

Mitie Technical Facilities Management Limited

Annual Report and Financial Statements

Registered number 00906936

31 March 2020



Contents

Company information	1
Strategic report	2
Directors' report	7
Statement of Directors' responsibilities in respect of the Annual report and financial statements	9
Independent auditor's report to the members of Mitie Technical Facilities Management Limited	10
Profit and loss account	12
Balance sheet	13
Statement of changes in equity	14
Notes	15

Company information

Directors

S C Kirkpatrick
P J G Dickinson

Secretary

Mitie Company Secretarial Services Limited

Registered office

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

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Strategic report

Mitie Technical Facilities Management Limited (the "Company") is part of the Mitie group of companies (the "Group"), the ultimate parent company being Mitie Group plc.

The Directors, in preparing this Strategic report, have complied with Section 414c of the Companies Act 2006.

Review of the business

The principal activity of the Company is the delivery of a range of technical and energy services: energy management; mechanical and electrical engineering maintenance; national mobile services; specialist technical services; lighting projects; lighting maintenance; building management and control systems. There have not been any significant changes in the Company's principal activities in the year under review.

As shown in the profit and loss account on page 12, the Company's turnover was £680,327,000 (2019: £674,468,000) and the profit after tax was £659,000 (2019: £38,572,000).

There was a marginal increase in turnover when compared to the prior year. The decrease in profit after tax when compared to the prior year was predominantly attributable to a combination of loan waivers in the prior year (£24,093,000), the loss of two large contracts, impact of contract renegotiations, one off costs, and lower net interest receivable (£457,000), offset by reduced restructuring costs (£962,000) and lower tax charges (£3,425,000).

Key performance indicators

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

Principal risks and uncertainties

The Company is part of the Mitie Group and manages its risks within the Mitie Group Risk Framework. Details of the principal risks and uncertainties are given in the Mitie Group plc annual report. The Directors have reviewed the financial risk management objectives and policies of the Company in light of the Group Risk Framework. The Directors do not believe there to be any significant risks other than those detailed below.

Key risks include:

Strategic risks

COVID-19

The COVID-19 pandemic has already had an unprecedented impact on businesses and economic activity across the world. Almost every business has seen uncertainty in revenues, supplies and employee availability. Failure to monitor, respond to and plan for the ongoing and any future impacts of the COVID-19 pandemic, in particular the effect on employees, customers and the supply chain, could result in severe consequences for the financial health and reputation of the Company's business.

The Company has implemented a process of assessing the impact of the crisis, including the government imposed lockdown measures, seeking to establish new ways of working through the first phase and then starting to look at longer term plans once the UK lockdown starts to ease and business activity returns to more normal levels. To manage the risk, crisis management and business continuity plans have been initiated, government support schemes are being utilised and working groups have been established at the Mitie Group level to monitor ongoing impacts and to direct actions.

Impact of the UK leaving the European Union ("Brexit")

The lack of clarity of the impact of Brexit on the UK may adversely affect our ability to plan and invest, as well as the availability of labour and materials. As the Company's client base is within the UK, we are particularly exposed to uncertainties in the ongoing negotiations for the UK to leave the European Union. This may result in changes to the regulatory framework as well as, for example, restrictions in the supply of materials. In particular, new rules around immigration and rules around non-UK nationals working in the UK may adversely impact the supply of labour for our business.

Strategic report (continued)

The impact of the Brexit negotiations may also influence the decisions taken by both public and private sector clients on which activities should be outsourced and the amount of discretionary spend available for outsourcing activities. This may result in fewer opportunities for the Company and have a consequential negative impact on our financial performance.

Controls and mitigation plans have been put in place by the Group to mitigate such risks. These controls include but are not limited to:

- i) having a dedicated Chief Government and Strategy Officer and team;
- ii) dedicated account managers to focus on growing integrated strategic accounts;
- iii) drive for greater customer retention and higher Net Promoter Scores through improvements in customer service;
- iv) regular reviews of sales opportunities by all business sales leaders.

In conjunction with the above, it is important that we are able to offer competitive, innovative and high-quality solutions to clients, and demonstrate the value we bring to them. We also need to ensure we carefully monitor and identify the most appropriate opportunities in both the public and private sectors.

Financial risks

Reliance on material counterparties

The Company depends on significant counterparties including clients, suppliers, banks and insurers, to maintain its business. The failure of a key business partner could affect the business. This risk is mitigated by limiting the dependency on any one partner.

Operational risks

Significant health, safety or environmental incidents

The potential to cause harm to employees, clients, or to damage the environment exists and is mitigated by an extensive Quality, Health, Safety and Environmental (QHSE) programme that is closely monitored.

System, process or control failure

Increased reliance on business systems necessitates a robust governance framework and set of processes. Failure of the framework could impact on operational performance. The Group's core policies provide the basis of the governance framework. These are subject to reviews which underpin the mitigation activity for this risk. These reviews are carried out alongside regular, formal, documented testing of business-critical systems.

Attracting and retaining skilled people

Failure to attract new talent and develop existing employees could impact growth. The Company utilises the Group's career development, recruitment and talent management programmes to ensure that it attracts and retains key people.

Financial risk management

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

Appropriate trade terms are negotiated with suppliers and customers. Management reviews these terms and the relationships with suppliers and customers and manages any exposure on normal trade terms. The Company prepares regular forecasts of cash flow and liquidity and any requirement for additional funding is managed as part of the overall Mitie Group plc financing arrangements.

Strategic report (continued)

Section 172 statement

The board of directors of Mitie Group plc ("Mitie") is referred to in this statement as the "Board".

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

Stakeholders

The Directors consider the groups set out in the table below as its key stakeholders, these align with that of the wider Group. Through various methods including information gathered and cascaded by both the divisional and senior leadership teams, and groupwide engagement, both direct and indirect, the Directors aim to understand the factors and respective interests of each.

Stakeholder	Engagement activity	Areas of interest identified
Customers	<ul style="list-style-type: none"> - Management of customer relationships by divisional leadership - Net Promoter Score programme 	<ul style="list-style-type: none"> - Customer satisfaction - Governance and transparency - Social value
Shareholder	<ul style="list-style-type: none"> - Regular senior leadership meetings 	<ul style="list-style-type: none"> - Financial performance - People and culture
Communities and the environment	<ul style="list-style-type: none"> - The Mitie Foundation - Local community events - Employee volunteering 	<ul style="list-style-type: none"> - Social Value - Reduction in carbon emissions
Employees ¹	<ul style="list-style-type: none"> - Upload engagement survey - Townhall meetings and Team Talk Live - Back to Floor sessions 	<ul style="list-style-type: none"> - Reward and recognition - Remuneration and Benefits - Career opportunities and development
Suppliers	<ul style="list-style-type: none"> - Supplier conferences and workshops - Global supplier portal 	<ul style="list-style-type: none"> - Responsible procurement - Prompt payment code

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

Consequences of any decision in the long term

The Directors are aware that strategic decisions can have long term implications on the Company and its stakeholders, and these decisions are carefully considered.

Example: In the first half of 2019/20, Mitie joined the Living Wage Foundation as a Recognised Service Provider. Mitie is committed to raising the pay of its people, and now provides a Real Living Wage bid to clients. All staff directly employed in Mitie locations are paid at least the Living Wage.

Having regard to the interests of employees

Mitie has a number of mechanisms to engage with employees and the Directors are committed to ensuring that the results are considered in decision making. Two examples of how Directors engage with employees are Mitie's annual Upload survey, the annual benchmark of employee engagement measurement, and the work carried out by Jennifer Duvalier, a member of Mitie's Board, as designated non-executive director for the workforce. Jennifer provides the Board with an update on her activities undertaken in respect of this role at every Mitie Board meeting which is then cascaded to senior managers and Directors in the Group.

Strategic report (continued)

Example: In response to the Upload results, the Directors were part of the decision to the roll out of several new reward and recognition initiatives and now has a celebration hub where all colleagues can go to recognise and celebrate each other's achievements in a variety of ways.

Recognising the need for effective processes and efficient working, the Directors endorsed the 'Simplifying Mitie' campaign which encourages employees to make suggestions to improve this. The Directors recognise that those using the technology and observing processes every day are best placed to make the suggestions for improvement. As a result of Simplifying Mitie feedback, several improvements have been implemented, including the launch of a new supplier on-boarding portal (see below).

Fostering business relationships with suppliers, customers and others

Suppliers

The Directors aim to ensure the Company's suppliers adhere to Mitie's supplier code of conduct and selects a supply chain according to how Mitie can best support SME's and local enterprises.

Mitie recently launched a new vendor on-boarding platform which reduces the risk of engaging with non-compliant suppliers and makes it easier to communicate with existing suppliers. With suppliers in mind, the new system makes on-boarding easy and straight forward and provides the Directors the peace of mind that suppliers will be compliant, safe and meet the needs of customers.

Customers

Customers are at the heart of the business and therefore the Directors consider that getting closer to customers and thus becoming more responsive to their needs, is important. To support this Mitie implemented the Net Promoter Score ("NPS") in 2018 which is carried out annually and uses direct customer feedback to inform a company's activity. The NPS score for the Group has increased year on year demonstrating the focus on customer service is having the right impact.

Example: For customers, and potential customers, working with a socially responsible provider is becoming increasingly important. The Directors are mindful of this and fully supported the introduction of the Social Value and Responsible Business Committee to underpin and govern the Company's social value agenda.

Impact of operations on the community and the environment

The Directors are supportive of Mitie's initiatives to improve the operations of the Company on the community and the environment.

Example: The Directors have been involved in Mitie's Plan Zero commitment, pledging that the company will reach net zero carbon emissions by 2025.

Example: Through the Mitie Foundation, Mitie offers a range of volunteering activities for employees, including in schools, academies and colleges, in prisons and with ex-offenders and with people with disabilities.

Maintaining a high standard of business conduct

Ethical business practice

The Company has a duty to act responsibly and to show the highest levels of ethical and moral stewardship. A Group ethical business practice policy is in place which applies to all employees in relation to dealings with its people, agents, clients, suppliers, subcontractors, competitors, government officials, the public and investors. To support this, there are a wide range of policies and training modules available including modern slavery, whistleblowing, anti-bribery and anti-corruption, business expenses and entertaining and Mitie's One Code of conduct.

Good governance

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

Details of how Mitie complies with the UK Corporate Governance Code can be found in the annual report and accounts 2020.

Strategic report *(continued)*

The need to act fairly as between members of the company.

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

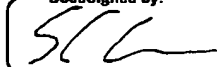
Future developments

The Directors initially expect the underlying trade to decrease in comparison to the current year. This is mainly owing to the COVID-19 pandemic and its effect on the UK economy. It is forecast that economic conditions will steadily improve throughout the year.

Post balance sheet events

Subsequent events have been disclosed in Note 24.

Approved by the Board and signed on its behalf by:

DocuSigned by:

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S C Kirkpatrick
Director

23 November 2020

Directors' report

The Directors present the Annual report and audited financial statements of Mitie Technical Facilities Management Limited for the year ended 31 March 2020.

In preparing this Directors' report, the Directors have complied with S414C(11) of the Companies Act 2006 by including certain disclosures required by S416(4) within the Strategic report.

Going concern

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

Directors

The Directors who held office during the year and subsequently were:

Director	Date of appointment	Date of resignation
S C Kirkpatrick	30/01/2020	
P J G Dickinson		
M Idle		29/01/2020

Directors' indemnity

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

Dividends

No dividend was declared or paid in the year (2019: £nil).

COVID-19 and current trading

In line with the Group approach, the Company established three overriding priorities to guide its response to the COVID-19 crisis: protecting the health and safety of colleagues, customers, other business partners and the communities that it serves; ensuring that its business is able to continue to operate with minimal disruption; and to deliver the essential services it provides to its customers.

The COVID-19 pandemic has had limited impact on the performance for the year ended 31 March 2020, however it has continued to impact the business through the start of FY20/21.

Environment

The Group endeavours to identify, monitor and manage the impact of their activities on the environment and is fully committed to environmental accountability and protection. The Company operates in accordance with Group policies which are described in the Group's annual report which does not form part of this report.

Political contributions

The Company made no political donations nor incurred any political expenditure during the year (2019: £nil).

Directors' report *(continued)*

Disclosure of information to auditor

Each Director who is the Director of the Company at the date of approval of these financial statements confirms that:

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

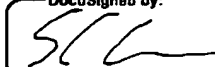
Other information

An indication of likely future developments in the business, discussion of financial risk management, and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic report on page 2.

Auditor

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

On behalf of the Board

DocuSigned by:

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S C Kirkpatrick
Director

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

23 November 2020

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

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Mitie Technical Facilities Management Limited

Opinion

We have audited the financial statements of Mitie Technical Facilities Management Limited for the year ended 31 March 2020 which comprise the Profit and loss account, the Balance sheet, the Statement of changes in equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent auditor's report to the members of Mitie Technical Facilities Management Limited *(continued)*

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities in respect of the Annual report and financial statements on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

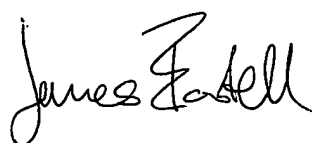
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



James Eastell
(Senior Statutory Auditor)
for and on behalf of BDO LLP, Statutory Auditor
London, UK

23 November 2020

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

Profit and loss account

	Note	2020 £000	2019 ^{1,2} £000
Turnover	2	680,327	674,468
Cost of sales		(618,248)	(601,065)
Gross profit		62,079	73,403
Administrative expenses		(59,668)	(53,242)
Other items	3	(3,481)	19,650
Operating (loss)/profit	3	(1,070)	39,811
Interest receivable and similar income	7	2,858	3,318
Interest payable and similar expenses	8	(1,150)	(1,153)
Profit before tax		638	41,976
Tax	9	21	(3,404)
Profit for the year		659	38,572

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

2. Other items for the year ended 31 March 2019 have been represented to be consistent with the current year.

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

There were no items of other comprehensive income recognised during the current or prior year. Accordingly, no statement of comprehensive income has been prepared.

The notes on pages 15 to 37 form an integral part of these financial statements.

Mitie Technical Facilities Management Limited
Annual Report and Financial Statements
 31 March 2020

Balance sheet

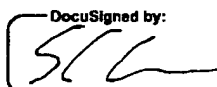
	<i>Note</i>	2020 £000	2019¹ £000
Non-current assets			
Goodwill	10	2,869	2,869
Other intangible assets	11	-	27
Tangible fixed assets ²	12	5,110	1,130
Deferred tax assets	17	1,283	1,034
Total non-current assets		9,262	5,060
Current assets			
Inventories	13	992	1,031
Debtors	14	198,644	241,907
Cash at bank and in hand		54,680	29,053
Total current assets		254,316	271,991
Current liabilities			
Creditors	15	(215,132)	(234,041)
Deferred income	16	(7,271)	(7,325)
Lease liabilities ³	18	(908)	-
Provisions	19	(913)	(1,094)
Total current liabilities		(224,224)	(242,460)
Net current assets		30,092	29,531
Non-current liabilities			
Deferred income	16	-	(15)
Lease liabilities ³	18	(3,709)	-
Total non-current liabilities		(3,709)	(15)
Net assets		35,645	34,576
Capital and reserves			
Called up share capital	20	6,739	6,739
Share premium account	20	3,917	3,917
Profit and loss account	20	24,989	23,920
Shareholders' funds		35,645	34,576

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.
2. Tangible fixed assets at 31 March 2020 includes £4,450,000 of additional right-of-use assets recognised under IFRS 16. See Note 21.
3. Lease liabilities at 31 March 2020 include £908,000 of additional current lease liabilities and £3,709,000 of additional non-current lease liabilities recognised under IFRS 16. See Note 21.

The notes on pages 15 to 37 form an integral part of the financial statements.

The financial statements of Mitie Technical Facilities Management Limited, company number 00906936, were approved by the Board of Directors and authorised for issue on 23 November 2020 and were signed on its behalf by:

DocuSigned by:

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S C Kirkpatrick
 Director

Statement of changes in equity

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity ¹ £000
Adjusted balance at 1 April 2018	6,739	3,917	(14,903)	(4,247)
Profit for the year	-	-	38,572	38,572
Total comprehensive income	-	-	38,572	38,572
Share-based payments	-	-	251	251
At 31 March 2019	6,739	3,917	23,920	34,576
At 1 April 2019	6,739	3,917	23,920	34,576
Profit for the year	-	-	659	659
Total comprehensive income	-	-	659	659
Share-based payments	-	-	42	42
Other movements	-	-	368	368
At 31 March 2020	6,739	3,917	24,989	35,645

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option which has resulted in no impact on the Company's opening equity. Under this option, the comparative information is not restated. See Note 1.

The notes on pages 15 to 37 form an integral part of the financial statements.

Notes

1 Accounting policies, judgements and estimates

a) General information

Mitie Technical Facilities Management Limited (the "Company") is a private company limited by shares and is incorporated in England and Wales and domiciled in the UK. Details of the Company's activities are set out in the Strategic report.

b) Statement of compliance with FRS 101

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

c) Basis of preparation

Going concern

The financial statements have been prepared on a going concern basis. The Company participates in the Group's centralised treasury arrangements and shares banking arrangements with Mitie Group plc, its ultimate parent, and with fellow subsidiaries. The Directors have received a letter of support from the directors of Mitie Group plc to confirm provision of adequate financial resources to the Company for a period of not less than twelve months from the date of approval of the Company's statutory financial statements for the year ended 31 March 2020 to ensure that the Company can meet its liabilities as they fall due.

Going concern assessments have been performed for two scenarios: (1) Mitie Group plc and its subsidiaries (the "Group") on a standalone basis; and (2) assuming that the acquisition of Interservefm (Holdings) Limited ("Interserve Facilities Management") by Mitie Group plc (together the "Enlarged Group"), which obtained shareholder approval at a General Meeting convened on 23 November 2020, is completed before 31 March 2021. The forecasts prepared for the Group's going concern assessment are also used as part of the Enlarged Group's going concern assessment, and therefore the assumptions applied for the purposes of these two assessments are consistent.

As part of the going concern assessments, the directors of Mitie Group plc have considered modelling through to March 2022 performed using a number of different scenarios, including a base case, a Reasonable Worst Case ("RWC") downside scenario and reverse stress tests, all in the context of the COVID-19 pandemic.

The forecasts for Interserve Facilities Management, included in the forecasts for the Enlarged Group, have been subject to reviews by the directors of Mitie Group plc and external professional advisors, and, where possible, have been reviewed against actual results to assess the accuracy of forecasts. These reviews resulted in some adjustments to the forecasts for Interserve Facilities Management that were included in the forecasts for the Enlarged Group, including the base case. The directors of Mitie Group plc also considered the nature of contingent liabilities relating to Interserve Facilities Management, and the nature of the warranties and escrow arrangements in place, particularly in relation to the cyber incident.

The COVID-19 pandemic is having an impact on the Group's and Enlarged Group's business. In some instances, this has led to an increase in demand for services from areas such as supermarkets, online retailers and COVID-19 NHS Nightingale hospitals. Conversely, discretionary variable works and engineering projects have seen a significant slowdown, and many offices and retail outlets have been closed during lockdown, impacting revenues.

In undertaking the going concern assessments for both the Group and the Enlarged Group, the directors of Mitie Group plc have considered the RWC downside scenario, which takes into account the potential impact of COVID-19. The RWC downside scenario assumes that the second COVID-19 lockdown announced by the Government on 31 October 2020 ultimately results in a three month lockdown, with an impact more severe than the first COVID-19 lockdown resulting in revenue for the Group and the Enlarged Group being approximately 10% lower than that recognised in the first COVID-19 lockdown. As a result of the restrictions to date and those assumed to occur over the following months, the revenue for the Group and the Enlarged Group is assumed to decline by approximately 20% in the year to 31 March 2021, with variable works and projects being most significantly impacted. Revenue for the Group and the Enlarged Group in the year to 31 March 2022 is expected to remain approximately 10% below revenue for the year to 31 March 2020. In addition, the RWC downside scenario assumes that working capital, inclusive of bad debts, excluding the HMRC "Time to Pay" deferral, comes under pressure in the year to 31 March 2021, resulting in a net negative cash flow impact of approximately £115m in Mitie and approximately £20m in Interserve Facilities Management. It is assumed that this dynamic slowly reverses to normalised levels from April 2021 and into the year to 31 March 2022.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

The RWC downside scenario also factors in the actions that are within the Group's and the Enlarged Group's control that would be taken in response to the revenue reduction, to mitigate the profit and cash flow impacts, including reducing the labour force to reflect revenue reduction, cost saving initiatives to reduce overheads, deferral of non-essential costs and uncommitted capital expenditure, pay reductions for the Board and many employees for a period of time, and the deferral of tax payments.

The Group's and Enlarged Group's principal debt financing arrangements are, and will be, a £250m revolving credit facility, which expires on 16 December 2022, and £151.5m of US private placement notes (being the repayment amount based on the original dollar exchange rates when issued), of which £121.5m are repayable in December 2022 and the remaining £30.0m in December 2024. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis. Bank consent, required in respect of the acquisition of Interserve Facilities Management, has already been received and Mitie currently operates within the terms of its agreements with its lenders.

If the Group's or the Enlarged Group's results were to be in line with the base case or the RWC downside scenario, it would not be in breach of its financial covenants for a period of no less than 12 months from the date of approval of the Company's audited financial statements for the year ended 31 March 2020.

The directors of Mitie Group plc have also completed reverse stress tests on the base case scenario, but for the Enlarged Group only. This is on the basis that they already consider the RWC downside to be a remote scenario for both the Group and the Enlarged Group, and that it is likely that the acquisition of Interserve Facilities Management will complete before 31 March 2021.

The reverse stress tests for the Enlarged Group assessed the point at which the covenants, or facility headroom, would be breached, based on sensitivities to the financial measures listed below. The financial measures considered have been chosen after giving consideration to the Principal risks and uncertainties detailed in Mitie's annual report and accounts for the year ended 31 March 2020 and considered in the Viability Statement in the same annual report. In particular, the primary financial risks related to COVID-19 are expected to impact the Enlarged Group in the following ways:

- **a further downturn in revenues:** this reflects the risks of not being able to deliver services to existing customers, or contracts being terminated or not renewed;
- **a deterioration of gross margin:** this reflects the risks of contracts being renegotiated at lower margins, or planned cost savings not being delivered;
- **lack of planned overhead savings:** this reflects the risks of planned overhead cost savings not being delivered; and
- **downturn in cash generation:** this reflects the risks of customers delaying payments due to liquidity constraints, or the removal of ancillary debt facilities.

As a result of completing this assessment, the directors of Mitie Group plc considered the likelihood of the reverse stress scenarios arising to be remote. In all reverse stress scenarios, the point at which the covenants were breached was beyond that already considered in the RWC, which is itself considered a remote scenario. In reaching the conclusion of remote, the directors of Mitie Group plc considered the following:

- current trading is performing above the base case;
- the reverse stress test scenario would require a decline in revenue for the Enlarged Group of over 30% in the second half of the year to 31 March 2021 against the base case. In the year to 31 March 2022 the required revenue decline for the Enlarged Group would have to exceed 25% compared to the base case. These scenarios are considered to be remote given the high proportion of public sector and 'fixed billing' revenue;
- the RWC downside scenario for both the Group and the Enlarged Group assumes that the impact from the second COVID-19 lockdown would be more severe than the first, resulting in revenues being an additional 10% lower than experienced in the first COVID-19 lockdown, despite the Government's need to ensure national economic activity is supported through any future restrictions. Also, in that scenario it would be expected to see increased opportunities from COVID-19 testing and vaccinations, meaning that the implied revenue decline in other areas of the business is even greater than the overall additional 10% assumed in the RWC downside scenario; and
- in the event that results started to trend significantly below the base case, additional mitigation actions have been identified that would be implemented, which are not factored into the reverse stress test scenarios. These include cancellation of discretionary bonuses, temporary pay cuts and reduced investments in discretionary areas of spend.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Each of the reverse stress test scenarios would result in a breach of covenants, rather than a breach of liquidity headroom.

Based on these assessments, the directors of Mitie Group plc have a reasonable expectation that the Group and the Enlarged Group have adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of the condensed consolidated financial statements for the six months ended 30 September 2020 on 18 November 2020. In addition, in respect of material uncertainty, the directors consider that this is remote. The directors of Mitie Group plc note that in making an assessment over the remoteness of the COVID-19 assumptions, significant judgement has been applied.

Based on this assessment, and their enquiries of the directors of Mitie Group plc, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

FRS 101 exemptions

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

- a Cash Flow Statement and related notes;
- comparative period reconciliations for share capital, intangible assets and tangible fixed assets;
- the statement of compliance with Adopted IFRSs;
- certain disclosures required by IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15");
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of Key Management Personnel; and
- disclosure in respect of related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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

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

Accounting standards that are newly effective in the current year

With the exception of IFRS 16 which is discussed below, there are no new and mandatorily effective standards in the year that would have a material impact on the financial statements.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Adoption of IFRS 16

The Company adopted IFRS 16 with a date of initial application of 1 April 2019 using the modified retrospective approach whereby the right-of-use asset on transition equalled the lease liability, before the reclassification and adjustment of associated balance sheet items. The comparative information for the year ended 31 March 2019 has not been restated and continues to be reported under IAS 17.

The Company applied the following practical expedients available on transition to IFRS 16, to leases previously classified as operating leases:

- grandfathered the definition of a lease on transition and applied IFRS 16 only to those contracts that were previously identified as containing a lease. Contracts previously identified as not containing leases under IAS 17 and IFRIC 4 were not reassessed;
- relied on the Company's previous assessment of whether leases are onerous in accordance with IAS 37 immediately before the date of initial application as an alternative to performing an impairment review;
- not to recognise right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis;
- a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term in a similar class of underlying asset); and
- the use of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

IFRS 16 eliminates the classification of leases as either operating or finance leases as required by IAS 17 and introduces a single accounting model. The Company changed its accounting policies and updated its internal processes and controls relating to leasing. The new definition of a lease has been applied to contracts entered into from 1 April 2019.

Lease accounting policy

The Company has various lease arrangements for properties (e.g. office buildings and storage facilities). At inception of a lease contract, the Company assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Company recognises a lease liability and a corresponding right-of-use asset with respect to all lease arrangements in which it is a lessee.

A right-of-use asset is capitalised on the balance sheet at cost which comprises the present value of future lease payments determined at the inception of the lease adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred in addition to an estimate of costs to remove or restore the underlying asset. Where a lease incentive is receivable, the amount is offset against the right-of-use asset at inception. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life of the asset or the lease term and are reviewed for impairment to account for any loss when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right-of-use assets exclude low-value leases and short-term leases of 12 months or less, costs for which are recognised as an operating expense within the profit and loss account as they are incurred.

The lease liability is initially measured at amortised cost using the effective interest rate method to calculate the present value of future lease payments and is subsequently increased by the associated interest cost and decreased by lease payments made. The effective interest rate is based on estimates of relevant incremental borrowing costs. Lease payments made are apportioned between an interest charge and a capital repayment amount. Lease payments comprise fixed lease rental payments only with the exception of property leases, for which the associated fixed service charge is also included. Lease liabilities are classified between current and non-current on the balance sheet.

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

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

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

Impact on transition

The impact on the Company's opening balance sheet at 1 April 2019 as a result of the adoption of IFRS 16 was as follows:

	£000
Net assets at 31 March 2019	34,576
Reclassification of rental prepayments	(150)
Right-of-use assets recognised ¹	6,004
Reclassification of accruals	250
Lease liabilities recognised	(5,895)
Adjustment to dilapidations provision as a result of adopting the Company's incremental borrowing rate	(209)
Net assets at 1 April 2019	34,576

Note:

1. The right-of-use assets recognised are included within tangible fixed assets. The amounts stated above exclude the finance leases already capitalised at the date of transition to IFRS 16.

The following is a reconciliation of operating lease commitments at 31 March 2019 to lease liabilities recognised at 1 April 2019.

	£000
Operating lease commitments at 31 March 2019	4,558
Discount using the incremental borrowing rate at 1 April 2019	963
Discounted operating lease commitments	5,521
Reassessment of lease terms including extension and termination options reasonably certain to be exercised	374
Lease liabilities recognised at 1 April 2019	5,895

Measurement convention

The financial statements are prepared on the historical cost basis.

Other items

In the financial statements, the Company has elected to provide some further disclosures and performance measures, reported as 'other items', in order to present its financial results in a way that demonstrates the performance of continuing operations.

Other items are items of financial performance which management believes should be separately identified on the face of the profit and loss account to assist in understanding the underlying financial performance achieved by the Company. The Company separately reports items such as cost of restructuring programmes and other exceptional items as other items. Should these items be reversed, disclosure of this would also be as other items.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Company in the period and the extent to which results are influenced by material unusual and/or non-recurring items. Further detail of other items is set out in Note 3.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies

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

Revenue recognition policy

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

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

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

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

Duration of contract

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

Contract modifications

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

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

Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct goods or services. If the price of additional distinct goods or services is not commensurate with the standalone selling prices for those goods or services, then this is considered a termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification. Where new goods or services are not distinct from those in the original contract, then these are considered to form part of the original contract with any update to pricing recognised as a cumulative catch up to revenue. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Step 2 - Identify the performance obligations in the contract

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

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

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Step 3 - Determine the transaction price

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

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

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

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

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

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

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

Where deemed appropriate, the Company will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Company has the right to invoice, where that amount corresponds directly with the value to the customer of the Company's performance obligations completed to date.

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

Long-term complex contracts

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

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

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

Repeat service-based contracts (single and bundled contracts)

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

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Short-term service-based arrangements

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

Other revenue

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

Contract costs

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

Contract fulfilment costs

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

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

Contract fulfilment costs covered within the scope of another accounting standard, such as inventories, intangible assets, or tangible fixed assets are not capitalised as contract fulfilment assets but are treated in accordance with the other standard.

Amortisation and impairment of contract assets

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

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

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

Accrued income and deferred income

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

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

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

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

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

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

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 profit and loss account 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based upon tax rates and legislation that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Goodwill

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

Other intangible assets

Other 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 profit and loss account on a straight-line basis over its useful life.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

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 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 properties	50 years or lease term if shorter
Leasehold improvements	period of the lease
Plant and vehicles	3-10 years

The Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

Stocks 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 Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The Company derecognises financial assets and liabilities only when the contractual rights and obligations are transferred, discharged or expire.

Financial assets comprise cash at bank and in hand, and trade and other debtors. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Cash at bank and in hand include cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. All of the Company's cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Company's revenue streams are therefore initially measured at their transaction price and are subsequently remeasured at amortised cost. The Company recognises a loss allowance for expected credit losses ("ECLs") on all receivable balances from customers subsequently measured at amortised cost, using a lifetime credit loss approach. ECLs are calculated on the basis of historic and forward-looking data on default risk which is applied to customers with common risk characteristics such as sector type (e.g. government or non-government).

The Company uses a non-recourse customer invoice discounting facility under which certain trade debtor balances are sold to the Company's relationship banks. The arrangement with the banks is such that the customers remit cash directly to the Company and the Company transfers the collected amounts to the banks. The trade debtors are sold without recourse to the Company, and therefore the trade debtor balance is derecognised.

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

Finance income and charges are accounted for on an accruals basis in the profit and loss account.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Intra-group financial instruments

Where the Company enters into financial guarantee contracts, to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Retirement benefit costs

The Company 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.

Share-based payments

The Company participates in a number of Mitie Group plc executive and employee share option schemes. For grants of share options and awards, the fair value as at the date of grant is calculated using the appropriate valuation model and the corresponding expense is recognised on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. Further details of the Group's share option schemes are contained in the Mitie Group plc annual report.

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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where management expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the 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.

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

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

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

e) Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Company's accounting policies

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

Revenue recognition

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

Due to the size and complexity of the Company's contracts, management is required to form a number of key judgements in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise. This includes an assessment of the costs the Company incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

For certain contracts, key judgements were made concerning contract extensions and amendments which, for example, directly impact the timing of revenue recognition in addition to the phasing of upfront payments to, or from customers which are deferred to the balance sheet and unwound over the expected contract term. Management considers this to be an area of judgement due to the determination of whether a modification represents a separate contract based on its assessment of the stand-alone selling price, rather than a termination of the existing contract and establishment of a new contract for which the revised contract price would be recognised from the date of modification.

Recoverability of trade debtors and accrued income

The Company has material amounts of billed and unbilled work outstanding at 31 March 2020. Debtors are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Company recognises a loss allowance for ECLs on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Company will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date which includes an assessment of current disputes with customers over commercial positions, and where information suggests customers are facing significant financial difficulties. The judgement on specific allowance for impairments on receivables as at 31 March 2020 has included an assessment of COVID-19 impacts.

Recoverability of amounts owed by Group undertakings

The Company has material amounts owed by Group undertakings outstanding at year end. The judgement as to whether an amount has become irrecoverable is an assessment made by the Directors in the determination of the expected total credit loss recognised under IFRS 9. This assessment takes into consideration Group solvency and access to Group funding by the debtor. The Directors consider the full amount owed to be recoverable under IFRS 9.

Adoption of IFRS 16

Management in the adoption of IFRS 16 has applied a judgement which relates to the assessment of the likelihood that lease contract extension and termination options will be exercised. This resulted in an additional £374,000 being recognised in lease liabilities at 1 April 2019 when compared with operating lease commitments reported at 31 March 2019.

Lease liabilities are measured at amortised cost using the effective interest rate method. Management in the adoption of IFRS 16 at 1 April 2019 also applied judgement related to the assessment of the incremental borrowing rate ("IBR") used to discount future lease rentals to present value. The IBR has been considered on a lease by lease basis and the weighted average rate applied by the Company at transition was 3.5%.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

Other items

'Other items' are items of financial performance which management believes should be separately identified on the face of the profit and loss account to assist in understanding the underlying financial performance achieved by the Company. Determining whether an item should be classified within other items requires judgement as to whether an item is or is not part of the underlying performance of the Company.

An analysis of the amounts included in other items is detailed in Note 3.

Key sources of estimation uncertainty

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

Rebates from suppliers

The Company earns rebates from suppliers. The calculation of amounts receivable from suppliers at the year end includes amounts that are based on an estimate of future spend with the supplier. Amounts receivable from suppliers are included within other debtors.

Measurement and impairment of goodwill

Determining whether goodwill is impaired requires an estimation of its value in use. The value in use calculation involves an estimation of the future cash flows and the selection of appropriate discount rates to use in order to calculate present values.

The carrying value of goodwill is £2,869,000 (2019: £2,869,000) at the balance sheet date (see note 10). A sensitivity analysis has been performed and management have concluded that no reasonably foreseeable change in the key assumptions would result in an impairment.

Provisions and contingent liabilities

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

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the quantum and timing of liabilities judgement is applied and re-evaluated at each reporting date. The Company recognised provisions at 31 March 2020 of £913,000 (2019: £1,094,000). Further details are included in Note 19.

2 Turnover

The Company derives all of its turnover from the provision of services to customers based in the UK.

Notes (continued)

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2020 £000	2019 £000
Other items	3,481	(19,650)
<i>Restructuring costs</i>	3,481	4,443
<i>Amounts owed to Group undertakings waiver</i>	-	(24,093)

Restructuring costs were incurred to deliver various transformation projects. These costs include but are not limited to: employee termination payments, cost of employees/contractors, legal costs and external vendors costs.

4 Auditor's remuneration

The audit fee for the year of £200,000 (2019: £143,000) was borne by Mitie Group plc and no amount was allocated or recharged to the Company in the year.

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

5 Staff numbers and costs

There were no persons employed by the Company (including Directors) during the year ended 31 March 2020 and 31 March 2019. However 4,329 employees worked for Mite Technical Facilities Management Limited but were employed by another Group company and the associated costs were allocated to the Company for cost recharging purposes (2019: 3,984). The aggregate payroll costs incurred by the Company for allocated employees were as follows:

	2020 £000	2019 £000
Wages and salaries	149,811	139,981
Share-based payments	42	251
Social security costs	15,813	15,029
Termination and redundancy payments	106	18
Pension costs	4,990	3,959
	<u>170,762</u>	<u>159,238</u>

6 Directors' remuneration

The following Directors are also Directors or employees of another Group company. They are remunerated by the company shown. It is not practicable to allocate their remuneration between their services as Directors of this Company and as Directors or employees of other Group companies.

Director	Remunerated by	Disclosed by
P J G Dickinson	Mitie Limited	Mitie Limited
M Idle	Mitie Limited	Mitie Limited
S C Kirkpatrick	Mitie Limited	Mitie Limited

Notes *(continued)*

7 Interest receivable and similar income

	2020	2019
	£000	£000
Bank interest	-	8
Interest receivable and similar income from Group undertakings	2,858	3,310
	<hr/>	<hr/>
Total interest receivable and similar income	2,858	3,318
	<hr/>	<hr/>

8 Interest payable and similar expenses

	2020	2019
	£000	£000
Interest payable on bank loans and overdrafts	226	490
Interest payable on working capital facility	271	273
Interest payable to Group undertakings	461	390
Interest on lease liabilities ¹	192	-
	<hr/>	<hr/>
Total interest payable and similar expenses	1,150	1,153
	<hr/>	<hr/>

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

Notes (continued)

9 Tax

	2020 £000	2019 £000
<i>Analysis of (credit)/charge in the year</i>		
<i>UK corporation tax at 19% (2019: 19%)</i>		
Current tax on profit for the period	74	3,282
Adjustments in respect of prior periods	147	(3,096)
Total current tax	221	186
<i>Deferred tax (see note 17)</i>		
Origination and reversal of temporary timing differences	(1)	314
Restatement of opening deferred tax balances	(134)	(33)
Adjustments in respect of prior periods	(107)	2,937
Total deferred tax	(242)	3,218
Tax (credit)/charge	(21)	3,404
	2020 £000	2019 £000
<i>Tax recognised directly in equity</i>		
Deferred tax	(7)	(2)
Total tax recognised directly in equity	(7)	(2)
	2020 £000	2019 £000
<i>Reconciliation of effective tax rate</i>		
Profit before tax	638	41,976
Tax using the UK corporation tax rate of 19% (2019: 19%)	121	7,975
Reduction in statutory tax rate on deferred tax balances	-	(33)
Expenses not deductible for tax purposes	52	(4,538)
Adjustment in respect of employee share options	(100)	159
Adjustments in respect of prior periods	40	(159)
Restatement of opening deferred tax balances	(134)	-
Total tax (credit)/charge	(21)	3,404

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as a consequence a credit of £134,000 (2019: £nil) has been included in the tax credit. The UK deferred tax assets at 31 March 2020 reflect this change.

Notes (continued)

10 Goodwill

	£000
Cost	
At 1 April 2019	2,869
At 31 March 2020	2,869
Impairment	
At 1 April 2019	-
At 31 March 2020	-
Net book value	
At 1 April 2019	2,869
At 31 March 2020	2,869

11 Other intangible assets

	Software £000
Cost	
At 1 April 2019	4,517
At 31 March 2020	4,517
Amortisation	
At 1 April 2019	4,490
Charge for the year	27
At 31 March 2020	4,517
Net book value	
At 1 April 2019	27
At 31 March 2020	-

Other intangibles are amortised over their estimated economic life of between 3 and 5 years.

Notes (continued)

12 Tangible fixed assets

Tangible fixed assets comprise owned and leased assets.

	2020
	£000
Owned tangible fixed assets	660
Right-of-use assets (See note 21)	4,450
	<hr/>
At 31 March 2020	5,110
	<hr/> <hr/>

	Leasehold property £000	Plant & vehicles £000	Total £000
Cost			
At 1 April 2019	1,190	2,410	3,600
	<hr/>	<hr/>	<hr/>
At 31 March 2020	1,190	2,410	3,600
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Accumulated depreciation and impairment			
At 1 April 2019	624	1,846	2,470
Depreciation charge for the year	197	273	470
	<hr/>	<hr/>	<hr/>
At 31 March 2020	821	2,119	2,940
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value			
At 1 April 2019	566	564	1,130
	<hr/>	<hr/>	<hr/>
At 31 March 2020	369	291	660
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13 Inventories

	2020	2019
	£000	£000
Raw materials and consumables	992	1,031
	<hr/>	<hr/>
	992	1,031
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

14 Debtors

	2020 £000	2019 £000
Trade debtors	45,559	49,999
Amounts owed by Group undertakings	82,187	119,481
Corporation tax	-	5
Prepayments	13,514	9,754
Accrued income	44,644	51,574
Other debtors	12,740	11,094
	<hr/>	<hr/>
Total	198,644	241,907
	<hr/>	<hr/>

In the opinion of the Directors, the fair value does not materially differ from the carrying value.

Amounts owed by Group undertakings are repayable on demand.

Included within amounts owed by Group undertakings above is £40,000,000 (2019: £70,000,000) relating to loans bearing interest at 5% per annum (2019: 5%).

15 Creditors

	2020 £000	2019 £000
Trade creditors	67,786	67,044
Amounts owed to Group undertakings	52,723	58,520
Other taxes and social security	18,292	18,651
Corporation tax	3,388	-
Accruals	72,035	88,993
Other creditors	908	833
	<hr/>	<hr/>
	215,132	234,041
	<hr/>	<hr/>

Amounts owed to Group undertakings are repayable on demand.

Included within amounts owed to Group undertakings above, is £9,785,000 (2019: £7,699,00) relating to loans bearing interest at 5% per annum (2019: 5% per annum).

16 Deferred income from contracts with customers

	2020 £000	2019 £000
Included within current liabilities	7,271	7,325
Included within non-current liabilities	-	15
	<hr/>	<hr/>
Total	7,271	7,340
	<hr/>	<hr/>

Notes (continued)

17 Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2020 £000	2019 £000
Tangible fixed assets	811	775
Provisions	441	259
Share-based payments	31	-
Net tax assets	<u>1,283</u>	<u>1,034</u>

Movement in deferred tax during the year

	1 April 2019 £000	Recognised in income £000	Recognised in equity £000	31 March 2020 £000
Tangible fixed assets	775	36	-	811
Provisions	259	182	-	441
Share-based payments	-	24	7	31
	<u>1,034</u>	<u>242</u>	<u>7</u>	<u>1,283</u>

Movement in deferred tax during the prior year

	1 April 2018 £000	Recognised in income £000	Recognised in equity £000	31 March 2019 £000
Tangible fixed assets	913	(138)	-	775
Provisions	134	125	-	259
Share-based payments	143	(145)	2	-
Tax losses carried forward	3,060	(3,060)	-	-
	<u>4,250</u>	<u>(3,218)</u>	<u>2</u>	<u>1,034</u>

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as a consequence deferred tax balances are now valued using the 19% corporation tax rate. The opening deferred tax balances, previously valued using the 17% rate, have therefore been restated by £134,000 in the current period, with all of this adjustment being recognised in income.

Notes (continued)

18 Lease liabilities

	2020 £000	2019 £000
Lease liabilities ¹ (Note 21)	4,617	-
Total	4,617	-
Included in current liabilities	908	-
Included in non-current liabilities	3,709	-
Total	4,617	-

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option resulting in the inclusion of an additional £4,617,000 lease liabilities at 31 March 2020, of which £908,000 has been recorded as current liabilities. Under this option, the comparative information is not restated. See Note 1.

19 Provisions

	Dilapidations provision £000	Contract provisions £000	Total £000
At 1 April 2019	-	1,094	1,094
Impact of change in accounting policy ¹	209	-	209
Utilised in the year	-	(390)	(390)
At 31 March 2020	209	704	913

Note:

1. The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

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

Contract provisions relate to various obligations arising in the ordinary course of providing services in line with commercial contracts that may require settlement largely over the next year.

Notes (continued)

20 Capital and reserves

Share capital authorised and fully paid	2020 Number	2019 Number	2020 £000	2019 £000
Ordinary shares				
Ordinary-A shares at £1 each	6,700,000	6,700,000	6,700	6,700
Ordinary-B shares at £0.01 each	3,956,166	3,956,166	39	39
Ordinary-C shares at £1 each	1	1	-	-
	<u>10,656,167</u>	<u>10,656,167</u>	<u>6,739</u>	<u>6,739</u>

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

Share premium account

The share premium account represents the premium arising on the issue of equity shares.

Profit and loss account

The profit and loss account comprises the retained earnings and losses of the Company, less amounts distributed to the Company's shareholder.

21 Leases

The Company has adopted IFRS 16 starting 1 April 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. The details of adjustments made on transition and the related accounting policy is contained in Note 1.

Right-of-use assets	Property £000
At 1 April 2019	6,004
Modification of lease terms	(600)
Depreciation	(954)
At 31 March 2020	4,450

Lease liabilities	£000
At 1 April 2019	5,895
Modification of lease terms	(600)
Interest expense related to lease liabilities	192
Repayment of lease liabilities (including interest)	(870)
At 31 March 2020	4,617

Maturity analysis-contractual undiscounted cash flows	2020 £000
Less than one year	909
One to five years	3,724
Over five years	960
Total undiscounted lease liabilities at 31 March 2020	5,593
Lease liabilities included in the balance sheet at 31 March 2020	4,617
Current	908
Non-current	3,709

Amounts recognised in the profit and loss account	2020 £000
Depreciation of right-of-use assets	(954)
Operating profit impact	(954)
Interest on lease liabilities	(192)
Profit before tax impact	(1,146)

Notes (continued)

22 Contingent liabilities

The Company is party with other Group undertakings in relation to cross-guarantees of each other's liabilities.

	2020 £000	2019 £000
Bank overdraft and loans	227,600	264,051
Performance bonds	3,203	1,372

23 Related parties

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

24 Subsequent events

On 25 June 2020, the Group announced that it had signed a conditional share purchase agreement to acquire the entire issued share capital of Interservefm (Holdings) Limited. On 4 November 2020, Mitie announced that it had renegotiated the terms of the acquisition and entered into an amendment agreement. The consideration for the acquisition will comprise the issuance of c. 248 million ordinary shares, representing c. 17.5% of the share capital of Mitie Group plc, and a cash payment of £120m. The acquisition is classified as a class 1 transaction under the Listing Rules of the Financial Conduct Authority and was therefore conditional upon, amongst other things, the approval of the shareholders of Mitie Group plc at a General Meeting which was obtained on 23 November 2020.

25 Ultimate parent company and parent company of larger group

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