has visibility over the levels of non-audit work performed by the auditors and requires notification to the chairman of the Audit Committee for any non-audit spend with the auditors that, on an annual basis cumulatively exceeds 50% of the annual audit fee and/or where any item, regardless of amount, is considered significant. The Audit Committee is satisfied that this policy provides sufficient control over the levels of non-audit spend with the Auditors whilst providing sufficient flexibility for the Group Finance Director to approve expenditure on advice below those levels. This policy also 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 LLP also maintains its own internal controls designed to safeguard its independence. A summary of the fees paid to the external auditors is given in Note 6 to the financial statements.

Disclosure of information to the auditors
Each of the Directors in office as of the date of approval of this Annual Report and Accounts confirms that:

- so far as he/she is aware, there is no relevant audit information (being information required by the auditors in the preparation of their report) of which the Company's auditors are unaware; and
- he/she has 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.

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

Re-appointment of auditors
Deloitte LLP have expressed their willingness to continue in office as auditors and the resolution to re-appoint them will be proposed at the forthcoming AGM.

Directors' report: corporate governance statement

Shareholder dialogue

The Board is committed to an on-going pro-active dialogue with institutional and private investors and welcomes the introduction of the UK Stewardship Code applicable to institutional shareholders, to further encourage engagement between the Company and its shareholders. The principal method of communication between the Board and shareholders is via news announcements, the Interim Management Statements, the Half-yearly Financial Report, the Annual Report and Accounts, the Sustainability Report and MITIE's website (www.mitie.com). A full programme of formal and informal events, institutional investor meetings and presentations are also held following the Half-yearly and Preliminary Results announcements which are led by the Chief Executive and Group Finance Director.

The Chairman and Senior Independent Director are available for additional meetings with shareholders upon request. The Board encourages the on-going dialogue between the Directors and investors and as such all Directors were present at the 2010 AGM and made themselves available for direct discussions with shareholders. Latest group information, financial reports, corporate governance and sustainability matters, Half-yearly and Preliminary Results presentations, major shareholder information and all announcements are made available to shareholders via the MITIE website (www.mitie.com) which has a specific area dedicated to investor relations.

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 receive the monthly Chief Executive's report which has a section dedicated to investor feedback and broker updates and detailed analyst and investor feedback following the Half-yearly and Preliminary Results presentations. The Chairman is responsible for ensuring that the Board is made aware of the issues and concerns of the major shareholders. The AGM also allows shareholders to address and discuss any issues surrounding the group directly with the Executive and Non-Executive Directors.

Electronic communications

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

Financial matters

Financial results and dividends

A detailed commentary on the financial results of the group for the year is contained within the financial review on pages 39 to 43 of this report. The profit before taxation for the financial year is £86.8m (2010: £79.7m). The Directors have recommended and paid the following dividends during the year:

– recommended a total Ordinary dividend of 9.0p per share for the year ended 31 March 2011 (2010: 7.8p) with a total value of £31.9m based upon the number of shares issued as at 23 May 2011 (2010: £27.6m)

– paid on 3 February 2011, an interim dividend of 4.1p per Ordinary share with a total value of £14.4m (2010: £13.1m)

– recommended a final dividend of 4.9p per Ordinary share with a total value of £17.5m based upon the number of shares issued as at 23 May 2011 (2010: £14.5m)

The final dividend for the year will be paid on 12 August 2011, subject to shareholder approval at the AGM, to Ordinary shareholders on the register on 24 June 2011. The Company operates a Dividend Re-Investment Plan (DRIP) which allows shareholders to build their holding by using the cash dividend to purchase additional shares in MITIE. Further details on the operation of the DRIP are included at the back of this report and are available from MITIE's Registrar.

During the reporting period, the trustees of the Company's Employee Benefit Trusts waived dividends on shares held. Shares held in the Employee Benefit Trust are for the operation of the Company's employee share schemes as explained further on page 65.

Capital structure

Share capital and powers of shareholders

The group is financed through both equity share capital and debt instruments. Details of changes to the Company's share capital are given in Note 29 to the financial statements. The Company has a single class of shares – 2.5p Ordinary shares – with no right to any fixed income and with each share carrying the right to one vote at general meetings of the Company. 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.

In December 2010, the Company completed an issue of US private placement loan notes with institutional investors. The issue consisted of £40m of notes denominated in sterling and fixed at 4.38% maturing in nine years and £60m of notes denominated in US dollars ($96m) maturing in seven years. The US dollar denominated private placement proceeds were swapped into sterling debt with half fixed at 3.88% and half with a floating sterling interest rate of LIBOR plus 1.26%.

On 29 March 2011, the group renegotiated its banking facilities and its new committed facility of £250m will be available for drawdown in July 2011 subject to the approval of an amendment to the Articles of Association at the forthcoming AGM to clarify the definition of borrowing limits. Further details can be found in the Notice of AGM.

Restrictions on the trading of shares

Certain shares that are issued as consideration upon acquisition by the Company of the shares of minority shareholders in MITIE Model companies have restrictions placed upon them that both prevent the transfer of such shares and/or attach specific claw-back provisions for periods of up to two years following allotment. Otherwise, there are no specific restrictions on the size of any shareholding or on the transfer of shares, which are both governed by the provisions of the Articles of Association of the Company (available at www. mitie.com/investors_corporate-governance) and prevailing legislation. The Directors are not aware of any agreements between Company shareholders that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital. Details of employee share schemes are set out below and in Note 34 to the Accounts.

Share capital authorisations

The 2010 AGM authorised:

- the Directors to allot (under s551 Companies Act 2006) shares up to an aggregate nominal amount of £3,318,825.41 shares representing one third of the issued share capital plus 15,029,127 outstanding commitment in respect of options granted under MITIE's share schemes (such total equating to 37.59% of the issued share capital as at 31 March 2010) – during the reporting period, the Directors utilised this authority (and the preceding authority) to allot 4,615,605 shares to an aggregate nominal amount of £115,390.13 to employees participating in MITIE's share schemes and to minority shareholders in consideration for MITIE Model shares as explained further below;
- the dis-application (under Section 570(1) Companies Act 2006) of pre-emption rights over allotted shares up to an aggregate nominal value equal to £441,464.63 or a maximum 17,658,585 shares (representing 5% of the issued share capital as at 31 March 2010) – during the reporting period, the Directors utilised this authority (and the preceding authority) to allot 4,615,605 shares to an aggregate nominal amount of £115,390.13 to employees participating in MITIE's share schemes and to minority shareholders in consideration for MITIE Model shares as explained further below; and
- the Company to make market purchases of its own shares up to a total of 35,317,170 shares (representing 10% of the issued share capital as at 31 March 2010) – during the reporting period, the Directors did not utilise this authority.

Further details of these authorisations are available in the notes to the 2010 Notice of AGM (available at www.mitie.com/investors). Shareholders are referred to the 2011 Notice of AGM (which is available at www.mitie.com/investors) which contains similar provisions in respect of the Company's equity share capital.

During the year to 31 March 2011 there have been no 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 AGM.

Under the terms of certain shareholder agreements and articles of association relating to MITIE Model companies, certain minority shareholders in such companies may provide an option for the purchase by the Company of their minority shares. The mechanism for calculating the price to be paid in respect of such transfer is transparent, on an arms-length basis, and in accordance with the pricing structure generally applicable for other transfers under the MITIE Model. In consideration for these purchases, the Company generally has the option to settle payment in cash or in MITIE shares. On 12 August 2010, the Company announced the purchase of certain minority shareholdings in six MITIE subsidiary companies. The selling shareholders gave certain warranties and assurances relating to past and future performance of the relevant subsidiary companies. The shares issued in consideration are being held in safe custody for a maximum period of two years and may be sold to meet any claims that the Company may have in the future in relation to those warranties and assurances. Details of these structures are generally available (to the extent incorporated into the articles of association for individual MITIE Model companies) from Companies House at www.companieshouse.gov.uk.

Other share matters

There are a number of other agreements with provisions that take effect, alter or terminate upon a change of control of the Company such as bank facility agreements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business or the group as a whole. The Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs solely because of a take-over bid.

Directors' report: other information

Interests in share capital

As at 23 May 2011 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	Percentage of share capital
Massachusetts Financial Services Company	17,993,365	5.09%
Majedie Asset Management Limited	16,327,802	5.05%
FMR LLC	18,000,006	5.04%
Invesco Limited	17,965,851	5.02%

Details of the Directors' interests in the share capital of the Company are detailed within the Remuneration report. As at 23 May 2011, the Directors' interests have not changed from those held as at 31 March 2011.

AGM

The 2011 AGM will be held at the offices of UBS Investment Bank, 1 Finsbury Avenue, London, EC2M 2PP at 2.30pm on 13 July 2011. The Notice of AGM will be available at www.mitie.com/investors on 6 June 2011.

Other information

Employee involvement and employee equity-based incentivisation

The Board remains committed to fostering and developing a culture of employee involvement in the business through communication with employees and equity involvement whereby employees are enabled to build a stake in the Company through the Company's various equity-based incentive schemes.

Communication with MITIE's employees continues to have a high priority. The group communicates with employees through the use of Group-wide mailings, employee magazines and updates, employee-focused initiatives and media networks and provision of access to broadcasts of periodic financial presentations.

We are also committed to developing our use of social media tools as an effective way of communicating with our people as we recognise that these methods can provide great ways of allowing our people to give us feedback, share ideas and engage with the wider MITIE community.

Our social media tools are supported by a new, Group-wide intranet system that was launched during the year. The system has already improved communications and information sharing across the business and includes regular blog updates by the Executive Board members and functional teams.

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 and social networking sites continue to play an important part of engagement and communication with employees.

The group continues to operate its Group-wide MITIE Stars-programme to recognise and reward exceptional performance by its people. The MITIE's Got Talent, Group-wide talent contest continues to be supported and encourages employee engagement and recognition. The Group Sustainability Report contains further details of these initiatives and is available from www.mitie.com. Employees remain actively involved in the group's activities via an employee forum. This year the forum held two meetings and included presentations by senior management or functional heads as requested by the employee representatives. The Board will continue to seek increasing involvement and activity of the employee representatives.

The Board believes that the group's culture of employee equity involvement is a significant driver in the group's growth performance and that this assists in attracting and retaining skilled and committed employees. During the year the group has continued to operate the MITIE Long Term Incentive Plan to incentivise and reward senior members of the MITIE management team, the Executive Share Option Scheme for certain other employees and the Savings Related Share Option Scheme which is open to all eligible employees of the group. During the year, the Remuneration Committee reviewed the effectiveness and suitability of the group's employee share schemes and recommended to the Board amendments to equity-incentive schemes as outlined further in the Remuneration report and Notice of AGM, specifically the introduction of a Share Incentive Plan to be available to all employees and therefore encouraging wider equity participation within the group. The Board believes that the changes proposed to shareholders maximise the accessibility, effectiveness and incentive value of equity schemes.

The group has historically grown by giving entrepreneurial managers the opportunity to create wealth 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 predominantly in exchange for MITIE shares, at the option of MITIE. 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 received as consideration 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 of interest between MITIE shareholders and the management and employees of the group. Accordingly, on 17 January 2011, the group launched a £10m Entrepreneurial Fund to back management teams with innovative ideas for starting mutually owned businesses.

Employee diversity and inclusion

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, sexual orientation or any other aspect of diversity. Applications from disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. It is the policy of the group that the training, career development and promotion of disabled persons (including those who become disabled whilst employees of the group) should, as far as reasonably possible, be identical to that of other employees.

The Company actively supports diversity and inclusion and during the reporting period, established a Diversity & Inclusion Steering Group to heighten awareness of diversity issues and accordingly oversaw the launch of a dedicated diversity week. Activities included presentations, workshops and training sessions focused on equality and diversity issues. Further information can be found within the group's dedicated Sustainability Report which can be found at www.mitie.com.

Financial instruments

The group's financial instruments include bank loans, finance leases, overdrafts, US private placement loan notes and performance guarantees. 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 derivatives are used to manage interest and currency risk when necessary or material. The principal objective of these instruments is to raise funds for general corporate purposes and to manage financial risk. Further details of these instruments are given in Note 24 to the financial statements.

Finance costs

The amount of interest capitalised by the group is set out in further detail in Note 9 to the financial statements.

Payment of creditors

The group's policy is to comply with the terms of payment agreed with suppliers, preferably on the group's standard purchasing terms (as notified to suppliers), or otherwise to adhere to the suppliers' standard terms. A copy of the group's standard purchasing terms can be found at www.mitie.com/suppliers. At 31 March 2011, the group had 36 days' purchases outstanding (2010: 31 days).

Fixed assets

The Board does not believe that there is any material difference between the book value and the current open market value of the group's interests in land and buildings.

Events after the balance sheet date

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

Future developments

The operating review sets out the Board's view on likely future developments of the group.

Research and development

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

Donations

Donations to charity and community projects made during the year amounted to £190,738 (2010: £110,500). It is the group's policy not to make political donations, and during the reporting period no political contributions were made (2010: £nil). The total value of community investment was £534,015 (2010: £392,483).

Branch offices

The group operate registered branch offices in the Republic of Ireland and the Isle of Man. Further details of the group's principal subsidiaries are given in Note 37 to the financial statements.

By order of the Board

Marie-Claire Haines
Company Secretary
23 May 2011

Directors' report: statement of Directors' responsibilities

Statement of Directors' responsibilities in respect of the accounts

The Directors are responsible for preparing the Annual Report and Accounts. 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 adequate 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 relevant requirements of the Companies Acts, Listing Rules and Disclosure and Transparency Rules (DTRs).

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 the applicable set of accounting standards 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.

By order of the Board

Ruby McGregor-Smith
Chief Executive
23 May 2011

Suzanne Baxter
Group Finance Director
23 May 2011

Remuneration report

Introduction

This report has been prepared on behalf of the Board in accordance with s420 of the Companies Act 2006 and in line with the Schedule 8 of the Large and Medium–sized Companies and Groups (Accounts and Reports) Regulations 2008 and covers all Directors who served on the Board during the reporting period. The Remuneration Committee believes in and promotes good governance through the adoption of the Code and the New Code, compliance with the Listing Rules and due reference to the ABI guidelines. The aforementioned regulations require certain elements of this report to be audited by the Company's auditors and for them to state that the audited information has been duly prepared in accordance with the regulations. The report therefore has been arranged into two sections; Section A: not subject to audit and Section B: subject to audit. The report will be presented for shareholder approval at the forthcoming AGM on 13 July 2011.

Section A: The following information is not subject to audit

Remuneration Committee

Membership
The Remuneration Committee met eight times in the year and is comprised of solely Non-Executive Directors of the Company. The members of the Remuneration Committee are Terry Morgan (Committee chairman), David Jenkins, Graeme Potts and Roger Matthews. Ruby McGregor-Smith, Chief Executive and the Group HR director attended Committee meetings by invitation only, to provide further information on the Company's performance and the performance and remuneration of the Executive Directors.

Advisers to the Committee
During the year the Committee requested the attendance of and sought advice from Kepler Associates. Kepler Associates provide no other services to the Company.

Terms of reference
The terms of reference for the Committee are available on request from the Company Secretary (thecompanysecretary@mitie.com) and from the Company's website. The terms of reference include:

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

Remuneration report

Remuneration policies and principles

General remuneration principles

The Committee is responsible for formulating remuneration policies and principles that promote the success of the Company in creating value for shareholders over the longer term, through alignment with the corporate objectives and business strategy after taking into full account the associated risks. The Committee understands that it is accountable to shareholders for the decisions made on Executive remuneration and seeks to maintain open and constructive communication where changes on remuneration policy are being proposed.

The remuneration policy for the Company's Executive Directors and other group senior executives is shaped by the requirement to align the interests and individual performance of the Senior Executive team with those of MITIE's shareholders. The policy has particular regard to the Company's and the group's long-standing culture of encouraging equity ownership in order to achieve this alignment.

The Committee, and the Board, continue 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 further develop MITIE's performance culture, the Committee believes that the remuneration packages of the Executive Directors should continue to contain significant performance-related equity-based elements.

The Remuneration Committee believes exceptional performance should be matched with appropriate remuneration to attract, retain and motivate Directors and management while being mindful of the behaviour that such packages create. The Committee ensures that packages are linked to and support the long-term performance of the Company.

Remuneration policy

The remuneration policy of the Company promotes and embeds the Company's remuneration principles.
The Company's policy is:

Performance linked	Company performance determines a significant element of remuneration packages. Only top-end performance can achieve the stretching targets that are reflected in the performance-linked pay elements of the packages.
Shareholder aligned	The discretionary share schemes are based on EPS growth aligning the interests of shareholders and the members of the senior executive team. Bonuses are structured to reward the attainment of the strategic target of long-term sustainable, profitable growth.
Comprehensive and simple	The overall remuneration policy is comprehensive without becoming overcomplicated and encourages Executives to concentrate on growth of the group.

The Remuneration Committee believes, and is satisfied that, the remuneration policy is appropriate and takes account of the group's performance and strategic objectives.

The Committee plans to continue to use this approach and policy as a framework for the setting of future packages, whilst having due regard for the remuneration packages offered across the group and the external market.

Share ownership policy

A share ownership policy for Executive Directors was introduced in 2007 at the same time as the LTIP. Under this policy, all Executive Directors are required, over time, to build and maintain a shareholding in the Company worth 100% of base salary (150% of salary for any Executive Director who is granted an LTIP award of more than 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.

Table 1: Share ownership update

	Value of target holding as at 1 May 2010[1]	Number of Ordinary shares owned as at 31 March 2011	**Value of holding as at 31 March 2011[2]**	Percentage of target holding achieved as at 1 May 2011
R McGregor-Smith	£735,000	341,071	**£670,205**	91%
S C Baxter	£474,000	71,230	**£139,967**	30%
N R Goodman[3]	£297,000	954,542	**£1,875,675**	632%
W Robson	£306,000	1,555,835	**£3,057,216**	999%

Note:
1 On the 1 May each year, the Committee reviews the expected target holding for the Executive Directors, calculated as a percentage of salary.
2 Calculated at a share price of 196.5p being the closing market price on 31 March 2011. The share price used to calculate the target holding as at 31 March 2010 was 228.7p
3 Roger Goodman retired on 31 March 2011.

Key elements of Executive Director Remuneration

The overall package for Executive Directors consists of a fixed element (salary and certain benefits) and a variable element (annual performance-related bonus and long-term equity based incentives) and has been structured in order to align the Executive Directors' packages with the interests of shareholders. The Committee tests the remuneration structure regularly to ensure that it remains aligned with business needs and is appropriately positioned relative to the market. The balance between the fixed and variable elements of the Executive Directors' packages is set out below.

Base salary

Benchmarking is conducted by external remuneration consultants against sector and size comparators, in respect of base salary, total cash (ie salary plus bonus) and total remuneration. The Committee also takes account of a range of other factors when determining appropriate salary levels including market conditions and the responsibilities and skills of the individual Directors.

The Executive Directors received salary increases during the year that took account of the range of factors described above the continued growth and performance of the group and the performance of the individual executive directors, with due consideration of the outcomes of the benchmarking exercise.

Annual bonus

Variable remuneration is designed to drive MITIE's performance and be aligned to the group strategic objective of achieving long-term sustainable, profitable growth. The annual bonus rewards mainly short-term Company performance but also has a link to longer-term performance through partial delivery in MITIE Group PLC shares.

During 2010/11, Executive Directors had the opportunity to earn bonuses of up to 125% of salary, with any bonus earned above 100% of salary deferred into MITIE Group PLC shares for two years and forfeited should the Director leave the business during this period. As in the previous year, up to100% of salary could be earned for the achievement of group budgeted financial performance and, following an amendment by the Remuneration Committee in May 2010, the 25% additional level of bonus for 2010/11 would be assessed on a series of non-financial strategic targets. In setting the non-financial strategic targets, the Remuneration Committee had due consideration of the longer-term success of the Company and the aligning of interests with shareholders. The Remuneration Committee continue to believe that the performance targets for the annual bonus are sufficiently stretching for the maximum bonus payment.

During the year under review, MITIE achieved the financial performance target in full and 100% of base salary was paid in cash. The Remuneration Committee decided that significant overall progress had been achieved on the non-financial strategic targets and therefore awarded a further 25% of base salary, deferred into MITIE Group PLC shares for two years.

As at the date of the report, the Committee expects the annual bonus structure for 2011/12 to remain broadly unchanged.

Share-based incentives

The remuneration package reinforces long-term decision making and sustainable profitable growth through the use of share-based incentives. For Executive Directors and certain senior group executives, the principal methodologies and schemes designed to support this ethos are the Company's LTIP (as described on page 65) and the Share Ownership Policy (as described on page 62). Vesting of share awards under the LTIP are based on performance measured over three years. This period is considered appropriate to align rewards to Executive Directors with the strategic objectives of the Company. Certain Executive Directors still retain options granted under the ESOS (details of the holdings are set out in Table 4 of Section B below). It is the intention of the Committee not to issue further ESOS options to Executive Directors, although ESOS continues to be used to reward and incentivise certain other members of the senior group executive and management teams. Details of the amendments to share schemes applicable below Board level are detailed on page 65.

Remuneration report

Key elements of Executive Director Remuneration

Other standard benefits
The other benefits awarded to the Executive Directors consist of contributions to a pension scheme, private healthcare and the provision of a car allowance.

Executive Directors' service contracts

All Directors are appointed for an indeterminate period of office but are subject to annual re-election at the AGM in accordance with the New Code.

The Executive Directors' service contracts are available for inspection at MITIE's registered office, the head office and at the AGM. 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 service contracts of the Executive Directors are set out below:

Table 2: Executive Director's service contracts

	Contract term	Date of agreement	Notice period
R McGregor-Smith	Rolling contract	01-Apr-03	12 months
S C Baxter	Rolling contract	10-Apr-06	12 months
W Robson	Rolling contract	01-Apr-03	12 months

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 group through the broadening of their experience and knowledge. Ruby McGregor-Smith receives fees of £51,000 per annum in respect of her role as a Non-Executive Director of Michael Page International plc. As set out in the Directors' and Governance Report, Executive Directors are entitled to retain any fees earned from external appointments.

Non-Executive Directors

Non-Executive Directors' fees
The fee level is designed both to recognise the contribution and responsibilities of the role and to attract individuals with the 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 chairing a committee, together with expenses incurred in carrying out their duties on behalf of the Company. Non-Executive Directors are not eligible to participate in any of the Company's share schemes or the annual bonus scheme, nor do they receive pension or ancillary benefits. Further details of fees paid to Non-Executive Directors are provided in Table 1 of Section B below.

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

Table 3: Non-Executive Directors' engagement terms

	Additional duties	Date of engagement terms	Initial contract term	Notice period
R J Matthews	Chairman; Chairman of Nomination Committee	04-Dec-06	3 years	6 months
I R Stewart	Deputy Chairman	30-Mar-07	3 years	6 months
D S Jenkins	Senior Independent Director; Chairman of Audit Committee	31-Jan-06	3 years	6 months
G J Potts		01-Aug-06	3 years	6 months
T K Morgan CBE	Chairman of Remuneration Committee	01-Jul-09	3 years	3 months
L Hirst CBE		01-Feb-10	3 years	3 months

Employee share schemes

Equity-based incentive schemes
During the reporting period, the Committee has thoroughly reviewed the Company's share-based incentive schemes to ensure their continued effectiveness. The group currently operates three equity-based incentive schemes as set out below. The Board is proposing the renewal of scheme rules where indicated below and the introduction of new schemes as detailed. The interests of the Executive Directors in each of these schemes is set out in Tables 4 and 5 of Section B below.

2001 SAYE Scheme ('2001 SAYE')
The 2001 SAYE Scheme is the Company's non-discretionary option scheme open to all eligible employees and is approved for HMRC purposes. Salary deductions are made and savings are used to purchase the options at the end of the three-year period. No options have been issued to any Directors under the 2001 SAYE Scheme. An award may not be granted under the 2001 SAYE Scheme rules after September 2011, when the scheme expires.

Following a review by the Remuneration Committee, the Board continues to believe that the SAYE Scheme encourages equity participation for all employees and proposes the introduction of new SAYE Scheme rules ('2011 SAYE'), details of which can be found in the Notice of AGM. In addition to the introduction of the 2011 SAYE, the Board proposes the introduction of a new Share Incentive Plan ('2011 SIP') which allows employees to use their salary to purchase shares in the Company. Further details of the scheme are found in the Notice of AGM.

2001 Executive Share Option Scheme ('2001 ESOS')
The 2001 ESOS is a discretionary scheme and therefore not open to all employees of the group. The award of options under the 2001 ESOS is generally focused towards employees who are below main Board level and who do not participate in the LTIP. Currently, 2001 ESOS is used to retain, reward and motivate employees with continuous service of six months who are part of the leadership team of the group (includes senior managers, managers and team leaders). The scheme has been approved by HMRC and options over shares to an individual limit of £30,000 can be awarded in the approved element of the scheme. Above £30,000, options are awarded under the unapproved (for HMRC purposes) section of the scheme. Overall, awards are limited to 100% of an individual's base salary. Following changes to the scheme approved by shareholders at the 2007 AGM, the ESOS has 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% per annum. The scheme permits the grant of share appreciation rights and the settlement of outstanding unapproved options with share appreciation rights. No price is payable upon award in respect of 2001 ESOS.

As a result of the review of equity schemes by the Remuneration Committee, the Board is recommending an introduction of new ESOS rules ('2011 ESOS') which are broadly consistent with the 2001 ESOS, as detailed in the Notice of AGM. The Board feels that the scheme continues to offer incentive and motivation to those employees below main Board level and proposes to continue with awards on the basis explained above.

The share options detailed in Table 4 of Section B were granted to Executive Directors prior to 2007 under the 2001 ESOS and the performance conditions that applied at the date of grant required a percentage growth in the Company's earnings per share equal to or in excess of 10% per annum compound over the period from the date of grant of the option to the date on which the option first became exercisable. The performance conditions relating to the awards to Directors detailed below are the same as for any other member of the schemes who received awards at the same time. Since the grant to Ruby McGregor-Smith and Suzanne Baxter detailed in Table 4 of Section B, there have been no grants to Directors under the 2001 ESOS (both under the unapproved part and the HMRC-approved part), and it is the Committee's current policy that equity-based incentives for Directors will be based solely upon LTIP awards.

Long-term Incentive Plan ('LTIP')
The LTIP is a discretionary scheme and therefore not open to all employees of the group. The LTIP is focused on incentivising Executive Directors and senior management. Awards under the LTIP may be made, either through a joint-ownership structure or through direct grants, in the form of nil-cost options, conditional shares or forfeitable shares. 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 under the current LTIP after 26 July 2017, when the current scheme expires. No payment (other than in respect of any individual recipient electing to pay income tax and national insurance, where appropriate) is required for the grant of an award.

Awards are not transferable, except on death, and are not pensionable. The scheme rules, in line with standard industry practice, contain provision for pro-rata vesting in the event of retirement, redundancy, disability and/or death. In the event of a change of control of the group, awards will be pro-rated both for time and performance, subject to the discretion of the Committee.

The upper limit on the market value (as at grant) of awards that an individual Executive Director may receive in any financial year is 200% of annual base salary. In exceptional circumstances, such as recruitment, the rules currently allow for awards of up to 250% of any employee's annual base salary.

Remuneration report

The Committee continues to believe that EPS is the most appropriate long-term performance measure for MITIE as it is aligned with the group's strategy and KPIs. This performance criterion has the advantages of simplicity and transparency which the Committee believes enhance the LTIP's effectiveness as an incentive. Awards will normally vest after three years provided that certain performance criteria have been met. All awards are subject to performance conditions that require adjusted 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 a 'lower performance threshold' no awards will vest, awards vest in full when EPS growth is equal to, or more than, an 'upper performance threshold', vesting is on a straight-line basis for performance between these levels.

For LTIP awards granted in 2010, the lower performance threshold (at which 25% of an award vests) is RPI + 5% per annum and the upper performance threshold is RPI + 10% per annum. Table 5 in Section B provides details of the performance targets governing the vesting of LTIP awards granted in prior years.

As announced on 30 March 2010, the Committee approved the accelerated vesting of LTIP awards granted in 2007, in line with the plan rules. This decision was taken by the Committee after thorough and considered reflection and did not result in any additional costs to the Company. The upper performance threshold applicable to the 2007 LTIP award was assessed to have been achieved and consequently the awards granted in 2007 vested in full. On 26 July 2010 (the normal vesting date), the Committee assessed the extent to which the performance conditions applicable to the award had been satisfied, confirming that no shares were to be clawed-back and approved the transfer of legal title.

LTIP awards granted to, and exercised by, the Executive Directors are set out in Table 5 of Section B below.

Share dilution

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

LTIP awards are satisfied through the market purchase of shares held by the MITIE Group PLC Employee Benefit Trust 2007 and the MITIE Group PLC Employee Benefit Trust 2008. The potential dilution of the Company's issued share capital is set out below in respect of all outstanding awards granted under the Company's equity-based incentive schemes which are to be satisfied through the allotment of new shares.

Table 4: Share dilution at 31 March 2011

	Current total dilution
All share plan (maximum 10%)	8.1%
Discretionary share plans (maximum 5%)	4.3%

Total shareholder return

The graph below shows the total shareholder return performance of MITIE shares compared with the FTSE 250 and FTSE 350 Support Services indices over a five-year period to 31 March 2011. 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 return is calculated according to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and assumes that all dividends are reinvested.

The market price of the Company's shares as at 31 March 2011 was 196.5p. The highest and lowest prices during the year were 241.1p and 188.7p respectively.

Audited information

Section B: Information subject to audit

Directors' remuneration

Table 1 provides details of Directors' remuneration paid to or receivable by each person who served as a Director during the year.

Table 1: Directors' remuneration

	Base salary/fees £'000	Performance related bonus earned in year £'000	Performance related bonus deferred in shares £'000[1]	Salary supplement in lieu of pension contributions £'000	Contributions to pensions schemes £'000	Benefits £'000	**2011 Total £'000**	2010 Total £'000
Executive Directors								
R McGregor-Smith	490	490	123	98	12	16	**1,229**	1,157
S C Baxter	316	316	79	63	–	16	**790**	800
N R Goodman[2]	297	297	74	59	12	16	**755**	676
W Robson	306	306	77	61	12	16	**778**	676
Non-Executive Directors								
R Matthews	140	–	–	–	–	–	**140**	140
I R Stewart	40	–	–	–	–	–	**40**	40
D S Jenkins	45	–	–	–	–	–	**45**	45
G Potts	40	–	–	–	–	–	**40**	40
T K Morgan CBE[3]	45	–	–	–	–	–	**45**	34
L Hirst CBE	40	–	–	–	–	–	**40**	7
Total	1,759	1,409	352	282	36	64	**3,902**	3,615

Note:
1 Deferred into MITIE Group PLC 2.5p shares.
2 Roger Goodman retired on 31 March 2011.
3 The fees in consideration for the services of Terry Morgan CBE were paid to TKM Management Services Limited.

Pension

The pension benefits of Directors who are members of the MITIE Group PLC Defined Benefit Pension Scheme are set out in Table 2 below. The transfer values of the Directors' accrued benefits under the defined benefit pension scheme calculated in a manner consistent with retirement benefit schemes (which do not represent a sum paid or payable to the individual Director) are set out in Table 3.

Table 2: Defined benefit pension scheme benefits

	Accrued pension 31 March 2010 £'000	Increase in accrued pension during the year £'000	Real increase in accrued pension £'000	**Accrued pension 31 March 2011 £'000**
R McGregor-Smith	13	2	2	**15**
N R Goodman[1]	30	3	2	**33**
W Robson	34	3	2	**37**

Note:
1 Roger Goodman retired on 31 March 2011.

Table 3: Defined benefit pension scheme transfer values

	Transfer values 31 March 2010 £'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 2011 £'000**
R McGregor-Smith	103	0	2	14	**126**
N R Goodman[1]	549	0	2	31	**641**
W Robson	522	0	2	25	**596**

Note:
1 Roger Goodman retired on 31 March 2011.

Audited information

The benefits of the Executive Directors who are members of the MITIE Group PLC Defined Benefit Pension Scheme are based on a pensionable salary capped at £123,600. The Company made contributions to the group's defined benefit scheme on behalf of the three Directors who are members of the scheme at a rate of 10% (2010: 10%) of the value of the benefit cap of £123,600. In addition, the three directors received a salary supplement of 20% of salary (2010: 20%) in lieu of pension contributions following approval of the Remuneration Committee, in order to bring the value of their benefits in line with market practice.

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, before she joined the group. It is the intention of the Remuneration Committee that the value of the pension benefits provided to Suzanne Baxter should mirror the value of the pension benefits provided to the other Executive Directors under the capped defined benefit arrangements, albeit that her benefits are provided through a separate defined contribution arrangement. Following an assessment of the value of her defined contribution pension scheme assets as at 31 March 2010, no pension contributions were required for Suzanne Baxter for the year ended 31 March 2011 (2010: 13.5% of base salary). In addition, Suzanne Baxter received a salary supplement of 20% of base salary (2010: 20%) in lieu of pension contributions following approval of the Remuneration Committee, in order to bring the value of her benefits in line with market practice.

Share ownership

In accordance with the Register of Directors' interests, the rights of the Directors to subscribe for and their holdings of shares in MITIE Group PLC are as set out in Tables 4, 5 and 6.

Table 4: Directors' interests in options granted under the MITIE Group PLC 2001 Executive Share Option Scheme

	ESOS options outstanding at 1 April 2010	Granted during the year	Lapsed during the year	Exercised during the year	**ESOS options outstanding at 31 March 2011[1]**	Exercise price p	Exercisable between	
R McGregor-Smith								
Unapproved scheme	100,000	–	–	–	**100,000**	162	06/08	06/15
Unapproved scheme	100,000	–	–	–	**100,000**	191	06/09	06/16
S C Baxter								
Unapproved scheme	35,000	–	–	–	**35,000**	191	06/09	06/16
Approved scheme	15,000	–	–	–	**15,000**	191	06/09	06/16

1 The market price of the Company's shares as at 31 March 2011 was 196.5p. The highest and lowest prices during the year were 241.1p and 188.7p respectively.

Table 5: Directors' interests in nil-cost options granted under the MITIE Group PLC 2007 Long Term Incentive Plan

	Year of grant[1]	LTIP options outstanding at 1 April 2010	Granted during the year at 223.24p/share	Lapsed during the year	Exercised during the year[2]	**LTIP options outstanding at 31 March 2011[3]**	Exercise price p	Exercisable between	
R McGregor-Smith	2007	145,440	–	–	145,440	–	Nil-cost	03/10	03/11
	2008	409,894	–	–	–	409,894	Nil-cost	06/11	06/12
	2009	430,338	–	–	–	430,338	Nil-cost	06/12	06/13
	2010	–	438,989	–	–	438,989	Nil-cost	06/13	06/14
S C Baxter	2007	102,201	–	–	102,201	–	Nil-cost	03/10	03/11
	2008	273,262	–	–	–	273,262	Nil-cost	06/11	06/12
	2009	282,847	–	–	–	282,847	Nil-cost	06/12	06/13
	2010	–	283,103	–	–	283,103	Nil-cost	06/13	06/14
N R Goodman[4]	2007	94,340	–	–	94,340	–	Nil-cost	03/10	03/11
	2008	129,564	–	–	–	129,564	Nil-cost	06/11	06/12
	2009	134,422	–	–	–	134,422	Nil-cost	06/12	06/13
	2010	–	133,041	–	–	133,041	Nil-cost	06/13	06/14
W Robson	2007	94,340	–	–	94,340	–	Nil-cost	03/10	03/11
	2008	129,564	–	–	–	129,564	Nil-cost	06/11	06/12
	2009	134,422	–	–	–	134,422	Nil-cost	06/12	06/13
	2010	–	137,072	–	–	137,072	Nil-cost	06/13	06/14

Note:
1 The performance criteria applicable to the 2007 and 2008 awards are lower and upper performance thresholds of RPI+5% p.a. and RPI+14% p.a. respectively. The performance criteria applicable to the 2009 and 2010 award are lower and upper performance thresholds of RPI+5% p.a. and RPI+10% p.a. respectively.
2 The options granted in 2007 were approved to vest and were exercised on 30 March 2010. The Committee assessed the extent to which the performance conditions applicable to the award and confirmed that these had been satisfied on the normal vesting date of 26 July 2010. The market price on exercise was 223.9p.
3 The market price of the Company's shares as at 31 March 2011 was 196.5p. The highest and lowest prices during the year were 241.1p and 188.7p respectively. The Directors acquired a conditional joint beneficial interest with the MITIE Employee Benefit Trust 2008 in the shares awarded under the LTIP in 2008, 2009 and 2010. The full beneficial interest will transfer to the Director only if the performance criteria applicable to the award are met.
4 Roger Goodman retired on 31 March 2011.

Table 6: Director share ownership

	Number of Ordinary MITIE shares beneficially owned as at 31 March 2011[1]	Number of Ordinary MITIE shares beneficially owned as at 1 April 2010 (or date of appointment if later)
Executive Directors		
R McGregor-Smith	**341,071**	399,376
S C Baxter	**71,230**	112,201
N R Goodman[2]	**954,542**	993,761
W Robson	**1,555,835**	1,595,053
Non-Executive Directors		
R Matthews	**100,000**	100,000
I R Stewart	**2,020,000**	2,020,000
D S Jenkins	**50,000**	50,000
G Potts	**15,000**	15,000
T K Morgan CBE	**Nil**	Nil
L Hirst CBE	**25,000**	Nil

Note:
1 A proportion of the shares were sold on 8 June 2010 to settle tax liabilities arising from the accelerated vesting of the 2007 LTIP award.
2 Roger Goodman retired on 31 March 2011.

Table 7: Directors' interests in MITIE subsidiary companies (under the MITIE Model)

		Number of shares 31 March 2011	Number of shares 1 April 2010
R McGregor-Smith			
MITIE Transport Services Ltd	C Ordinary shares of £1 each	**900**	900

Table 7 above details the beneficial interests of the Directors (who were in office on 31 March 2011) in the share capital of certain of the Company's subsidiary companies. The interests of Directors in these subsidiary companies were acquired under the MITIE Model, further details of which are given in the Directors' report on page 57. No such interests have been acquired by Directors since 2004 and it is the Company's policy that Directors will not be entitled to participate in any MITIE Model investments in the future.

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

Terry Morgan CBE
Chairman Remuneration Committee

Independent auditors' report to the members of MITIE Group PLC

For the year ended 31 March 2011

We have audited the Group financial statements of MITIE Group PLC for the year ended 31 March 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

– give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its profit for the year then ended;

– have been properly prepared in accordance with IFRSs as adopted by the European Union; and

– have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

– certain disclosures of Directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

– the Directors' statement contained within the Directors' report: Corporate governance statement in relation to going concern;

– the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and

– certain elements of the report to shareholders by the Board on directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of MITIE Group PLC for the year ended 31 March 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ian Krieger (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom
23 May 2011

Consolidated income statement

For the year ended 31 March 2011

	Notes	2011 Before other items* £m	2011 Other items* £m	2011 Total £m	2010 Before other items* £m	2010 Other items* £m	2010 Total £m
Continuing operations							
Revenue	3,4	**1,891.4**	**–**	**1,891.4**	1,720.1	–	1,720.1
Cost of sales		**(1,593.5)**	**–**	**(1,593.5)**	(1,444.0)	–	(1,444.0)
Gross profit		**297.9**	**–**	**297.9**	276.1	–	276.1
Administrative expenses		**(189.6)**	**(18.8)**	**(208.4)**	(183.1)	(11.9)	(195.0)
Operating profit	4,6	**108.3**	**(18.8)**	**89.5**	93.0	(11.9)	81.1
Investment revenue	8	**0.4**	**–**	**0.4**	1.8	–	1.8
Finance costs	9	**(3.0)**	**(0.1)**	**(3.1)**	(3.1)	(0.1)	(3.2)
Net finance costs		**(2.6)**	**(0.1)**	**(2.7)**	(1.3)	(0.1)	(1.4)
Profit before tax		**105.7**	**(18.9)**	**86.8**	91.7	(12.0)	79.7
Tax	10	**(26.4)**	**5.0**	**(21.4)**	(25.3)	3.1	(22.2)
Profit for the year		**79.3**	**(13.9)**	**65.4**	66.4	(8.9)	57.5
Attributable to:							
Equity holders of the parent		**79.1**	**(13.9)**	**65.2**	66.0	(8.9)	57.1
Non-controlling interests		**0.2**	**–**	**0.2**	0.4	–	0.4
		79.3	**(13.9)**	**65.4**	66.4	(8.9)	57.5
Earnings per share (EPS)							
– basic	12	**22.6p**	**(4.0)p**	**18.6p**	19.5p	(2.6)p	16.9p
– diluted	12	**22.2p**	**(3.9)p**	**18.3p**	19.2p	(2.6)p	16.6p

* Other items are analysed in Note 5.

Consolidated statement of comprehensive income

For the year ended 31 March 2011

	Notes	2011 £m	2010 £m
Profit for the year		**65.4**	57.5
Other comprehensive income/(expense):			
Actuarial losses on defined benefit pension schemes	35	**(1.1)**	(13.1)
Exchange differences on translation of foreign operations		**0.5**	–
Losses on a hedge of a net investment taken to equity		**(0.4)**	–
Cash flow hedges:			
Losses arising during the year		**(1.4)**	–
Reclassification adjustment for gains included in profit and loss		**0.9**	–
Tax (charge)/credit on items taken directly to equity		**(0.1)**	4.2
Other comprehensive expense for the year, net of tax		**(1.6)**	(8.9)
Total comprehensive income for the financial year		**63.8**	48.6
Attributable to:			
Equity holders of the parent		**63.6**	48.2
Non-controlling interests		**0.2**	0.4

Consolidated balance sheet

At 31 March 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Goodwill	13	**333.0**	324.0
Other intangible assets	14	**64.7**	67.4
Property, plant and equipment	15	**59.3**	54.5
Trade and other receivables	18	**11.6**	–
Deferred tax assets	21	**9.1**	14.1
Total non-current assets		**477.7**	460.0
Current assets			
Inventories	16	**5.5**	3.9
Trade and other receivables	18	**470.1**	405.6
Cash and cash equivalents	20	**130.6**	23.7
Total current assets		**606.2**	433.2
Total assets		**1,083.9**	893.2
Current liabilities			
Trade and other payables	23	**(432.9)**	(359.3)
Current tax liabilities		**(16.6)**	(15.0)
Financing liabilities	24	**(2.6)**	(4.6)
Provisions	28	**(4.5)**	(9.9)
Total current liabilities		**(456.6)**	(388.8)
Net current assets		**149.6**	44.4
Non-current liabilities			
Financing liabilities	24	**(204.8)**	(106.2)
Provisions	28	**(8.2)**	(11.2)
Retirement benefit obligation	35	**(3.0)**	(10.5)
Deferred tax liabilities	21	**(13.3)**	(13.1)
Total non-current liabilities		**(229.3)**	(141.0)
Total liabilities		**(685.9)**	(529.8)
Net assets		**398.0**	363.4

Consolidated balance sheet

At 31 March 2011

	Notes	2011 £m	2010 £m
Equity			
Share capital	29	**8.9**	8.8
Share premium account	30	**80.6**	76.7
Merger reserve	30	**85.1**	80.3
Share-based payments reserve	30	**7.5**	5.4
Own shares reserve	30	**(13.8)**	(8.1)
Other reserves	30	**0.2**	0.2
Hedging and translation reserve	30	**(0.4)**	–
Retained earnings		**223.8**	192.3
Equity attributable to equity holders of the parent		**391.9**	355.6
Non-controlling interests		**6.1**	7.8
Total equity		**398.0**	363.4

The financial statements were approved by the Board of Directors and authorised for issue on 23 May 2011. They were signed on its behalf by:

Ruby McGregor-Smith
Chief Executive

Suzanne Baxter
Group Finance Director

Consolidated statement of changes in equity

For the year ended 31 March 2011

	Share capital £m	Share premium account £m	Merger reserve £m	Share-based payments reserve £m	Own shares reserve £m	Other reserves £m	Hedging and translation reserve £m	Retained earnings £m	**Attributable to equity holders of the parent £m**	Non-controlling interests £m	**Total £m**
At 1 April 2009	8.1	24.4	67.2	4.4	(5.2)	0.2	–	167.4	**266.5**	10.1	**276.6**
Total comprehensive income	–	–	–	–	–	–	–	48.2	**48.2**	0.4	**48.6**
Shares issued	0.7	52.3	13.1	–	–	–	–	–	**66.1**	–	**66.1**
Dividends paid	–	–	–	–	–	–	–	(24.7)	**(24.7)**	(0.2)	**(24.9)**
Purchase of own shares	–	–	–	–	(4.5)	–	–	–	**(4.5)**	–	**(4.5)**
Share-based payments	–	–	–	1.0	1.6	–	–	1.4	**4.0**	–	**4.0**
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	–	–	**–**	(2.5)	**(2.5)**
At 31 March 2010	8.8	76.7	80.3	5.4	(8.1)	0.2	–	192.3	**355.6**	7.8	**363.4**
Total comprehensive income	–	–	–	–	–	–	(0.4)	64.0	**63.6**	0.2	**63.8**
Shares issued	0.1	3.9	4.8	–	–	–	–	–	**8.8**	–	**8.8**
Dividends paid	–	–	–	–	–	–	–	(28.9)	**(28.9)**	(0.2)	**(29.1)**
Purchase of own shares	–	–	–	–	(5.7)	–	–	–	**(5.7)**	–	**(5.7)**
Share-based payments	–	–	–	2.1	–	–	–	1.2	**3.3**	–	**3.3**
Acquisitions and other movements in non-controlling interests	–	–	–	–	–	–	–	(4.8)	**(4.8)**	(1.7)	**(6.5)**
At 31 March 2011	**8.9**	**80.6**	**85.1**	**7.5**	**(13.8)**	**0.2**	**(0.4)**	**223.8**	**391.9**	**6.1**	**398.0**

Consolidated statement of cash flows

For the year ended 31 March 2011

	Notes	2011 £m	2010 £m
Operating profit		**89.5**	81.1
Adjustments for:			
Share-based payment expense	34	**3.3**	4.0
Pension charge	35	**3.5**	3.8
Amendment to defined benefit pension scheme past service cost	35	**(4.1)**	–
Pension contributions	35	**(7.9)**	(6.3)
Depreciation of property, plant and equipment	15	**17.9**	16.4
Amortisation of intangible assets	14	**10.8**	5.9
Gain on disposal of property, plant and equipment		**(0.1)**	(0.4)
Operating cash flows before movements in working capital		**112.9**	104.5
(Increase)/decrease in inventories		**(1.6)**	0.2
Increase in receivables		**(70.8)**	(41.4)
Increase in payables		**62.0**	36.3
Decrease in provisions		**–**	(1.2)
Cash generated by operations		**102.5**	98.4
Income taxes paid		**(14.3)**	(22.2)
Interest paid		**(2.5)**	(3.4)
Additional pension contribution	35	**–**	(0.5)
Net cash from operating activities		**85.7**	72.3
Investing activities			
Interest received		**0.2**	1.9
Purchase of property, plant and equipment		**(21.0)**	(21.7)
Purchase of subsidiary undertakings, net of cash acquired	31	**(11.8)**	(157.9)
Purchase of other intangible assets	14	**(5.0)**	(5.8)
Disposals of property, plant and equipment		**3.0**	3.1
Net cash outflow from investing activities		**(34.6)**	(180.4)
Financing activities			
Repayments of obligations under finance leases		**(3.2)**	(2.2)
Proceeds on issue of share capital		**2.7**	3.1
Proceeds from share placing		**–**	41.8
Repayments of loan notes on purchase of subsidiary undertakings		**(5.8)**	–
Bank loans (repaid)/raised		**(3.7)**	90.0
Private placement notes raised		**100.2**	–
Purchase of own shares	30	**(5.7)**	(4.5)
Equity dividends paid	11	**(28.9)**	(24.7)
Non-controlling interests dividends paid		**(0.2)**	(0.2)
Net cash inflow from financing		**55.4**	103.3
Net increase/(decrease) in cash and cash equivalents		**106.5**	(4.8)
Net cash and cash equivalents at beginning of the year		**23.7**	28.5
Effect of foreign exchange rate changes		**0.4**	–
Net cash and cash equivalents at end of the year		**130.6**	23.7
Net cash and cash equivalents comprise:			
Cash at bank		**130.6**	23.7
		130.6	23.7

Consolidated statement of cash flows

For the year ended 31 March 2011

Reconciliation of net cash flow to movements in net (debt)/funds	Notes	2011 £m	2010 £m
Net increase/(decrease) in cash and cash equivalents		**106.5**	(4.8)
Effect of foreign exchange rate changes		**0.4**	–
Bank loans repaid/(raised)		**3.2**	(90.0)
Private placement notes raised		**(100.2)**	–
Non-cash movement in private placement notes and associated hedges		**(0.3)**	–
Repayments of loan notes on purchase of subsidiary undertakings		**5.8**	–
Issue of loan notes on purchase of subsidiary undertakings		**(3.9)**	–
Increase in finance leases		**(1.4)**	(2.7)
Decrease/(increase) in net debt during the year		**10.1**	(97.5)
Opening net (debt)/funds		**(86.6)**	10.9
Closing net debt	27	**(76.5)**	(86.6)

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 2011 are prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation.

As more fully detailed in the Directors' report: Corporate Governance statement, the group's financial statements have been prepared on a going concern basis.

The group's financial statements have been prepared on the historical cost basis, except for certain financial instruments which are required to be measured at fair value.

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the group's annual financial statements for the year ended 31 March 2010 except for the adoption in the year of:

- IFRS 3 'Business Combinations' (revised 2008); adoption of this revised standard has resulted in changes to the initial recognition and subsequent measurement of deferred contingent consideration. The standard also requires all acquisition related costs to be recognised as period expenses in accordance with the relevant IFRS. The revised standard applies to all of the group's business combinations that occurred on or after 1 April 2010. Adoption of this revised standard has resulted in a reduction in profit before tax of £0.3m and a reduction in net assets of £0.2m; and
- IAS 27 'Consolidated and Separate Financial Statements' (revised 2008); changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent. Adoption of this revised standard had no impact on profit before tax but resulted in a reduction in net assets of £4.8m.

The following amendments and interpretations are also effective for the first time in the current year but have had no impact on the results or financial position of the group:

- IFRIC 17 'Distributions of Non-cash Assets to Owners';
- Amendments to IFRS 2 'Group Cash-settled Share-based Payment Transactions';
- IAS 28 'Investments in Associates' – consequential amendments arising from amendments to IFRS 3;
- IAS 31 'Interests in Joint Ventures' – consequential amendments arising from amendments to IFRS 3;
- Amendments to IAS 32 'Financial Instruments: Presentation' – classification of rights issues;
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' – eligible hedged items; and
- Amendments resulting from April 2009 Annual Improvements to IFRSs.

The following standards and interpretations have been issued but are not yet effective (and in some cases have not yet been adopted by the EU):

- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement';
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments';
- Amendments to IFRS 7 'Financial Instruments: Disclosures' – transfers of financial assets;
- IFRS 9 'Financial Instruments';
- Amendments to IAS 12 'Income Taxes' – recovery of underlying assets;
- IAS 24 (Revised) 'Related Party Disclosures';
- IAS 27 (Revised) 'Separate Financial Statements';
- IAS 28 (Revised) 'Investments in Associates and Joint Ventures';
- IFRS 10 'Consolidated Financial Statements';
- IFRS 11 'Joint Arrangements';
- IFRS 12 'Disclosures of Interests in Other Entities';
- IFRS 13 'Fair Value Measurement'; and
- Amendments resulting from May 2010 Annual Improvements to IFRSs.

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.

1. Basis of preparation and significant accounting policies

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 (with the exception of the acquired Dalkia companies). 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 inter-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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

Interests of non-controlling interest shareholders are measured at the non-controlling interest's proportion of the net fair value of the assets and liabilities recognised. Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Business combinations

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

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

Where applicable, the consideration for an acquisition includes any assets or liabilities resulting from a contingent consideration arrangement, measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they result from additional information, obtained within one year from the acquisition date, about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in accordance with IAS 39, either in profit or loss or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognised.

Any business combinations prior to 1 April 2010 were accounted for using the standards in place prior to the adoption of IFRS 3 (revised 2008) which differ in the following respects; transaction costs directly attributable to the acquisition formed part of the acquisition costs; contingent consideration was recognised if, and only if, the group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable; and subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

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

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units 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 the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the consolidated financial statements

1. Basis of preparation and significant accounting policies

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 identified in a business acquisition are capitalised at fair value as at the date of acquisition.

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

Following initial recognition, the carrying amount of an intangible asset is its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are reviewed for impairment annually, or more frequently when there is an indication that they may be impaired. Amortisation expense is charged to administrative expenses in the income statement on a straight-line basis over its useful life.

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 income recognised in respect of services provided during the period (stated net of value added tax) and is earned predominantly within the United Kingdom.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance sheet date. Revenue from time and material contracts is recognised at the contractual rates as labour hours and tasks are delivered and direct expenses incurred. In other cases, where services provided reflect a contractual arrangement to deliver an indeterminate number of acts over the contract term, revenue is recognised on a straight-line basis unless this is not an accurate reflection of the work performed. Where a straight-line basis is not appropriate, for example if specific works on contracts represent a significant element of the whole, revenue is recognised based on the percentage of completion method, based on the proportion of costs incurred at the balance sheet date relative to the total estimated cost of completing the contracted work.

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.

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

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

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 on a straight-line basis over the non-cancellable period for which the group has contracted to lease the asset, together with any further terms for which the group has the option to continue to lease the asset if, at the inception of the lease, it is judged to be reasonably certain that the group will exercise the option.

1. Basis of preparation and significant accounting policies

Foreign currency

The financial statements of each of the group's businesses are prepared in the functional currency applicable to that business. Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

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

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

On consolidation, the assets and liabilities of the group's overseas operations, including goodwill and fair value adjustments arising on their acquisition, are translated into sterling at exchange rates prevailing at the balance sheet date. Income and expenses are translated into sterling at average exchange rates for the period. Exchange differences arising are recognised directly in equity in the group's hedging and translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

Retirement benefit costs

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

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

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

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

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, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the consolidated financial statements

1. Basis of preparation and significant accounting policies

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 less expected residual value of the assets over their estimated useful lives and is calculated on a straight-line basis as follows:

Freehold buildings and long leasehold property	– 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 (or 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 (or 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 (or 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.

Financial assets comprise loans and receivables and are measured at initial recognition at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised where there is objective evidence that the asset is impaired. Cash and cash equivalents comprise cash in hand 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.

Financial liabilities comprise certain trade and other payables and financing liabilities including bank and other borrowings and are measured at initial recognition at fair value and subsequently at amortised cost with the exception of derivative financial instruments which are either classified as fair value through profit and loss or may be accounted for using hedge accounting. Bank and other borrowings are stated at the amount of the net proceeds after deduction of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement 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.

1. Basis of preparation and significant accounting policies

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

Derivative financial instruments and hedge accounting

The group uses derivative financial instruments including cross currency interest rate swaps and forward foreign exchange contracts to manage the group's exposure to financial risks associated with interest rates and foreign exchange. Derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value, determined by reference to market rates, at each balance sheet date and included as financial assets or liabilities as appropriate. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The group may designate certain hedging instruments including derivatives as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

Hedges are classified as fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. Hedge accounting is discontinued when the group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

Hedges are classified as cash flow hedges when they hedge the exposure to changes in cash flows that are attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity within the group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges are classified as net investment hedges when they hedge the foreign currency exposure to changes in the group's share in the net assets of a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the group's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss. Gains or losses on the hedging instrument relating to the effective portion of the hedge accumulated in equity are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation as described above.

Notes to the consolidated financial statements

1. Basis of preparation and significant accounting policies

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.

Bid, mobilisation and pre-contract costs

Rendering of services

All bid costs are expensed through the income statement up to the point where contract award or full recovery of the costs is virtually certain.

The confirmation of the preferred bidder for a contract by a client is the point at which the award of a contract is considered to be virtually certain. Costs incurred after that point, but before the commencement of services under the contract, are defined as mobilisation costs. These costs are capitalised and included within trade and other receivables on the balance sheet provided that the costs relate directly to the contract, are separately identifiable, can be measured reliably and that the future net cash inflows from the contract are estimated to be no less than the amounts capitalised.

The capitalised mobilisation costs are amortised over the life of the contract, generally on a straight-line basis, or on a basis to reflect the profile of work to be performed over the life of the contract if the straight-line basis is not considered to be appropriate for the specific contract to which the costs relate. If the contract becomes loss making, any unamortised costs are written off immediately.

Construction contracts

In the case of construction contracts, pre-contract costs that are direct costs associated with securing a contract and which can be separately identified and measured reliably are included in the cost of the contract when the realisation of income from the contract is virtually certain. Their treatment is as for mobilisation costs above.

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. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

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.

Key sources of estimation uncertainty

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

Measurement and impairment of intangible assets

The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of suitable discount rates. Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which the 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 appropriate discount rates to use in order to calculate present values. The carrying value of goodwill and other intangible assets is £397.7m (2010: £391.4m) at the balance sheet date; see Notes 13 and 14. Management do not consider that any reasonably foreseeable change in the key assumptions would result in an impairment.

2. Critical accounting judgements and key sources of estimation uncertainty

Measurement of provisions and defined benefit pension obligations

The group's provisions (per Note 28) comprise deferred contingent consideration and insurance reserve. The measurement of provisions and defined benefit obligations requires judgement. In particular, the calculation of defined 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 defined benefit obligations at the balance sheet date is £126.8m (2010: £180.1m); see Note 35.

The sensitivity of defined benefit pension obligations to changes in principal actuarial assumptions is shown below:

	Change in assumption	Increase/ (decrease) in liability £m
Discount rate	+0.5%	(10.8)
	–0.5%	14.6
Retail Price Inflation	+0.5%	4.4
	–0.5%	(3.8)
Consumer Price Inflation	+0.5%	1.9
	–0.5%	(1.9)
Mortality rate	+1 year	3.8

3. Revenue

	2011 £m	2010 £m
Rendering of services	**1,654.5**	1,464.4
Construction contracts	**236.9**	255.7
Total	**1,891.4**	1,720.1

4. Business and geographical segments

Business 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.

The financial data below reflects the performance of our four divisions in the organisational structures that applied during the year. On 1 April 2010, the acquired Dalkia FM business and our Engineering Maintenance business, which were previously in the Asset Management division, were restructured to bring together our technical facilities management proposition within a new operating division branded Technical Facilities Management. Furthermore, the Engineering Contracting offering of our Asset Management division was combined with our Property Management business to consolidate its proposition. The acquired Dalkia FM in Ireland business was incorporated into Facilities Management with effect from 25 June 2010.

The comparative data below in respect of the year ending 31 March 2010 has been adjusted to reflect the reorganisation. Revenue and operating profit before other items for the year ending 31 March 2010 for Dalkia FM and Engineering Maintenance of £344.8m and £15.5m respectively have been excluded from the comparative data below for Asset Management and included within the comparative period disclosures for Technical Facilities Management. In addition, revenue and operating profit before other items for the year ending 31 March 2010 for Engineering Contracting of £201.2m and £4.9m have been excluded from the comparative data below for Asset Management and included within the comparative period disclosures for Property Management.

Notes to the consolidated financial statements

4. Business and geographical segments

	2011				2010[2]			
	Revenue £m	Operating profit before other items[1] £m	Margin %	Profit before tax £m	Revenue £m	Operating profit before other items[1] £m	Margin %	Profit before tax £m
Facilities Management	**882.2**	**56.2**	**6.4**	**52.6**	824.6	50.5	6.1	48.8
Technical Facilities Management	**437.1**	**24.6**	**5.6**	**15.5**	344.8	15.5	4.5	6.3
Property Management	**509.7**	**21.4**	**4.2**	**13.0**	496.2	25.1	5.1	23.0
Asset Management	**62.4**	**2.0**	**3.2**	**1.6**	54.5	1.9	3.5	1.6
Amendment to defined benefit pension scheme past service cost (Note 35)	**–**	**4.1**	**–**	**4.1**	–	–	–	–
Total	**1,891.4**	**108.3**	**5.7**	**86.8**	1,720.1	93.0	5.4	79.7

1 Other items are analysed in Note 5.
2 Re-presented in the structure which applied during the year.

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

No single customer accounted for more than 10% of external revenue in 2011 or 2010.

In the year ending 31 March 2010 the group early adopted the Improvement to IFRS 8 issued in April 2009 which clarified that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker and consequently no segment assets are disclosed.

Geographical segments

	2011				2010			
	Revenue £m	Operating profit before other items* £m	Margin %	Profit before tax £m	Revenue £m	Operating profit before other items* £m	Margin %	Profit before tax £m
United Kingdom	**1,866.4**	**107.3**	**5.7**	**86.1**	1,716.2	93.0	5.4	79.7
Other countries	**25.0**	**1.0**	**4.0**	**0.7**	3.9	–	–	–
Total	**1,891.4**	**108.3**	**5.7**	**86.8**	1,720.1	93.0	5.4	79.7

* Other items are analysed in Note 5.

5. Other items

The group separately identified and disclosed restructuring and acquisition related items (termed ‘other items’).

	2011 £m	2010 £m
Administrative expenses		
Restructuring costs relating to integration of Dalkia FM, EPS Ltd and Dalkia FM in Ireland	**4.8**	6.6
Restructuring costs of Property Management businesses	**4.8**	–
Acquisition costs	**0.3**	–
Amortisation of acquisition related intangibles	**8.9**	5.3
	18.8	11.9
Finance costs		
Unwinding of discount on deferred contingent consideration	**0.1**	0.1
Other items before tax	**18.9**	12.0
Tax on other items	**(5.0)**	(3.1)
Other items net of tax	**13.9**	8.9

6. Operating profit

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

	2011 £m	2010 £m
Depreciation of property, plant and equipment (Note 15)	**17.9**	16.4
Amortisation of intangible assets (Note 14)	**10.8**	5.9
Gain on disposal of property, plant and equipment	**(0.1)**	(0.4)
Staff costs (Note 7)	**922.5**	878.6

A detailed analysis of auditors' remuneration is provided below:

	2011 £'000	2010 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**50**	50
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation	**625**	550
Other audit related services to the group	**10**	–
Total audit fees	**685**	600
Tax services	**142**	47
Other services	**261**	28
Non-audit fees	**403**	75
Total	**1,088**	675

In addition to the amounts shown above the auditors received fees of £19,000 (2010: £16,000) for the audit of the group pension scheme and trusts, and £nil (2010: £97,000) of fees were incurred in relation to acquisitions. Including these amounts, total non-audit fees payable to the Company's auditors were 57% (2010: 31%) of the year's total audit fees.

7. Staff costs

Number of people	2011	2010*
The average number of people employed during the financial year was:		
Facilities Management	**50,130**	46,239
Technical Facilities Management	**4,682**	3,462
Property Management	**3,877**	3,734
Asset Management	**171**	196
Total group	**58,860**	53,631

* Re-presented in the structure which applied during the year, see Note 4.

The number of people employed at 31 March was:

	2011	2010
Total group	**61,906**	56,579

Their aggregate remuneration comprised:	2011 £m	2010 £m
Wages and salaries	**842.8**	797.7
Social security costs	**69.0**	65.9
Other pension costs	**7.4**	11.0
Share-based payments (Note 34)	**3.3**	4.0
	922.5	878.6

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.

Notes to the consolidated financial statements

8. Investment revenue

	2011 £m	2010 £m
Interest on bank deposits	**0.2**	1.6
Other interest receivable	**0.2**	0.1
Fair value movement on derivative financial instruments	**–**	0.1
	0.4	1.8

9. Finance costs

	2011 £m	2010 £m
Interest on bank and other borrowings	**3.1**	3.0
Interest on obligations under finance leases	**0.3**	0.3
Loss arising on derivatives in a designated fair value hedge	**2.7**	–
Gain arising on adjustment for the hedged item in a designated fair value hedge	**(2.9)**	–
Fair value movement on other derivative financial instruments	**0.1**	–
Unwinding of discount on deferred contingent consideration	**0.1**	0.1
Total interest expense	**3.4**	3.4
Less: amounts included in the cost of qualifying assets	**(0.3)**	(0.2)
	3.1	3.2

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying an average capitalisation rate of 1.4% (2010: 0.9%) to expenditure on such assets.

10. Tax

	2011 £m	2010 £m
Current tax	**15.7**	23.8
Deferred tax (Note 21)	**5.7**	(1.6)
	21.4	22.2

Corporation tax is calculated at 28.0% (2010: 28.0%) 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:

	2011 £m	2010 £m
Profit before tax	**86.8**	79.7
Tax at the UK corporation tax rate of 28.0% (2010: 28.0%)	**24.3**	22.3
Expenses not deductible for tax purposes	**0.8**	0.2
Impact of changes in statutory tax rates	**(0.5)**	–
Tax losses not recognised/previously unrecognised	**–**	(0.2)
Prior year adjustments	**(3.2)**	(0.1)
Tax charge for the year	**21.4**	22.2

In addition to the amount charged to the consolidated income statement, tax relating to retirement benefit costs, share-based payments and hedged items amounting to £0.1m has been charged directly to equity (2010: credit of £4.2m).

11. Dividends

	2011 £m	2010 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2010 of 4.1p (2009: 3.6p) per share	**14.5**	11.6
Interim dividend for the year ended 31 March 2011 of 4.1p (2010: 3.7p) per share	**14.4**	13.1
	28.9	24.7
Proposed final dividend for the year ended 31 March 2011 of 4.9p (2010: 4.1p) per share	**17.5**	14.5

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

12. Earnings per share

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

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

	2011 £m	2010 £m
Net profit attributable to equity holders of the parent before other items*	**79.1**	66.0
Other items net of tax*	**(13.9)**	(8.9)
Net profit attributable to equity holders of the parent	**65.2**	57.1

* Other items are analysed in Note 5.

Number of shares	2011 million	2010 million
Weighted average number of Ordinary shares for the purpose of basic EPS	**350.5**	338.4
Effect of dilutive potential Ordinary shares: share options	**6.4**	6.0
Weighted average number of Ordinary shares for the purpose of diluted EPS	**356.9**	344.4

	2011 p	2010 p
Basic earnings per share – before other items	**22.6**	19.5
Basic earnings per share	**18.6**	16.9
Diluted earnings per share – before other items	**22.2**	19.2
Diluted earnings per share	**18.3**	16.6

The weighted average number of Ordinary shares in issue during the year excludes those accounted for in the Own shares reserve (see Note 30).

Following the acquisition of Dalkia FM in 2009, 19.0m new Ordinary shares of 2.5p each were placed on 12 August 2009 with certain institutional and other qualified investors.

Notes to the consolidated financial statements

13. Goodwill

	£m
Cost	
At 1 April 2009	201.2
Acquisition of subsidiaries	103.6
Acquisition of non-controlling interests	18.7
Change in deferred contingent consideration for subsidiaries acquired in prior years	0.5
At 1 April 2010	324.0
Acquisition of subsidiaries	11.6
Impact of foreign exchange	0.4
Change in deferred contingent consideration for subsidiaries acquired in prior years	(3.0)
At 31 March 2011	**333.0**
Accumulated impairment losses	
At 1 April 2009	–
At 1 April 2010	–
At 31 March 2011	**–**
Carrying amount	
At 31 March 2011	**333.0**
At 31 March 2010	324.0

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, which align with the business segments, as this is how goodwill is monitored by the group internally.

Cost	2011 £m	2010* £m
Facilities Management	**160.0**	151.3
Technical Facilities Management	**82.7**	81.7
Property Management	**85.8**	86.5
Asset Management	**4.5**	4.5
	333.0	324.0

* Re-presented in the structure which applied during the year, see Note 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 the Board for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 2% (2010: 2%) per annum. This rate does not exceed the average long-term growth rate for the relevant markets.

13. Goodwill

The rates used to discount the forecast cash flows from CGUs, which are based on the Company's Weighted Average Cost of Capital, are shown below. The same rate is applied to all CGUs, reflecting that all CGUs have the same access to the group's treasury functions and borrowing lines to fund their operations and that no CGU demonstrates levels of risk that are significantly different from those experienced by the group as a whole.

	2011 %	2010 %
Facilities Management	**8.0**	9.4
Technical Facilities Management	**8.0**	9.4
Property Management	**8.0**	9.4
Asset Management	**8.0**	9.4

No reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill of any of the CGUs.

14. Other intangible assets

	Acquisition related				
	Customer relationships £m	Other £m	**Total acquisition related £m**	Software and development expenditure £m	**Total £m**
Cost					
At 1 April 2009	14.0	–	**14.0**	16.1	**30.1**
Additions	34.2	8.9	**43.1**	5.8	**48.9**
At 1 April 2010	48.2	8.9	**57.1**	21.9	**79.0**
Additions	2.4	0.6	**3.0**	5.0	**8.0**
Impact of foreign exchange	0.1	–	**0.1**	–	**0.1**
At 31 March 2011	50.7	9.5	**60.2**	26.9	**87.1**
Amortisation					
At 1 April 2009	5.6	–	**5.6**	0.1	**5.7**
Charge for the year	4.3	1.0	**5.3**	0.6	**5.9**
At 1 April 2010	9.9	1.0	**10.9**	0.7	**11.6**
Charge for the year	6.6	2.3	**8.9**	1.9	**10.8**
At 31 March 2011	16.5	3.3	**19.8**	2.6	**22.4**
Carrying amount					
At 31 March 2011	34.2	6.2	**40.4**	24.3	**64.7**
At 31 March 2010	38.3	7.9	**46.2**	21.2	**67.4**

Customer relationships are amortised over their useful lives based on the period of time over which they are anticipated to generate benefits. These currently range from six to eight years. Other acquisition related intangibles include acquired software, trade names and non-compete agreements and are amortised over their useful lives which currently range from three to ten years. Software and development costs are amortised over their useful life of between five and ten years, once they have been brought into use.

Notes to the consolidated financial statements

15. Property, plant and equipment

	Freehold properties £m	Leasehold properties £m	Plant and vehicles £m	**Total £m**
Cost				
At 1 April 2009	5.1	7.5	65.4	**78.0**
Additions	–	1.0	25.6	**26.6**
Acquired with subsidiaries	–	–	2.9	**2.9**
Disposals	–	–	(10.3)	**(10.3)**
At 1 April 2010	5.1	8.5	83.6	**97.2**
Additions	–	6.1	19.5	**25.6**
Transfers	–	1.7	(1.7)	**–**
Disposals	(0.3)	(0.6)	(11.8)	**(12.7)**
At 31 March 2011	4.8	15.7	89.6	**110.1**
Accumulated depreciation and impairment				
At 1 April 2009	0.7	2.8	30.4	**33.9**
Charge for the year	0.1	0.9	15.4	**16.4**
Disposals	–	–	(7.6)	**(7.6)**
At 1 April 2010	0.8	3.7	38.2	**42.7**
Charge for the year	0.1	1.3	16.5	**17.9**
Transfers	–	1.1	(1.1)	**–**
Disposals	(0.1)	(0.5)	(9.2)	**(9.8)**
At 31 March 2011	0.8	5.6	44.4	**50.8**
Carrying amount				
At 31 March 2011	4.0	10.1	45.2	**59.3**
At 31 March 2010	4.3	4.8	45.4	**54.5**

The net book value of plant and vehicles held under finance leases included above was £9.2m (2010: £8.3m).

Additions to fixtures and equipment during the year amounting to £4.6m (2010: £4.9m) were financed by new finance leases.

16. Inventories

	2011 £m	2010 £m
Work-in-progress	**4.1**	1.0
Materials	**1.4**	2.9
	5.5	3.9

17. Financial assets

	2011 £m	2010 £m
Trade receivables (Note 18)	**303.5**	230.3
Amounts recoverable on contracts (Note 19)	**94.3**	110.5
Other debtors	**14.1**	17.0
Cash and cash equivalents (Note 20)	**130.6**	23.7
	542.5	381.5
Included in current assets	**530.9**	381.5
Included in non-current assets	**11.6**	–
	542.5	381.5

17. Financial assets

All financial assets are classified as loans and receivables. Amounts recoverable on contracts include applications for payment from customers which have no fixed payment terms until invoiced.

18. Trade and other receivables

	2011 £m	2010 £m
Amounts receivable for the sale of services	**310.4**	241.0
Allowance for doubtful debt	**(6.9)**	(10.7)
Trade receivables	**303.5**	230.3
Amounts recoverable on contracts (Note 19)	**94.3**	110.5
Other debtors	**14.1**	17.0
Prepayments and accrued income	**69.8**	47.8
	481.7	405.6
Included in current assets	**470.1**	405.6
Included in non-current assets	**11.6**	–
	481.7	405.6

Ageing of trade receivables:

	2011 £m	2010 £m
Neither impaired nor past due	**219.8**	165.8
Not impaired and less than three months overdue	**67.5**	57.9
Not impaired and more than three months overdue	**16.9**	11.7
Impaired receivables	**6.2**	5.6
Allowance for doubtful debt	**(6.9)**	(10.7)
	303.5	230.3

Movement in the allowance for doubtful debt:

	2011 £m	2010 £m
Balance at the beginning of the year	**10.7**	6.5
Impairment losses recognised	**1.0**	6.2
Amounts written off as uncollectable	**(1.9)**	(0.6)
Amounts recovered during the year	**(2.9)**	(1.4)
	6.9	10.7

Before accepting new customers, the group uses external credit scoring systems 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 average credit period taken on sales of services was 40 days (2010: 38 days).

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

Notes to the consolidated financial statements

19. Amounts recoverable on contracts

Contracts in progress at the balance sheet date	2011 £m	2010 £m
Amounts due from contract customers included in trade and other receivables	**94.3**	110.5
Amounts due to contract customers included in trade and other payables	**–**	(0.8)
	94.3	109.7
Contract costs incurred plus recognised profits less recognised losses to date	**721.3**	964.9
Less progress billings	**(627.0)**	(855.2)
	94.3	109.7
Included in current assets	**82.7**	109.7
Included in non-current assets	**11.6**	–
	94.3	109.7

At 31 March 2011, retentions held by customers for contract work amounted to £15.8m (2010: £17.7m).

20. Cash and cash equivalents

	2011 £m	2010 £m
Cash and cash equivalents	**130.6**	23.7
	130.6	23.7

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.

At 31 March 2011 £7.0m (2010: £nil) of cash and cash equivalents were held in foreign currencies.

Included in cash and cash equivalents are deposits totalling £9.1m (2010: £7.3m) 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 and are managed through regular review.

21. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Intangible assets acquired £m	Share options £m	Short-term timing differences £m	Tax losses £m	Total £m
At 1 April 2009	0.4	(0.8)	(2.5)	1.0	3.5	1.2	**2.8**
(Charge)/credit to income	(1.0)	(0.8)	1.5	0.6	0.9	0.4	**1.6**
Credit to equity	–	3.7	–	0.1	–	–	**3.8**
Acquisition of subsidiaries	0.4	–	(12.0)	–	4.4	–	**(7.2)**
At 1 April 2010	(0.2)	2.1	(13.0)	1.7	8.8	1.6	**1.0**
(Charge)/credit to income	(0.8)	(1.8)	3.2	(0.3)	(5.7)	(0.3)	**(5.7)**
Credit/(charge) to equity	–	0.1	–	(0.2)	0.1	–	**–**
Acquisition of subsidiaries	–	–	(0.8)	–	1.3	–	**0.5**
Reallocation	–	0.4	–	–	(0.4)	–	**–**
At 31 March 2011	(1.0)	0.8	(10.6)	1.2	4.1	1.3	**(4.2)**

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:

	2011 £m	2010 £m
Deferred tax assets	**9.1**	14.1
Deferred tax liabilities	**(13.3)**	(13.1)
Net deferred tax (liability)/asset	**(4.2)**	1.0

The group has unutilised income tax losses of £5.0m (2010: £5.2m) that are available for offset against future profits. In addition the group has £0.4m (2010: £0.5m) of capital losses.

The UK Government announced a reduction in the UK corporation tax rate from 28% to 26% from 1 April 2011, which was substantively enacted on 29 March 2011. The reduction in the balance sheet carrying value of deferred tax assets and liabilities to reflect the rate of tax at which those assets are expected to reverse has resulted in a deferred tax credit of £0.5m to the income statement. The UK Government has indicated that it intends to enact further reductions in the main tax rate of 1% each year down to 23% by 1 April 2014. Future rate reductions would further reduce the UK deferred tax assets and liabilities recognised but the actual impact will be dependent on the deferred tax position at the time.

22. Financial liabilities

	2011 £m	2010 £m
Trade creditors	**212.3**	179.1
Other creditors	**16.2**	15.5
Accruals and deferred income	**133.1**	100.2
Financing liabilities (Note 24)	**207.4**	110.8
	569.0	405.6
Included in current liabilities	**364.2**	299.4
Included in non-current liabilities	**204.8**	106.2
	569.0	405.6

Notes to the consolidated financial statements

22. Financial liabilities

With the exception of derivative financial instruments and the private placement notes, all financial liabilities are held at amortised cost. The Directors estimate that their carrying value approximates their fair value. Derivative financial instruments, which are included in financing liabilities, are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through profit or loss unless they are designated as hedges for which hedge accounting can be applied (see Note 25). The carrying value of the private placement notes at 31 March 2011 includes a fair value adjustment for interest rate and currency risk of £2.1m. The fair value of the private placement notes is not significantly different from their carrying value.

23. Trade and other payables

	2011 £m	2010 £m
Payments received on account	**3.1**	4.1
Trade creditors	**212.3**	179.1
Other taxes and social security	**68.2**	60.4
Other creditors	**16.2**	15.5
Accruals and deferred income	**133.1**	100.2
	432.9	359.3

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 36 days (2010: 31 days).

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

24. Financing liabilities

	2011 £m	2010 £m
Bank loans	**96.8**	100.0
Private placement notes	**97.6**	–
Loan notes	**1.6**	3.5
Derivative financial instruments (Note 25)	**3.2**	0.5
Obligations under finance leases (Note 26)	**8.2**	6.8
	207.4	110.8
Included in current liabilities	**2.6**	4.6
Included in non-current liabilities	**204.8**	106.2
	207.4	110.8

The banking facilities and private placement notes are unsecured but have financial and non-financial covenants and obligations commonly associated with these arrangements.

Included in current liabilities are £2.4m (2010: £2.2m) of obligations under finance leases (see Note 26), £0.2m (2010: £0.5m) of derivative financial instruments (see Note 25) and £nil (2010: £1.9m) of loan notes.

Included in bank loans are £11.8m (2010: £nil) of loans denominated in foreign currency.

24. Financing liabilities

Private placement notes

On 16 December 2010, the group issued US$96.0m and £40.0m of private placement ('PP') notes in the United States Private Placement market. The PP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the group. In order to manage the risk of foreign currency fluctuations and to manage the group's finance costs through a mix of fixed and variable rate debt, the group has entered into cross currency interest rate swaps. The swap contracts have the same duration and other critical terms as the borrowings and are considered to be highly effective. The amount, maturity and interest terms of the PP notes are as shown below:

Tranche	Maturity date	Amount	Interest terms	Swap interest
7 year	18 December 2017	US$48m	US$ fixed at 3.39%	£ fixed at 3.88%
7 year	18 December 2017	US$48m	US$ fixed at 3.39%	£ LIBOR + 1.26%
9 year	18 December 2019	£40.0m	£ fixed at 4.38%	n/a

The weighted average interest rates paid during the year on the overdrafts and loans outstanding were as follows:

	2011 **%**	2010 %
Overdrafts	**1.9**	2.0
Bank loans	**1.0**	0.9
Private placement notes	**3.6**	–
Loan notes	**–**	–

At 31 March 2011, the group had available £132.3m (2010: £121.2m) 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 determined at 0.4% over LIBOR. Details of the group's contingent liabilities are provided in Note 32.

The group renegotiated its banking facilities in March 2011 and its new committed facility of £250m will be available for drawdown in July 2011, subject to the approval of an amendment to the Articles of Association at the forthcoming AGM to clarify the definition of borrowing limits. Until that point, the group's existing committed banking facility of £230m remains available for use by the group. The new committed facility will remain in place until September 2015. The group also has further overdraft facilities of £40m.

25. 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 interest rate risk, foreign currency risk, liquidity risk and credit risk. The group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by group policies and reviewed regularly. Group policy is not to trade in financial instruments.

Hedging activities

Cash flow hedges

The group holds a number of cross currency interest rate swaps designated as cash flow hedges. Bi-annual fixed interest cash flows arising over the periods to December 2017 and denominated in US$ from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. The group also holds a number of forward exchange currency contracts designated as hedges of highly probable forecast transactions. All cash flow hedges were assessed as being highly effective as at 31 March 2011.

Fair value hedges

The group holds a number of cross currency interest rate swaps designated as fair value hedges. Fixed interest cash flows denominated in US$ from the US Private Placement market are exchanged for floating interest cash flows denominated in sterling. All fair value hedges were assessed as being highly effective as at 31 March 2011.

Hedge of net investment in foreign operations

Included in bank loans at 31 March 2011 was a borrowing of €9.5m (2010: nil) which has been designated as a hedge of the net investment in the Republic of Ireland business of Dalkia FM in Ireland and is being used to hedge the group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of the borrowing are transferred to equity to offset gains or losses on the translation of the net investment.

Notes to the consolidated financial statements

25. Financial risk management objectives

Derivative financial instruments
The carrying values of derivative financial instruments at the balance sheet date were as follows:

	Assets 2011 £m	Assets 2010 £m	Liabilities 2011 £m	Liabilities 2010 £m
Cross currency interest rate swaps designated as cash flow hedges	–	–	0.8	–
Cross currency interest rate swaps designated as fair value hedges	–	–	2.1	–
Derivative financial instruments hedging private placement notes	–	–	2.9	–
Callable interest rate swaps	–	–	0.2	0.5
Forward foreign exchange contracts	–	–	0.1	–
	–	–	3.2	0.5
Included in current assets/liabilities	–	–	0.2	0.5
Included in non-current assets/liabilities	–	–	3.0	–
	–	–	3.2	0.5

Derivative financial instruments are measured at fair value. Fair values of derivative financial instruments are calculated based on a discounted cash flow analysis using appropriate market information for the duration of the instruments. Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
Level 2 fair value measurements are those derived from other observable inputs for the asset or liability; and
Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

We consider that the derivative financial instruments fall into level 2.

The cross currency interest rate swaps are net settled and other contracts are gross settled.

Foreign currency risk
The group has limited exposure to transactional foreign currency risk from trading transactions in currencies other than the functional currency of individual group entities. The group considers the need to hedge its exposures appropriately and will enter into forward foreign exchange contracts to mitigate any significant risks.

The group has some exposure to translational foreign currency risk from the translation of its operations in the Republic of Ireland and other European territories. The group considers the need to hedge its exposures appropriately.

In addition, on 16 December 2010, the group issued US$96.0m and £40.0m of private placement ('PP') notes in the United States Private Placement market and this has been fully hedged into sterling using cross currency interest rate swaps (see Note 24).

Interest rate risk
The group's activities expose it to the financial risks of interest rates. The group's Treasury function reviews its risk management strategy on a regular basis and will appropriately enter into derivative financial instruments in order to manage interest rate risk. Having issued US$96.0m and £40.0m of private placement ('PP') notes in the United States Private Placement fixed rate market on 16 December 2010, the group has swapped US$48m into floating rate debt (see Note 24).

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 2011 and reserves would decrease/increase by £0.6m (2010: £0.3m).

25. Financial risk management objectives

Credit risk
The group's credit risk to all of its banks and financial counterparties is monitored on an ongoing basis and formally reported quarterly. The value of business placed with financial institutions is reviewed on a daily basis.

The group's principal financial assets are cash and cash equivalents 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.

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. Details of our bank facilities can be found in Note 24.

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

At 31 March 2011	Within one year £m	In the second to fifth years £m	After five years £m	**Total £m**
Trade creditors	212.3	–	–	**212.3**
Other creditors	16.2	–	–	**16.2**
Accruals and deferred income	133.1	–	–	**133.1**
Financing liabilities	6.1	122.8	108.0	**236.9**
Financial liabilities	367.7	122.8	108.0	**598.5**

At 31 March 2010	Within one year £m	In the second to fifth years £m	After five years £m	Total £m
Trade creditors	179.1	–	–	179.1
Other creditors	15.5	–	–	15.5
Accruals and deferred income	100.2	–	–	100.2
Financing liabilities	7.0	108.3	–	115.3
Financial liabilities	301.8	108.3	–	410.1

All financial liabilities, other than financing liabilities, are interest free. Details of financing liabilities are given in Note 24. All financial assets are recoverable within one year, except for those disclosed as non-current in Note 17.

Market risk
The group's activities expose it to the financial risks of interest rates. The group's Treasury function reviews its risk management strategy on a regular basis and will appropriately enter into derivative financial instruments in order to manage interest rate risk. Group policy is not to trade in financial instruments.

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)/funds per Note 27 and equity per the consolidated statement of changes in equity.

The group's capital structure is reviewed regularly. The group is not subject to externally imposed regulatory capital requirements with the exception of those applicable to the group's captive insurance subsidiary, which is monitored on a regular basis.

Notes to the consolidated financial statements

26. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Amounts payable under finance leases:				
Within one year	**2.7**	2.5	**2.4**	2.2
In the second to fifth years inclusive	**6.2**	5.2	**5.7**	4.6
After five years	**0.1**	–	**0.1**	–
	9.0	7.7	**8.2**	6.8
Less: future finance charges	**(0.8)**	(0.9)	**–**	–
Present value of lease obligations	**8.2**	6.8	**8.2**	6.8
Less: Amount due for settlement within 12 months	**(2.4)**	(2.2)	**(2.4)**	(2.2)
Amount due for settlement after 12 months	**5.8**	4.6	**5.8**	4.6

The average remaining lease term is 38 months (2010: 35 months). For the year ended 31 March 2011, the average effective borrowing rate was 2.9% (2010: 4.2%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

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

27. Analysis of net (debt)/funds

	2011 £m	2010 £m
Cash and cash equivalents (Note 20)	**130.6**	23.7
Bank loans (Note 24)	**(96.8)**	(100.0)
Private placement notes (Note 24)	**(97.6)**	–
Derivative financial instruments hedging private placement notes (Note 25)	**(2.9)**	–
Net debt before loan notes and obligations under finance leases	**(66.7)**	(76.3)
Loan notes (Note 24)	**(1.6)**	(3.5)
Obligations under finance leases (Note 26)	**(8.2)**	(6.8)
Net debt	**(76.5)**	(86.6)

28. Provisions

	Deferred contingent consideration £m	Insurance reserve £m	**Total £m**
At 1 April 2010	12.9	8.2	**21.1**
Amounts charged to the income statement	0.1	2.5	**2.6**
Utilised during the year	(8.1)	(2.5)	**(10.6)**
Amounts recognised through goodwill	(0.4)	–	**(0.4)**
At 31 March 2011	4.5	8.2	**12.7**

Included in current liabilities	**4.5**
Included in non-current liabilities	**8.2**
	12.7

	Deferred contingent consideration £m	Insurance reserve £m	Total £m
At 1 April 2009	11.0	9.4	20.4
Amounts charged to the income statement	0.1	1.8	1.9
Utilised during the year	(2.0)	(3.0)	(5.0)
Amounts recognised through goodwill	3.8	–	3.8
At 31 March 2010	12.9	8.2	21.1

Included in current liabilities	9.9
Included in non-current liabilities	11.2
	21.1

Provision is made for deferred contingent consideration, which may become payable up to 2012 subject to profit targets being attained, at the best estimate of the Directors. A total of £2.6m was provided in respect of acquisitions made during the year, of which £0.7m was settled in cash during the year (see Note 31).

During the year deferred contingent consideration of £3.5m in respect of the acquisition in 2009 of EPS Ltd was settled in cash due to attainment of profit targets. £3.9m of deferred contingent consideration in respect of the acquisition in 2007 of Robert Prettie was settled in loan notes. In addition, £3.0m of deferred contingent consideration that arose on acquisitions accounted for under IFRS 3 (2004) has been released through goodwill.

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

29. Share capital

Ordinary shares of 2.5p	Number million	£m
Authorised		
At 31 March 2010 and 31 March 2011	**500.0**	**12.5**
Allotted and fully paid		
At 1 April 2010	**353.2**	**8.8**
Issued for acquisitions	**3.0**	**0.1**
Issued under share option schemes	**1.6**	**–**
At 31 March 2011	**357.8**	**8.9**
At 1 April 2009	323.0	8.1
Issued for placing	19.0	0.5
Issued for acquisitions	9.0	0.2
Issued under share option schemes	2.2	–
At 31 March 2010	353.2	8.8

During the year 3.0m (2010: 9.0m) Ordinary shares of 2.5p were allotted in respect of the acquisition of non-controlling interests at a mid-market price of 209.2p (2010: 237.8p) giving rise to share premium of £1.6m (2010: £8.0m) and a merger reserve of £4.8m (2010: £13.1m).

During the year 1.6m (2010: 2.2m) Ordinary shares of 2.5p were allotted in respect of share option schemes at a price between 117p and 226p (2010: 95p and 220p) giving rise to share premium of £2.3m (2010: £3.0m).

On 12 August 2009 19.0m new Ordinary shares of 2.5p each were placed with certain institutional and other qualified investors by UBS Limited and Investec Bank plc acting as joint bookrunners and joint brokers, giving rise to share premium of £41.3m.

30. Reserves

Share premium account
The share premium account represents the premium arising on the issue of equity shares (see Note 29).

Merger reserve
The merger reserve represents amounts relating to premiums arising on shares issued subject to the provisions of Section 612 of the Companies Act 2006 (see Note 29).

Share-based payment reserve
The Share-based payment reserve represents credits relating to equity-settled share-based payment transactions granted after 7 November 2002 that have not yet fully vested (see Note 34).

Own shares reserve
The group uses shares held in the Employee Benefit Trust to satisfy options under the group's LTIP share option scheme. During the year 2.6m shares were purchased at a cost of £5.7m. The Own shares reserve at 31 March 2011 represents the cost of 5.9m (2010: 3.3m) shares in MITIE Group PLC, with a weighted average of 5.3m (2010: 4.6m) shares during the year.

Other reserves
Other reserves are comprised of the revaluation reserve of (£0.2m) (2010: (£0.2m)), the capital redemption reserve of £0.3m (2010: £0.3m) and other reserves of £0.1m (2010: £0.1m).

Hedging and translation reserve
The hedging and translation reserve represents foreign exchange differences arising on translation of the group's overseas operations, movements relating to cash flow hedges and movements on net investment hedges.

31. Acquisitions

During the year a net cash outflow of £11.8m arose on the acquisitions set out below:

	£m
Dalkia FM in Ireland	**7.3**
Service Management International Limited	**0.5**
Non-controlling interests	**0.4**
Environmental Property Services Limited (deferred consideration)	**3.5**
Other	**0.1**
Net cash outflow on acquisitions	**11.8**

Current year acquisitions

Purchase of FM business of Dalkia in Ireland
On 25 June 2010, MITIE acquired 100% of DFM Providers Limited (subsequently renamed MITIE Facilities Management Limited) and Dalkia Energy and Facilities Limited (subsequently renamed MITIE Limited), together Dalkia FM in Ireland, for total consideration of up to €12.5m. The transaction has been accounted for by the acquisition method of accounting in accordance with IFRS 3 (2008). Below we provide provisional information on the acquisition. Final information on fair values will be presented after the end of the 12 month measurement period in the group's Half-yearly financial report for the six months to 30 September 2011.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired			
Intangible assets	8.8	(5.8)	3.0
Deferred tax (liability)/asset	(1.1)	0.4	(0.7)
Trade and other receivables	5.4	(0.4)	5.0
Cash and cash equivalents	1.5	–	1.5
Trade and other payables	(4.9)	(0.8)	(5.7)
Current tax liability	(0.2)	–	(0.2)
Net assets acquired	**9.5**	**(6.6)**	**2.9**

Goodwill	7.7
Total consideration	**10.6**

Satisfied by	
Cash	8.8
Deferred contingent consideration	1.8
Total consideration	**10.6**

Net cash outflow arising on acquisition	
Cash consideration	8.8
Cash and cash equivalents acquired	(1.5)
Net cash outflow	**7.3**

Acquisition related costs included within Other items (Note 5) amounted to £0.3m.

The goodwill arising on the acquisition of Dalkia FM in Ireland is attributable to the underlying profitability of the companies, expected profitability arising from new business and the anticipated future operating synergies arising from assimilation into the group. None of the goodwill recognised is expected to be deductible for income tax purposes.

Provision is made for deferred contingent consideration at the Directors' best estimate of the likely future obligation. Deferred contingent consideration of up to €2.0m, which may become payable up to 2012 subject to certain profit and other targets being attained, is included above. Deferred contingent consideration of €1.0m was settled in cash during the year.

Notes to the consolidated financial statements

31. Acquisitions

Dalkia FM in Ireland contributed £19.4m to revenue and £1.3m to the group's operating profit before other items for the period. If the acquisition had taken place at the start of the period, the group's revenue and operating profit before other items would have been approximately £1,897m and £109m respectively.

Purchase of Service Management International Limited
The group increased its stake to 50% in Service Management International Limited for total cash consideration of £0.5m.

Purchase of non-controlling interests

	MITIE Engineering Maintenance (North) Ltd £m	MITIE Engineering Maintenance (Caledonia) Ltd £m	MITIE Engineering Services (Midlands) Ltd £m	MITIE Engineering Projects Ltd £m	MITIE Engineering Ltd £m	MITIE Services (Retail) Ltd £m	**Total £m**
Non-controlling interests	0.4	–	0.2	0.4	0.7	0.2	**1.9**
Retained earnings	1.2	0.1	0.6	0.8	2.4	(0.2)	**4.9**
Total purchase consideration	1.6	0.1	0.8	1.2	3.1	–	**6.8**
Shares issued – MITIE Group PLC	1.5	0.1	0.8	1.2	2.8	–	**6.4**
Cash consideration	0.1	–	–	–	0.3	–	**0.4**
Total purchase consideration	1.6	0.1	0.8	1.2	3.1	–	**6.8**

Prior year acquisitions
The group reported provisional information on the acquisitions made in the prior year in the Annual Report and Accounts 2010. Below we provide final information on those acquisitions. The final fair value of net assets acquired, presented below, has reduced by £3.3m since the provisional fair value information was presented. This has resulted in a corresponding £3.3m increase to goodwill. These changes were not significant to the prior year balance sheet.

Purchase of Dalkia Technical Facilities Management
On 12 August 2009 MITIE acquired 100% of Dalkia Technical Facilities Management (Dalkia FM), for total consideration of £119.5m. The transaction was accounted for by the purchase method of accounting in accordance with IFRS 3 (2004).

	Provisional fair value £m	Final fair value adjustments £m	Final fair value £m
Net assets acquired			
Intangible assets	29.9	–	29.9
Deferred tax (liability)/asset	(3.7)	0.3	(3.4)
Property, plant and equipment	2.4	(0.4)	2.0
Inventories	1.2	–	1.2
Trade and other receivables	59.8	0.5	60.3
Trade and other payables	(42.1)	(1.5)	(43.6)
Current tax liability	(0.3)	–	(0.3)
Net assets acquired	**47.2**	**(1.1)**	**46.1**
Goodwill			73.4
Total consideration			**119.5**
Satisfied by			
Cash			116.2
Directly attributable costs			3.3
Total consideration			**119.5**
Net cash outflow arising on acquisition			
Cash consideration			119.5
Net cash outflow			**119.5**

31. Acquisitions

Purchase of Environmental Property Services Limited

On 20 November 2009 MITIE acquired 100% of Environmental Property Services Limited (EPS Ltd) for a maximum consideration of up to £40.9m with an initial consideration of £36.8m. The transaction was accounted for by the purchase method of accounting in accordance with IFRS 3 (2004).

	Provisional fair value £m	Final fair value adjustments £m	Final fair value £m
Net assets acquired			
Intangible assets	13.3	–	13.3
Deferred tax (liability)/asset	(3.5)	0.9	(2.6)
Property, plant and equipment	0.5	(0.1)	0.4
Inventories	0.4	–	0.4
Trade and other receivables	18.6	0.2	18.8
Cash and cash equivalents	3.5	–	3.5
Trade and other payables	(20.9)	(3.2)	(24.1)
Loans	(2.3)	–	(2.3)
Net assets acquired	**9.6**	**(2.2)**	**7.4**
Goodwill			33.5
Total consideration			**40.9**

Satisfied by	
Cash	40.3
Directly attributable costs	0.6
Total consideration	**40.9**

Net cash outflow arising on acquisition	
Cash consideration	40.9
Cash and cash equivalents acquired	(3.5)
Loan acquired	2.3
Net cash outflow	**39.7**

Deferred contingent consideration of £3.5m, which was provided for at 31 March 2010, was settled in cash during the period due to attainment of profit targets and is now included in cash consideration above.

Notes to the consolidated financial statements

32. Contingent liabilities

The Company is party with other group companies to cross guarantees of each other's bank and other borrowings, commitments and overdrafts of £368.0m (2010: £270.0m).

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.

Deferred contingent consideration relating to acquisitions has been accrued at the Directors' best estimate of the likely future obligation of £4.5m (2010: £12.9m) per Note 28. The actual amounts payable may vary up to a maximum of £6.9m (2010: £32.4m) 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 £34.9m (2010: £23.4m) in the ordinary course of business. These are not expected to result in any material financial loss.

33. Operating lease arrangements

The group as Lessee

	2011 £m	2010 £m
Minimum lease payments under operating leases recognised in income for the year	**10.1**	9.6

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:

	2011 £m	2010 £m
Within one year	**9.9**	7.6
In the second to fifth years inclusive	**17.5**	15.2
After five years	**5.5**	4.0
	32.9	26.8

Operating lease payments represent rentals payable by the group for certain of its office properties and hire of vehicles and other equipment. These leases have average durations ranging from three to ten years. No arrangements have been entered into for contingent rental payments.

34. Share-based payments

Equity-settled share option schemes
The Company has four share option schemes:

The MITIE Group PLC Long Term Incentive Plan (LTIP)
The LTIP was introduced in 2007. The awards of shares or rights to acquire shares (the awards) are offered to a small number of key senior management. Where offered as options the exercise price is nil. The vesting period is three years. 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 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 exercise price is equal to the average market value of the shares over the five day period immediately preceding the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the group. 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 exercise price is equal to the average market value of the shares over the five day period immediately preceding the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the group. Before options can be exercised, the performance condition that must be satisfied is that the percentage growth in 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 July 2007 and 4.0% above the Retail Price Index per annum thereafter.

34. Share-based payments

The MITIE Group PLC 2001 SAYE scheme

The SAYE 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. For options granted prior to September 2009, the vesting period is five years. For options granted in September 2009 and thereafter, the vesting period is three years. If the options remain unexercised after a period of six months from the date of vesting, the options expire. Options may be forfeited if the employee leaves the group.

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

	2011		2010	
	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	**18.1**	**162**	17.3	162
Granted during the year	**8.0**	**140**	5.4	139
Forfeited during the year	**(2.0)**	**194**	(1.8)	172
Exercised during the year	**(1.6)**	**151**	(2.8)	108
Outstanding at the end of the year*	**22.5**	**152**	18.1	162
Exercisable at the end of the year	**3.0**	**202**	2.2	163

* Included within this balance are 0.2m (2010: 0.3m) options that have not been recognised in accordance with the transitional provisions of 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:

	2011 £m	2010 £m
Long Term Incentive Plan share options	**1.6**	2.4
2001 Executive share options	**0.9**	0.7
2001 SAYE share options	**0.8**	0.9
	3.3	4.0

The weighted average share price at the date of exercise for share options exercised during the year was 206p (2010: 234p). The options outstanding at 31 March 2011 had exercise prices (other than nil in the case of the LTIP) ranging from 117p – 254p (2010: 117p – 254p) and a weighted average remaining contractual life of 4.4 years (2010: 4.6 years). In the year ended 31 March 2011, options were granted in June, July and August 2010 in respect of the LTIP, SAYE and Executive share option schemes. The aggregate of the estimated fair values of the options granted on those dates was £4.4m. In the year ended 31 March 2010, options were granted in June, July and August 2009 in respect of the LTIP, Executive and SAYE share option schemes. The aggregate of the estimated fair values of the options granted on those dates was £4.7m.

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

	2011	2010
Share price (p)	**191–230**	133–230
Exercise price (p)	**0–254**	0–254
Expected volatility (%)	**28–36**	27–36
Expected life (years)	**3–6**	3–6
Risk-free rate (%)	**1.49–5.25**	2.42–5.25
Expected dividends (%)	**2.22–3.93**	1.43–3.30

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

35. 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. The group paid employer contributions of £8.1m (2010: £7.2m) during the year. As at 31 March 2011, contributions of £0.5m (2010: £0.5m) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit schemes

Group defined benefit scheme

The group operates a defined benefit pension scheme called the MITIE Group PLC Pension Scheme where MITIE Group PLC is the principal employer.

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

Under the scheme, 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 valuation of the group scheme's assets and the present value of their defined benefit obligations was carried out as at 1 April 2008 by Mr Chris Bamford, Fellow of the Institute of Actuaries, from AON Consulting Limited. The next triennial valuation is due to be carried out as at 1 April 2011.

Other defined benefit schemes

Grouped together under 'Other schemes' is one (2010: one) scheme in which the group is a participating employer and a number of 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, 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.

Assumptions

Following the announcement in the June 2010 budget, the UK government has announced that it will use the Consumer Price Index (CPI) measure of inflation rather than the Retail Price Index (RPI) to determine the level of future statutory pension increases. As CPI is lower than RPI, the application of CPI to the valuation of future pension liabilities results in a reduction in the value of pension obligations on the balance sheet. The move to a CPI based valuation base affects certain of the group's defined benefit pension liabilities. The financial implication of this has been treated as a change in defined pension benefits and recognised as a negative past service cost in the income statement. As a result of this change, a credit of £4.1m has been recognised in the income statement for the year ended 31 March 2011.

	Group schemes		Other schemes	
	2011 %	2010 %	**2011 %**	2010 %
Key assumptions used for IAS 19 valuation:				
Discount rate	**5.60**	5.60	**5.60**	5.60
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	**1.50**	1.50	**1.50**	1.50
Alternative assets	**7.00**	7.00	**7.00**	7.00
Expected rate of salary increases	**4.50**	4.50	**4.00**	Up to 4.50
Retail Price Inflation	**3.50**	3.50	**3.50**	3.50
Consumer Price Inflation	**2.70**	n/a	**2.70**	n/a
Future pension increases	**3.50**	3.50	**2.80**	3.50

35. Retirement benefit schemes

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 and alternate assets.

The sensitivity of defined benefit obligations to changes in principal actuarial assumptions is shown in Note 2.

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

	2011			2010		
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Current service cost	**(4.1)**	**(0.3)**	**(4.4)**	(2.9)	(1.0)	(3.9)
Interest cost	**(6.2)**	**(0.7)**	**(6.9)**	(5.0)	(3.2)	(8.2)
Expected return on scheme assets	**7.0**	**0.8**	**7.8**	5.1	3.2	8.3
Negative past service cost	**3.4**	**0.7**	**4.1**	–	–	–
	0.1	**0.5**	**0.6**	(2.8)	(1.0)	(3.8)

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

	2011			2010		
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Actual return on scheme assets	**6.3**	**(0.4)**	**5.9**	19.6	14.9	34.5
Expected return on scheme assets	**(7.0)**	**(0.8)**	**(7.8)**	(5.1)	(3.2)	(8.3)
Actuarial (losses)/gains on liabilities	**(1.0)**	**1.8**	**0.8**	(26.7)	(12.6)	(39.3)
	(1.7)	**0.6**	**(1.1)**	(12.2)	(0.9)	(13.1)

The cumulative amount of actuarial loss recognised since 1 April 2004 in the consolidated statement of comprehensive income is £24.7m (2010: £23.6m).

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:

	2011			2010		
	Group scheme £m	**Other schemes £m**	**Total £m**	Group scheme £m	Other schemes £m	Total £m
Fair value of scheme assets	**114.5**	**9.8**	**124.3**	101.4	61.5	162.9
Present value of defined benefit obligations	**(117.5)**	**(9.3)**	**(126.8)**	(108.2)	(71.9)	(180.1)
(Deficit)/surplus in scheme	**(3.0)**	**0.5**	**(2.5)**	(6.8)	(10.4)	(17.2)
Contract adjustment	**–**	**(0.5)**	**(0.5)**	–	6.7	6.7
Net pension liability	**(3.0)**	**–**	**(3.0)**	(6.8)	(3.7)	(10.5)

Notes to the consolidated financial statements

35. Retirement benefit schemes

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

	2011			2010		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	**108.2**	**71.9**	**180.1**	74.3	51.8	126.1
Current service cost	**4.1**	**0.3**	**4.4**	2.9	1.0	3.9
Interest cost	**6.2**	**0.7**	**6.9**	5.0	3.2	8.2
Contributions from scheme members	**0.8**	**0.1**	**0.9**	0.9	0.5	1.4
Actuarial gains and losses	**1.0**	**(0.9)**	**0.1**	26.7	16.8	43.5
Benefits paid	**(2.2)**	**(0.4)**	**(2.6)**	(1.6)	(1.1)	(2.7)
Negative past service cost	**(3.4)**	**(0.7)**	**(4.1)**	–	–	–
Contract transfers	**2.8**	**(61.7)**	**(58.9)**	–	(0.3)	(0.3)
At 31 March	**117.5**	**9.3**	**126.8**	108.2	71.9	180.1

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

	2011			2010		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
At 1 April	**101.4**	**61.5**	**162.9**	77.3	45.8	123.1
Expected return on scheme assets	**7.0**	**0.8**	**7.8**	5.1	3.2	8.3
Actuarial gains and losses	**(0.7)**	**(1.2)**	**(1.9)**	14.5	11.7	26.2
Contributions from the sponsoring companies	**5.4**	**2.5**	**7.9**	5.2	1.6	6.8
Contributions from scheme members	**0.8**	**0.1**	**0.9**	0.9	0.5	1.4
Benefits paid	**(2.2)**	**(0.4)**	**(2.6)**	(1.6)	(1.1)	(2.7)
Contract transfers	**2.8**	**(53.5)**	**(50.7)**	–	(0.2)	(0.2)
At 31 March	**114.5**	**9.8**	**124.3**	101.4	61.5	162.9

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

	2011			2010		
	Group scheme £m	Other schemes £m	Total £m	Group scheme £m	Other schemes £m	Total £m
Equity instruments	**49.8**	**7.0**	**56.8**	56.7	44.7	101.4
Debt instruments	**24.6**	**1.8**	**26.4**	22.2	10.2	32.4
Property	**17.7**	**0.5**	**18.2**	11.4	5.1	16.5
Other assets	**1.8**	**0.5**	**2.3**	2.2	1.5	3.7
Alternative assets	**20.6**	**–**	**20.6**	8.9	–	8.9
At 31 March	**114.5**	**9.8**	**124.3**	101.4	61.5	162.9

The pension schemes have invested in property occupied by the group with a fair value of £3.9m (2010: £3.9m) generating rental of £0.3m (2010: £0.3m). At 31 March 2011 the pension schemes held no MITIE Group PLC shares (2010: 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 89.0 years (2010: 87.4 years) and for a female aged 65.0 years the expected life is 92.0 years (2010: 89.8 years). Mortality for the other schemes is that used by the relevant scheme actuary.

35. Retirement benefit schemes

The history of experience adjustments is as follows:

					Group schemes
	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	**114.5**	101.4	77.3	88.6	83.2
Present value of defined benefit obligations	**(117.5)**	(108.2)	(74.3)	(78.7)	(82.7)
(Deficit)/surplus in the scheme	**(3.0)**	(6.8)	3.0	9.9	0.5
Experience adjustments on scheme liabilities	**(0.5)**	(0.1)	11.3	12.0	(3.2)
Percentage of scheme liabilities	**(0.4)%**	0.1%	(15.3)%	(15.2)%	3.9%
Experience adjustments on scheme assets	**(0.7)**	14.5	(21.2)	(4.1)	(0.5)
Percentage of scheme assets	**(0.6)%**	14.3%	(27.4)%	(4.8)%	(1.0)%

					Other schemes
	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	**9.8**	61.5	45.8	52.3	61.4
Present value of defined benefit obligations	**(9.8)**	(65.2)	(49.2)	(54.7)	(61.4)
(Deficit)/surplus in the scheme	**–**	(3.7)	(3.4)	(2.4)	–
Experience adjustments on scheme liabilities	**0.9**	(0.7)	10.9	5.2	(1.0)
Percentage of scheme liabilities	**9.2%**	1.0%	(22.2)%	(10.0)%	1.6%
Experience adjustments on scheme assets	**(1.3)**	11.7	(13.0)	(6.0)	–
Percentage of scheme assets	**(13.3)%**	19.0%	(28.4)%	(11.5)%	–

The estimated contributions expected to be paid to the group schemes during the current financial year are £4.0m (2010: £5.0m) and to other schemes £0.3m (2010: £1.6m).

As at 31 March 2011, contributions of £0.8m (2010: £2.4m) due in respect of the current reporting period had not been paid over to the schemes.

36. Related party transactions

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

During the year, the group derived £5.6m of construction revenue from joint ventures and associated undertakings. No invoices were outstanding at the year end. No other disclosures have been made in respect of joint ventures and associated undertakings on the grounds of materiality. No material contract or arrangement has been entered into during the year, nor existed at the end of the year, in which a Director had a material interest.

The group's key management personnel are the Directors and Non-Executive Directors whose remuneration is disclosed in the audited section of the Directors' remuneration report. The share-based payment charge relating to share options granted to key management personnel is £0.8m (2010: £1.4m).

Notes to the consolidated financial statements

37. Principal subsidiaries

The companies set out below are those which were part of the group at 31 March 2011 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 and are held directly or indirectly by MITIE Group PLC.

Division	Activities	Principal subsidiaries	At 31 March 2011 % Voting rights owned	At 31 March 2011 % Ownership interest	At 31 March 2011 % Nominal value owned
Facilities Management	Our Facilities Management division delivers facilities consultancy, management and service delivery to our clients. Within the division, during the year ended 31 March 2011 we recognised four principal business lines which were: Facilities Management, which comprises our managed services, business services, client services and PFI businesses; Cleaning and Environmental, which encompasses our cleaning, landscaping and pest control businesses; Security and Catering.	MITIE Facilities Services Ltd	**100.0%**	**100.0%**	**100.0%**
		MITIE Cleaning & Environmental Services Ltd	**99.2%**	**99.2%**	**99.2%**
		MITIE Security Holdings Ltd	**94.4%**	**99.9%**	**99.9%**
Technical Facilities Management	Our Technical Facilities Management division focuses on facilities management that is led by technology, engineering and energy requirements. It comprises the integrated operations of our Engineering Maintenance business and Dalkia FM.	MITIE Technical Facilities Management Ltd (formerly Dalkia Energy & Technical Services Ltd)	**100.0%**	**100.0%**	**100.0%**
Property Management	Our Property Management division offers an integrated property management service, including mechanical and electrical engineering, energy and more general facilities management services in addition to the traditional services such as maintenance, refurbishment, painting, roofing, interior fit-out, fire protection, plumbing and heating.	MITIE Property Services (UK) Ltd	**80.1%**	**80.1%**	**80.1%**
		Robert Prettie & Co Ltd	**100.0%**	**100.0%**	**100.0%**
		Environmental Property Services Ltd	**100.0%**	**100.0%**	**100.0%**
Asset Management	Our Asset Management division provides the integration, management and maintenance of technical assets to meet the challenges of the low-carbon economy including; energy design, generation and certification, infrastructure projects, building services and mechanical and electrical engineering.	MITIE Asset Management Ltd	**100.0%**	**100.0%**	**100.0%**
		MITIE Infrastructure Ltd	**100.0%**	**100.0%**	**100.0%**

The companies listed above represent the principal 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 2011 which comprise the Company Balance Sheet and the related notes 38 to 51. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the parent company financial statements:

– give a true and fair view of the state of the parent company's affairs as at 31 March 2011;

– have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

– have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

– the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

– the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

– adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

– the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

– certain disclosures of directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit.

Other matters
We have reported separately on the Group financial statements of MITIE Group PLC for the year ended 31 March 2011.

Ian Krieger (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom
23 May 2011

Company balance sheet

At 31 March 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Tangible assets	41	**30.2**	25.6
Investments in subsidiary undertakings	42	**645.4**	627.5
Total fixed assets		**675.6**	653.1
Current assets			
Debtors	43	**49.3**	57.7
Total current assets		**49.3**	57.7
Total assets		**724.9**	710.8
Creditors: amounts falling due within one year	44	**(162.3)**	(147.0)
Provisions	46	**(4.5)**	(9.9)
Total current liabilities		**(166.8)**	(156.9)
Net current liabilities		**(117.5)**	(99.2)
Total assets less current liabilities		**558.1**	553.9
Creditors: amounts falling due after more than one year	45	**(98.4)**	(101.6)
Provisions	46	**(1.6)**	(4.6)
Total liabilities		**(266.8)**	(263.1)
Net assets		**458.1**	447.7
Capital and reserves			
Share capital	47	**8.9**	8.8
Share premium account	48	**80.6**	76.7
Merger reserve	48	**85.1**	80.3
Share-based payments reserve	48	**7.8**	6.1
Own shares reserve	48	**(13.8)**	(8.1)
Other reserves	48	**0.3**	0.3
Profit and loss account	48	**289.2**	283.6
Equity shareholders' funds		**458.1**	447.7

The financial statements of MITIE Group PLC, company registration number SC 19230, were approved by the Board of Directors and authorised for issue on 23 May 2011. They were signed on its behalf by:

Ruby McGregor-Smith
Chief Executive

Suzanne Baxter
Group Finance Director

Notes to the Company financial statements

For the year ended 31 March 2011

38. 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.

As more fully detailed in the Directors' report: Corporate governance statement, the Company's financial statements have been prepared on a going concern basis.

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Investments

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

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 upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences 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.

Notes to the Company financial statements

38. Significant accounting policies

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

Trade payables are measured at amortised cost.

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

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

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. Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense. Options over the Company's shares awarded to employees of the Company's subsidiaries are accounted for as a capital contribution within the carrying value of Investments in subsidiary undertakings.

Pensions

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 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 35 to the consolidated financial statements sets out the details of the IAS 19 'Employee Benefits' net pension liability of £3.0m (2010: £10.5m).

39. Profit for the year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. MITIE Group PLC reported a profit after taxation for the financial year ended 31 March 2011 of £32.9m (2010: £10.1m, which included £4.7m of non-distributable profits that arose from internal restructuring during the year).

The auditors' remuneration for audit services to the Company was £50,000 (2010: £50,000).

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

40. Dividends

	2011 £m	2010 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2010 of 4.1p (2009: 3.6p) per share	**14.5**	11.6
Interim dividend for the year ended 31 March 2011 of 4.1p (2010: 3.7p) per share	**14.4**	13.1
	28.9	24.7
Proposed final dividend for the year ended 31 March 2011 of 4.9p (2010: 4.1p) per share	**17.5**	14.5

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

41. Tangible fixed assets

	Plant and vehicles £m	Software and development costs £m	Total £m
Cost			
At 1 April 2010	7.4	21.3	**28.7**
Additions	3.4	5.0	**8.4**
Disposals	(0.3)	–	**(0.3)**
At 31 March 2011	10.5	26.3	**36.8**
Accumulated depreciation			
At 1 April 2010	2.4	0.7	**3.1**
Charge for the year	1.9	1.9	**3.8**
Disposals	(0.3)	–	**(0.3)**
At 31 March 2011	4.0	2.6	**6.6**
Carrying amount			
At 31 March 2011	6.5	23.7	**30.2**
At 31 March 2010	5.0	20.6	**25.6**

Borrowing costs of £0.3m (2010: £0.2m) were capitalised during the year as part of software and development costs.

42. Investments in subsidiary undertakings

	£m
Shares at cost	
At 1 April 2010	639.1
Additions	16.2
Capital contribution re share-based payments	1.7
At 31 March 2011	**657.0**
Provision for impairment	
At 1 April 2010	11.6
At 31 March 2011	**11.6**
Carrying amount	
At 31 March 2011	**645.4**
At 31 March 2010	627.5

Details of the acquisitions in the year are provided in Note 31 of the consolidated financial statements and a listing of principal subsidiaries in Note 37. Additions to the cost of investments of £16.2m include those incurred to obtain associated intangible assets in the form of non-compete agreements valued at £0.5m. The cumulative cost of non-compete agreements included in investments is £4.6m (2010: £4.1m).

Notes to the Company financial statements

43. Debtors

	2011 £m	2010 £m
Amounts owed by subsidiary undertakings	**46.2**	52.5
Other debtors	**0.6**	1.5
Corporation tax	**–**	1.7
Prepayments and accrued income	**2.5**	2.0
	49.3	57.7

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

44. Creditors: amounts falling due within one year

	2011 £m	2010 £m
Overdraft	**25.6**	114.2
Loan notes	**–**	1.9
Trade creditors	**1.8**	2.8
Amounts owed to subsidiary undertakings	**116.2**	18.6
Other taxes and social security	**1.5**	3.4
Accruals and deferred income	**9.9**	6.1
Corporation tax	**7.3**	–
	162.3	147.0

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.

45. Creditors: amounts falling due after more than one year

	2011 £m	2010 £m
Loan notes	**1.6**	1.6
Bank loans	**96.8**	100.0
	98.4	101.6

The group's bank loans, with the exception of the private placement notes, are held by the parent company, MITIE Group PLC. For details of group borrowings, see Note 24.

46. Provisions

	Deferred contingent consideration £m	Deferred tax £m	Total £m
At 1 April 2010	12.9	1.6	**14.5**
Utilised during the year	(8.1)	–	**(8.1)**
Other movements in the year	(0.3)	–	**(0.3)**
At 31 March 2011	4.5	1.6	**6.1**

Falling due within one year	**4.5**
Falling due after more than one year	**1.6**
	6.1

Details of the deferred contingent consideration are provided in Note 28 of the consolidated financial statements.

47. Share capital

Ordinary shares of 2.5p	Number million	£m
Authorised		
At 31 March 2010 and 31 March 2011	**500.0**	**12.5**
Allotted and fully paid		
At 1 April 2010	**353.2**	**8.8**
Issued for acquisitions	**3.0**	**0.1**
Issued under share option schemes	**1.6**	**–**
At 31 March 2011	**357.8**	**8.9**
At 1 April 2009	323.0	8.1
Issued for placing	19.0	0.5
Issued for acquisitions	9.0	0.2
Issued under share option schemes	2.2	–
At 31 March 2010	353.2	8.8

Details of movements in share capital during the year are provided in Note 29 of the consolidated financial statements.

48. Reserves

	Share capital £m	Share premium account £m	Merger reserve £m	Share-based payments reserve £m	Own shares reserve £m	Other reserves £m	Profit and loss account* £m	**Total £m**
At beginning of year	8.8	76.7	80.3	6.1	(8.1)	0.3	283.6	**447.7**
Shares issued	0.1	3.9	4.8	–	–	–	–	**8.8**
Purchase of own shares	–	–	–	–	(5.7)	–	–	**(5.7)**
Share-based payments	–	–	–	1.7	–	–	1.6	**3.3**
Profit for the year	–	–	–	–	–	–	32.9	**32.9**
Dividends paid to shareholders	–	–	–	–	–	–	(28.9)	**(28.9)**
Balance at 31 March 2011	**8.9**	**80.6**	**85.1**	**7.8**	**(13.8)**	**0.3**	**289.2**	**458.1**

* £192.4m is non-distributable, £187.7m having arisen from internal restructuring in the year ended 31 March 2008 and £4.7m in the year ended 31 March 2010.

49. Contingent liabilities

Details of contingent liabilities have been given in Note 32 of the consolidated financial statements.

Notes to the Company financial statements

50. Share-based payments

Equity-settled share option schemes

The Company has four share option schemes as described in Note 34 of the consolidated financial statements.

The Company recognised the following expenses related to share-based payments:

	2011 £m	2010 £m
Long Term Incentive Plan share options	1.3	2.0
2001 Executive share options	0.2	0.2
2001 SAYE share options	0.1	0.1
	1.6	2.3

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 34 of the consolidated financial statements.

51. Related parties

The Company makes management charges to all of its subsidiaries, whether they are wholly-owned or otherwise, and receives dividends from its subsidiaries, according to their ability to remit them. Other details of related party transactions have been given in Note 36 of the consolidated financial statements.

Shareholder information

Results

2012 Interim management statement	15 August 2011
2012 Half-yearly results	21 November 2011

Dividends

2011 Half-yearly dividend 4.1p paid	3 February 2011
2011 Final dividend 4.9p (proposed)	
2011 Final ex dividend date	22 June 2011
2011 Final dividend record date	24 June 2011
2011 Final dividend last date for receipt/ revocation of DRIP mandate	18 July 2011
2011 Final dividend payment date	12 August 2011

2011 Annual General Meeting

2011 Annual General Meeting	13 July 2011

Company details

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Website: www.mitie-shares.com

*calls cost 10p a minute plus network extras, lines are open 8.30am – 5.30pm Mon – Fri

Dividend reinvestment plan (DRIP)

MITIE has set up a dividend reinvestment plan (DRIP) to enable you to build your shareholding by using your cash dividends under a standing election to buy additional shares in MITIE. If you would like to receive further information, including details of how to apply, please call Capita Registrars on 020 8639 3402 or contact them by sending an email to: **shares@capitaregistrars.com**

MITIE online share portal

MITIE has launched a shareholder portal where shareholders can register and can:

- access information on shareholdings and movements;
- update address details;
- view dividend payments received and register bank mandate instructions;
- sell MITIE shares;
- complete an online proxy voting form; and
- register for e-communications allowing MITIE to notify shareholders by email that certain documents are available to view on its website. This will further reduce MITIE's carbon footprint as well as reduce costs.

If you wish to register, please sign up at **www.mitie-shares.com**

Corporate website

This report can be downloaded in PDF format from the MITIE website, which also contains additional general information about MITIE. Please visit **www.mitie.com**

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Massive thanks.

Our success wouldn't be possible without our people. They are also the reason we're so excited about MITIE's future.

Keep track of our progress: @MITIE_Group_PLC