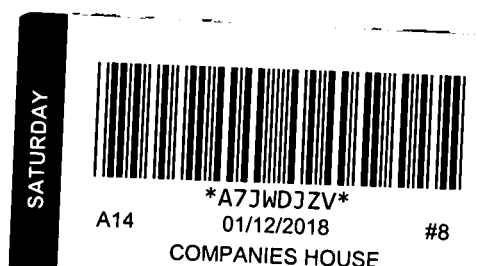


Mitie Limited
(Formerly Mitie Facilities Services Limited)

Annual Report and Financial Statements

Registered number 02938041

31 March 2018



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Company information

Directors

R J Blumberger
P J G Dickinson

Secretary

Mitie Company Secretarial Services Limited

Registered office

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

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Strategic report

Mitie 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 continued to be the management and provision of business support services. There have not been any significant changes in the Company's principal activities in the year under review.

As shown in the Company's profit and loss account on page 9, the Company's revenue was £572,620,000 (2017: £561,337,000) and the profit after tax was £1,902,000 (2017: profit £19,495,000).

The decrease in administrative expenses is primarily due to the impact of the first time adoption of IFRS15 as well as an increase in expenses recharged to various operational companies within the Mitie Group

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

Changes in the market and to the economic conditions

The Company is exposed to UK, Jersey, Guernsey, Isle of Man and Republic of Ireland market conditions. Company performance and resourcing requirements may be impacted by any changes in the market. We have an ability to recognise and adapt to any change in requirement for services and are well placed to adapt to policy changes. We are closely monitoring the outcomes of the European Union exit negotiations and any resulting policy changes to determine the impact on future contract opportunities and availability of resources.

Financial Risks

Reliance on material counterparties

The Company depends on a number of 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.

Strategic report (continued)

Operational Risks

Significant health, safety or environmental incident

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 monitored closely.

System, process or control failure

Increased reliance on business systems dictates a robust governance framework and set of processes. Failure of the framework could impact on operational performance. Mitie's core policies provide the basis of the governance framework. These are subject to reviews which underpins 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 Mitie'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.

Future developments

The Directors expect the underlying trading to remain in line with the current year. Moderate growth in sales is expected to materialise from new business wins, and the Directors are not anticipating any significant contract terminations.

Post balance sheet events

There have been no significant events since the balance sheet date.

Approved by the Board and signed on its behalf by:



R J Blumberger
Director
25 July 2018

Directors' report

The Directors present the Annual Report and audited Financial Statements of Mitie Limited ('the Company') for the year ended 31 March 2018.

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.

Change of name

On 11 January 2018, the Company changed its name from Mitie Facilities Services Limited to Mitie Limited.

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 Company has net current liabilities and is therefore reliant on the support of its immediate and ultimate parent companies in order to meet its liabilities as they fall due. A letter of support has been received from the ultimate parent Company and the Directors have satisfied themselves that the ultimate parent company is able to provide the support.

The Directors, having assessed the responses of the Directors of the Company's ultimate parent Mitie Group plc to their enquiries and have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Mitie group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the Directors of Mitie Group plc, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

As stated in the Strategic report on page 2, the Directors have reviewed the financial risk management objectives and policies of the Company in the light of the Group Risk Framework. The Directors do not believe there to be any significant risk

Directors

The Directors who held office during the year were:

Director	Date of appointment	Date of resignation
R J Blumberger	19/04/2017	
P J G Dickinson	03/10/2017	
M A Freeman		19/04/2017
P J Holland		01/05/2017
J S Sheridan		06/10/2017

Dividends

No dividend was declared or paid in the year (2017: £1.5131 per Ordinary share).

Directors' report *(continued)*

Employees

The Company recognises the importance of good communications and employee relationships. The Company communicates with employees via multiple channels, including Group-wide mailings, employee magazines and updates, employee-focused initiatives and events (including business road shows, media networks and the provision of access to broadcasts of periodic financial presentations).

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

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

Environment

The Company 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 and sustainability reports which do not form part of this report.

Political contributions

The Company made no political donations nor incurred any political expenditure during the year.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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

BDO LLP served as auditors for the 31 March 2018 financial year. Pursuant to Section 487 of the Companies Act 2006, BDO LLP will be deemed to be reappointed as the auditor.

By order of the Board



R J Blumberger
Director

Level 12 The Shard
32 London Bridge Street
London
SE1 9SG
25 July 2018

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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to members of Mitie Limited

Opinion

We have audited the financial statements of Mitie Limited ("the Company") for the year ended 31 March 2018 which comprise the Profit and loss account, the Statement of other comprehensive income, the Balance sheet, the Statement of changes in equity and 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 2018 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, 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.

Opinion 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 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 Directors' responsibilities statement, 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.

BDO LLP

Scott McNaughton (Senior Statutory Auditor)
for and on behalf of BDO LLP, statutory auditor
London
25 July 2018

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

Profit and loss account

	Note	2018 £000	Restated ² 2017 ¹ £000
Turnover	4	572,620	561,337
Cost of sales		(561,237)	(575,563)
Gross profit/(loss)		11,383	(14,226)
Administrative expenses		(4,591)	(17,254)
Exceptional administrative costs	6	(4,301)	(7,546)
Operating profit/(loss)	5	2,491	(39,026)
Income from shares in group undertakings		-	53,207
Other interest receivable and similar income	9	152	213
Interest payable and similar expenses	10	(668)	(1,011)
Profit before taxation		1,975	13,383
Tax on profit	11	(73)	6,112
Profit for the financial year		1,902	19,495

Note:

1. The Company has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.
2. The Company has restated 2017 income statement and balance sheet as per Note 1.

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

Statement of comprehensive income

	Note	2018 £000	2017 ¹ £000
Profit for the year		1,902	19,495
Other comprehensive Income/(loss)			
<i>Items that will not be reclassified to profit:</i>			
Remeasurements of defined benefit liability	21	157	(62)
Total comprehensive income for the year		2,059	19,433

Note:

1. The Company has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.

Balance sheet

	Note	2018 £000	Restated ² 2017 ¹ £000
Fixed assets			
<i>Intangible assets</i>			
Goodwill	12	1,312	1,312
Other intangibles	13	3,024	2,356
<i>Tangible assets</i>			
Investments in subsidiaries	14	10	34
	15	378,599	352,415
		382,945	356,117
Current assets			
Debtors (including £13,174,000 due after more than one year (2017: £50,860,000))	16	92,111	128,784
Cash at bank and in hand		24,254	27,940
		116,365	156,724
Creditors: amounts falling due within one year	18	(181,472)	(178,860)
Deferred income: contract liabilities	17	(27,904)	-
Net current liabilities		(93,011)	(22,136)
Total assets less current liabilities		289,934	333,981
Creditors: amounts falling due after more than one year			
Deferred income	17	(10,050)	-
Other provisions	20	(1,475)	(821)
Pension asset/(liability)	21	41	(115)
Provisions for liabilities		(1,434)	(936)
Net assets		278,450	333,045
Capital and reserves			
Called up share capital	23	38,750	38,750
Share premium account	23	286,513	286,513
Profit and loss account	23	(46,813)	7,782
Shareholders' funds		278,450	333,045

Notes:

1. The Company has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.
2. The Company has restated 2017 income statement and balance sheet as per Note 1.

The financial statements of Mitie Limited, company number 02938041, were approved by the Board of Directors and authorised for issue on 25 July 2018 and were signed on its behalf by:



R J Blumberger
Director

Statement of changes in equity

	Called up Share capital £000	Share Premium £000	Profit and loss ² account £000	Total ¹ equity £000
Balance at 1 April 2016 as previously reported	38,750	286,513	57,069	382,332
Prior year adjustment: Investment write off	-	-	(11,511)	(11,511)
Balance at 1 April 2016 restated	38,750	286,513	45,518	370,781
Total comprehensive income for the year				
Profit for the year as reported	-	-	25,209	25,209
Prior year adjustment: Investment write off	-	-	(5,714)	(5,714)
Profit for the year	-	-	19,495	19,495
Other comprehensive loss	-	-	(62)	(62)
Total comprehensive income for the year	-	-	19,433	19,433
Transactions with owners, recorded directly in equity				
Equity-settled share based payment transactions	-	-	1,634	1,634
Tax on employee share options	-	-	(42)	(42)
Dividends relating to long-term incentive plans	-	-	(129)	(129)
Dividends	-	-	(58,632)	(58,632)
Total contributions by and distributions to owners	-	-	(57,169)	(57,169)
Balance at 31 March 2017	38,750	286,513	7,782	333,045

Statement of changes in equity (continued)

	Called up share capital £000	Share Premium £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2017	38,750	286,513	7,782	333,045
Impact of change in accounting policy ¹	-	-	(56,499)	(56,499)
Adjusted balance at 1 April 2017	38,750	286,513	(48,717)	276,546
Total comprehensive income for the year				
Profit for the year	-	-	1,902	1,902
Other comprehensive income	-	-	157	157
Total comprehensive income for the year	-	-	2,059	2,059
Transactions with owners, recorded directly in equity				
Equity-settled share based payment transactions	-	-	(104)	(104)
Tax on employee share options	-	-	(11)	(11)
Dividends relating to long-term incentive plans	-	-	(45)	(45)
Other movements	-	-	5	5
Total contributions by and distributions to owners	-	-	(155)	(155)
Balance at 31 March 2018	38,750	286,513	(46,813)	278,450

Note:

1. The Company has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2

Notes

1 Accounting policies

Mitie Limited (the "Company") is a private company limited by shares and is incorporated in England and Wales and domiciled in the UK. The Company's registered number is 02938041. The Company's registered office is Level 12 The Shard, 32 London Bridge Street, London, SE1 9SG. Details of the Company's activities are set out in the Strategic Report.

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

As more fully detailed in the Directors' report, the Company's financial statements have been prepared on a going concern basis.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The Company has early adopted the Triennial review 2017 amendments to 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.

Prior year restatement

Management performed an impairment review of investments in subsidiaries which resulted in an impairment of £17,200,000. The conditions of impairment were present in prior periods and as a consequence an impairment of £11,551,000 has been reflected as a prior period adjustment in the 2017 opening balance sheet whilst the remainder has been reflected in the 2017 financial year as a prior year adjustment of £5,714,000.

Early adoption of IFRS 15

The Company decided to early adopt IFRS 15 *Revenue from Contracts with Customers*, with a date of initial application of 1 April 2017. As a result, the Company has changed its accounting policies and updated its internal processes and controls relating to revenue recognition.

The Company has applied IFRS 15 using the cumulative effect method - i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 April 2017, calculated only for those contracts that were not completed as at 1 April 2017. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 *Revenue* and IAS 11 *Construction contracts*.

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.

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Notes (continued)

1 Accounting policies (continued)

Early adoption of IFRS 15 (continued)

Set out below is the revenue recognition policy under IFRS 15 and the five-step model together with the impact of adopting the standard.

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 a contract under IFRS 15 unless it specifies 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.

Contract modifications

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, the Company estimates the change to the total transaction price.

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 good or service. 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, the Company applies judgement to consider whether those promised goods and 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 and services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Company treats the series as a single performance obligation.

Step 3 - Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which the Company expects to be entitled and has rights under the current 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.

Notes (continued)

1 Accounting policies (continued)

Early adoption of IFRS 15 (continued)

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

For each performance obligation, the Company 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 faithfully depicts the Company's performance in transferring control of the goods and services to the customer.

Certain 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 and services transferred to date relative to the remaining goods and 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 IFRS15, 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 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 good or service 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.

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 client to identify and implement cost saving initiatives across the life of the contract.

The Company considers the majority of services provided within integrated facilities management contracts meet the definition of a series of distinct goods and 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, or at milestone periods, and therefore revenue will be recognised in line with the associated transfer of control or milestone dates.

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.

Short-term service-based arrangements

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

Sales of goods are recognised when goods are delivered and control has passed to the customer.

Notes (continued)

1 Accounting policies (continued)

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 assets

Pre-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 belongs to the customer 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 property, plant and equipment are not capitalised as contract fulfilment assets but are treated according to 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 profit or loss 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 or disposal.

The Company 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, the Company 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.

Notes (continued)

1 Accounting policies (continued)

Accrued income and deferred income

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

Where revenue recognised at the period end date is more than amounts invoiced, the Company records 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.

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 income statement 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 years to subsequent years 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.

The company has early adopted the Triennial review 2017 amendments to FRS 101, and therefore has applied the exemptions available to the disclosure requirements of IFRS 15 *Revenue from Contracts with Customers* in respect of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129. These disclosure exemptions generally relate to the qualitative and quantitative information about its contracts with customers, the significant judgements made in applying the standard, and any assets recognised from the costs to obtain or fulfil a contract with a customer.

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, tangible fixed assets, intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- 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;
- 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;
- Third balance sheet as a result of a prior year error.

Notes (continued)

1 Accounting policies (continued)

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 Payments in respect of Group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

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

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

Measurement convention

The financial statements are prepared on the historical cost basis.

Foreign currency

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

Classification of financial instruments issued by the Company

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

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

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

Financial assets comprise loans and receivables and are measured at initial recognition at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised where there is objective evidence that the asset is impaired. Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities comprise trade payables, financing liabilities, including bank and other borrowings. These are measured at initial recognition at fair value and subsequently at amortised cost.

Notes (continued)

1 Accounting policies (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.

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Intangible assets identified in a business acquisition are capitalised at fair value as at the date of acquisition.

Intangible assets

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

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

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

Tangible assets

Tangible 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:

- Plant and vehicles: 3 - 4 years

Impairment of non-current assets

Annually the Company reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

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

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

Notes (continued)

1 Accounting policies (continued)

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less, where appropriate, allowances for impairment.

Employee benefits

Retirement benefit costs

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

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses on obligations, the return on scheme assets (excluding interest) and the effect of the asset ceiling (if applicable) are recognised in full in the period in which they occur. They are recognised in the statement of comprehensive income. Current service cost and past service cost (including curtailments) are recognised in the income statement, in either administrative expenses or other items, whilst the net interest cost is recognised in net finance costs. The retirement benefit liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plan.

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

Provisions for liabilities

Provisions for liabilities 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 the Company expects some, or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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 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, where contract revenue is used as a proxy to 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 in 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 and extension under lower pricing terms.

Notes (continued)

1 Accounting policies (continued)

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.

Turnover under IAS 18 in relation to prior year

Turnover represents income recognised in respect of services provided during the period (stated net of sales taxes) and is earned within the United Kingdom, Jersey, and Republic of Ireland. Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Group and the turnover can be reliably measured. When turnover is recognised but has not yet been billed accrued income arises. Deferred income arises when the Company has billed clients in advance of recognising revenue.

All bid costs are expensed through the profit and loss account up to the point where contract award or full recovery of the costs is virtually certain. The confirmation of the preferred bidder for a contract by a client is the point at which the award of a contract is considered to be virtually certain.

Turnover from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance sheet date. Turnover from time and material contracts is recognised at the contractual rates as labour hours and tasks are delivered and direct expenses incurred. In other cases, the Company distinguishes between the following types of contract:

Recognition: repeat service-based contracts (single and bundled contracts) under IAS 18 in relation to prior year

Turnover is recognised on a straight-line basis unless this is not an accurate reflection of the work performed. Where a straight-line basis is not appropriate, for example if specific works on contracts represent a significant element of the whole, turnover is recognised based on the percentage of completion method, based on the proportion of costs incurred at the balance sheet date relative to the total estimated cost of completing the contracted work.

Costs incurred, after confirmation of preferred bidder, that are specific 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 mobilisation costs. These costs are included within trade and other receivables on the balance sheet provided that the costs relate directly to the contract, are separately identifiable, can be measured reliably and that the future net cash inflows from the contract are estimated to be no less than the amounts capitalised.

Such costs may be incurred when a contract is awarded, or when there is a subsequent change in the scope of contracted services. The mobilisation costs are amortised over the contracted period (including any contracted extension periods), generally on a straight-line basis, or on a basis to reflect the profile of work to be performed over the contracted period if the straight-line basis is not considered to be appropriate for the specific contract to which the costs relate. If the contract becomes loss making, any unamortised costs are written off and the expected loss is provided for immediately.

Notes (continued)

1 Accounting policies (continued)

Recognition: long-term complex contracts under IAS 18 in relation to prior year

The Company has a number of long-term contracts for the provision of complex project-based services, predominantly integrated facilities management contracts. These are contracts which are transformational in nature and usually five years in initial duration.

In this context, transformational means that the cost to the client over the life of the contract is reduced as a result of significant transformations in service provision. Typically these contracts are priced to average the annual charge to the client over the contract period and involve the provision of multiple service lines, with a single management team providing an integrated service.

Where the outcome of such complex project-based contracts can be measured reliably, turnover and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is measured by the proportion of contract costs incurred for work performed to date compared to the total estimated contract costs using the percentage of completion methodology.

Contract costs used to determine the stage of completion are recognised in the profit and loss account as expenses in the period in which they are incurred and include transition costs which are similar in nature to mobilisation costs under repeat service-based contracts. Transition costs are expenses incurred in the performance of transitioning services provided after confirmation of preferred bidder and before commencement of full services under the contract target operating model; no profit margin is recognised for these transition costs.

Contract costs also include transition costs arising when there is a subsequent change in the scope of contracted services and include budgeted cost savings. Where the outcome of a complex project-based contract cannot be estimated reliably, contract revenue is recognised to the extent that it is probable that contract costs will be recovered. Full provision is made for all known or anticipated losses on each contract immediately as losses are forecast. In a number of long-term complex contracts, the achievement of certain key performance indicators (KPIs) is a significant milestone which enables revenue to be recognised. KPIs are generally measured contemporaneously with the performance of the service, rather than being measured over a long period or retrospectively.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The 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 income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Notes (continued)

1 Accounting policies (continued)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. The adoption of the changes set out below has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*.
- Amendments to IAS 7 *Disclosure Initiative*.
- Amendments to IFRS included in the *Annual Improvements to IFRS Standards 2014-2016 Cycle*.

New standards not yet adopted

The Company has taken the exemption available under FRS 101 in respect of not disclosing the impact of new standards that are not yet in effect.

Notes (continued)

2 Explanation of transition to IFRS 15

The following tables summarise the impacts of adopting IFRS 15 on the Company's financial statements for the year ending 31 March 2018.

Reconciliation of equity

	31 March 2018							2017 ¹
	Balances without adoption of IFRS15	Adjustments					2018 as reported	
	£000	A £000	B £000	C £000	D £000	E £000	£000	£000
Fixed assets								
Intangible assets								
Goodwill	1,312	-	-	-	-	-	1,312	1,312
Other intangibles	3,024	-	-	-	-	-	3,024	2,356
Tangible assets	10	-	-	-	-	-	10	34
Investments in subsidiaries	378,599	-	-	-	-	-	378,599	352,415
	<u>382,945</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>382,945</u>	<u>356,117</u>
Current assets								
Trade debtors	15,238	-	-	-	-	-	15,238	21,966
Mobilisation costs	333	-	(333)	-	-	-	-	488
Amounts owed by Group undertakings	37,255	-	(104)	351	-	-	37,502	23,033
Other debtors	4,694	-	-	-	-	-	4,694	779
Deferred tax asset	794	-	-	-	-	12,437	13,231	601
Prepayments	1,630	-	-	-	-	-	1,630	1,273
Accrued income	52,445	(37,997)	-	-	(1,900)	-	12,548	73,582
Corporation tax	9,712	-	-	-	-	(2,444)	7,268	7,062
Cash at bank and in hand	24,254	-	-	-	-	-	24,254	27,940
	<u>146,355</u>	<u>(37,997)</u>	<u>(437)</u>	<u>351</u>	<u>(1,900)</u>	<u>9,993</u>	<u>116,365</u>	<u>156,724</u>
Creditors: amounts due within one year								
Trade creditors	(5,441)	738	-	(738)	-	-	(5,441)	(9,004)
Amounts owed to Group undertakings	(145,500)	-	-	-	-	-	(145,500)	(44,292)
Taxation and social security	(21,152)	-	-	-	-	-	(21,152)	(24,755)
Other creditors	(214)	-	-	-	-	-	(214)	(219)
Accruals	(9,165)	-	-	-	-	-	(9,165)	(65,184)
Deferred income	(23,964)	-	-	23,964	-	-	-	(35,249)
Interest payable	-	-	-	-	-	-	-	(157)
	<u>(205,436)</u>	<u>738</u>	<u>-</u>	<u>23,226</u>	<u>-</u>	<u>-</u>	<u>(181,472)</u>	<u>(178,860)</u>
Deferred income: contract liabilities	-	-	-	(27,904)	-	-	(27,904)	-

Notes (continued)

2 Explanation of transition to IFRS 15 (continued)

31 March 2018								
	Balances without adoption of IFRS15	Adjustments					2018 as reported	2017 ¹
	£000	A £000	B £000	C £000	D £000	E £000	£000	£000
Net current liabilities	(59,081)	(37,259)	(437)	(4,327)	(1,900)	9,993	(93,011)	(22,136)
Total assets less current liabilities	323,864	(37,259)	(437)	(4,327)	(1,900)	9,993	289,934	333,981
Creditors: amounts falling due after more than one year								
Deferred income	-	-	-	(10,050)	-	-	(10,050)	-
	-	-	-	(10,050)	-	-	(10,050)	
Provisions for liabilities								
Other provisions	(1,475)	-	-	-	-	-	(1,475)	(821)
Pension asset/liability	39	-	-	-	-	2	41	(115)
	(1,436)	-	-	-	-	2	(1,434)	(936)
Net assets	322,428	(37,259)	(437)	(14,377)	(1,900)	9,995	278,450	333,045
Capital and reserves								
Called up share capital	38,750	-	-	-	-	-	38,750	38,750
Share premium account	286,513	-	-	-	-	-	286,513	286,513
Profit and loss account	(2,835)	(37,259)	(437)	(14,377)	(1,900)	9,995	(46,813)	7,782
Shareholders' equity	322,428	(37,259)	(437)	(14,377)	(1,900)	9,995	278,450	333,045

Note:

1. The Company has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

Notes (continued)

2 Explanation of transition to IFRS 15 (continued)

Reconciliation of profit

31 March 2018								
	Balances without adoption of IFRS 15		Adjustments				2018 as reported	2017 ¹
	£000	A £000	B £000	C £000	D £000	E £000	£000	£000
Turnover	562,529	7,364	-	4,627	(1,900)	-	572,620	561,337
Cost of sales	(558,900)	-	(2,513)	176	-	-	(561,237)	(575,563)
Gross profit/(loss)	3,629	7,364	(2,513)	4,803	(1,900)	-	11,383	(14,226)
Administrative expenses	(12,283)	5,128	2,564	-	-	-	(4,591)	(17,254)
Exceptional administrative costs	(4,301)	-	-	-	-	-	(4,301)	(7,546)
Operating profit/(loss)	(12,955)	12,492	51	4,803	(1,900)	-	2,491	(39,026)
Income from shares in group undertakings	-	-	-	-	-	-	-	53,207
Investment write off	-	-	-	-	-	-	-	-
Other interest receivable and similar income	151	-	-	-	-	-	152	213
Interest payable and similar expenses	(668)	-	-	-	-	-	(668)	(1,011)
(Loss)/profit before taxation	(13,472)	12,492	51	4,803	(1,900)	-	1,975	13,383
Tax on (loss)/profit	2,853	-	-	-	-	(2,925)	(73)	6,112
(Loss)/profit for the year	(10,619)	12,492	51	4,803	(1,900)	(2,925)	1,902	19,495

Note:

1. The Company has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

Notes (continued)

2 Explanation of transition to IFRS 15 (continued)

The following table details the impact on net assets as at 1 April 2017 and on the revenue and loss for the year recognised for the year ended 31 March 2018, as a result of the adoption of IFRS 15:

	Net assets	Revenue	Profit for the year
	£000	£000	£000
Balances without adoption of IFRS 15	333,045	562,529	(10,619)
IFRS 15 adjustments:			
A - POC Accounting	(49,751)	7,364	12,492
B - Mobilisation assets	(488)	-	51
C - Design and development and other upfront fees	(19,180)	4,627	4,803
D - Contracted discounts including extension discounts	-	(1,900)	(1,900)
E - Tax	12,920	-	(2,925)
As reported total	276,546	572,620	1,902

Adjustment A – POC accounting

IFRS 15 introduces the concept of performance obligations which are the contractual promises by an entity to transfer goods or services to a customer. Under IFRS 15, revenue is recognised on a contract specific basis and in line with the satisfaction of performance obligations. This is a change from the Company's previous accounting policy and the use of a percentage of completion model to measure the proportion of contract costs incurred for work performed to date compared to the total estimated contract costs. Percentage of completion accounting does not provide an appropriate representation of the satisfaction of performance obligations on these long-term complex contracts and consequently, is no longer applied.

The impact of this is a decrease in reserves of £49,751,000 to derecognise the percentage of completion asset held within accrued income at 1 April 2017 and a £12,492,000 credit to the loss for the year ended 31 March 2018 comprising £7,364,000 to reverse the unwind of the asset movement, and £5,128,000 to reverse a percentage of completion asset write-off included within other items. The reversal of the asset write-off follows the net impact of a write-off of £6,628,000 in relation to the loss of two contracts which was offset by a £1,500,000 credit to reinstate a previously written off asset. These balances, which were presented in Other Items, would not have been recognised under IFRS 15 as percentage of completion accounting would not have been applied.

Adjustment B – Mobilisation assets

IFRS 15 specifies that certain costs to fulfil a contract are to be capitalised as contract assets if relevant criteria are met. The Company has determined that the existing mobilisation asset, whilst appropriate under the previous accounting standard, does not meet the more stringent criteria under IFRS 15.

The Company has therefore derecognised the asset as at 1 April 2017 leading to a decrease in reserves of £488,000.

The adjustment to the loss for the year ended 31 March 2018 is a credit of £51,000 to reverse additions and write back amortisation on the mobilisation balance written off.

Notes (continued)

2 Explanation of transition to IFRS 15 (continued)

Adjustment C – Design and development and other upfront fees

On certain contracts, the Company receives upfront, non-refundable payments from the customer to cover significant costs incurred by the Company during the initial phase of the contract. Under IFRS 15, costs incurred from these transition and mobilisation activities, which are more than administrative in nature, are assessed to determine whether they form a separate performance obligation. Where such costs do not form a separate performance obligation under the contract, any upfront payments received from the customer are allocated to the performance obligations of the contract, deferred and recognised over the life of the other services.

The Company has determined that £19,180,000 of revenue previously recognised should be presented as deferred income at 1 April 2017 leading to a decrease in reserves by the same amount. The adjustment to the loss for the year ended 31 March 2018 is a £4,803,000 credit following the rephasing of upfront payments.

Following the adoption of IFRS 15, the Company has presented deferred income from contracts with customers separately on the balance sheet. The balance of pre-IFRS 15 current deferred income amounting to £27,904,000 and non current of £10,050,000 has been reclassified as a result.

Adjustment D – Work in progress

Under IFRS 15, revenue is only recognised when control has passed to a customer and therefore, no work in progress is created unlike under the previous accounting standards. None of the Company's contracts with customers where revenue is recognised over time have work in progress balances.

The Company has therefore derecognised the asset held on balance sheet within accrued income leading to a reduction in reserves of £nil at 1 April 2017. The impact to the loss for the year ended 31 March 2018 is a debit of £1,900,000.

Adjustment E – Tax

Due to the changes in the pattern and timing of revenue recognition under IFRS 15, an additional deferred income liability is recognised on the balance sheet from 1 April 2017, via a charge to the opening balance of equity at 1 April 2017. Further, certain assets previously held in accrued income and recognised through the income statement in earlier periods have been derecognised from 1 April 2017, again via a charge to the opening balance of equity at 1 April 2017.

A tax deduction is available at 1 April 2017 for the one-off transitional adjustments recognised in opening equity. This tax deduction gives rise to tax losses at 1 April 2017, creating a deductible temporary difference for which a deferred tax asset of £12,920,000 is recognised at 1 April 2017, leading to an increase in reserves by the same amount. The tax impact of the IFRS 15 impacts on the loss for the year ended 31 March 2018 is a charge of £2,925,000.

Notes (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements in applying the Company's accounting policies:

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

Revenue recognition

The Company's revenue recognition policies, which are set out under IFRS 15 in Note 1 for the current year and under IAS 18 and IAS 11 in respect of prior years, are central to how the Company measures the work it has performed in each financial year.

The Company's current policy under IFRS 15

Management is required to form a number of key judgements and assumptions 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 (refer to Note 1). 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.

In addition, for certain contracts, key assumptions are made concerning:

- i. contract extensions and amendments which, for example, directly impact the phasing of upfront payments from customers which are recognised in deferred income and unwound over the expected contract term; or
- ii. where options are granted to customers leading to the recognition of a material right. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

The Company's prior year policy under IAS 18

The revenue recognised for certain long-term complex project-based services was based on the stage of completion of the contract activity. This is measured by comparing the proportion of costs incurred, which include transition costs reflecting costs incurred in the performance of transitioning services, against the estimated whole-life contract costs. This requires significant judgements to be made in forecasting the outcomes of the long-term contracts.

Particular judgement is required in evaluating the operational and financial business plans for these contracts to forecast the expected whole-life contract billings, costs and margin and to assess the recoverability of any resulting accrued income through the life of the contract. In forming the judgement around expected whole-life contract billings, account is taken of potential deductions from and increments to revenue that may arise from the application of performance related measures under contracts.

This requires management to apply judgements and estimates that draw on the knowledge and experience of the Company's project managers and delivery teams together with the Company's commercial and finance professionals. Whilst there may be a broad range of possible outcomes based on the relevant circumstances of the individual contract, the Company has controls in place whereby all significant contracts are reviewed on a monthly basis and reforecast quarterly.

The amounts recognised as revenue, profit and contract assets are sensitive to changes in assumptions, for example:

*** Revenue measurement** – in line with the Company's revenue recognition policy for long-term complex contracts, revenue is recognised on these contracts to the extent that the outcome of the project can be reliably measured. For long-term complex contracts this requires judgements to be made on which elements of the contract can be accurately forecast. These contracts will usually comprise fixed revenue streams, variable works and project works. Project works are not included as part of a long-term complex contract on the basis that these amounts are discretionary and consequently cannot be reliably forecast. Therefore, these projects are accounted for separately. The revenue streams that can be reliably forecast comprise the fixed elements (for example for ongoing cleaning and security services) and variable works.

Notes (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Contract profitability and costs to complete – long-term complex contracts are transformational in nature and there is a commitment to work in partnership with the client from the outset of the contract to drive significant cost savings and efficiencies throughout the life of the contract. During the mobilisation of a contract a target operating model is developed. This target operating model shows how the services that are part of the contract will be delivered during the contract and is subject to a continuous review/improvement process throughout the duration of the contract. The target operating model, cost saving initiatives identified and revenue pipeline will be combined into a financial plan for the individual contract. Only cost saving initiatives that are considered to be reasonably certain in terms of timing and scale are included in the plan. Management's ability to accurately forecast the costs to complete the contract involves judgements around cost savings to be achieved over time, anticipated profitability of the contract, as well as contract specific performance KPIs. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

* **Renegotiation of terms** – the Group often enters into renegotiations of existing contract terms such as the timing or the specifications of the services to be delivered. Depending on the outcome of such negotiations, the timing and amount of revenue recognised may be different.

* **Recoverability of contract related assets** – linked to the profitability of contracts above, management is also required to determine the recoverability of contract related assets, accrued income and accounts receivable. Judgement is required in determining whether or not the future economic benefits from contracts are sufficient to recover these contract assets.

Profit before other items

'Other items' are items of financial performance which the Company believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Company. Determining whether an item is part of other items or not requires judgement.

Key sources of estimation uncertainty are as follows:

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

Measurement and impairment of goodwill and other intangible assets

The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of suitable discount rates. Determining whether goodwill and other intangible assets are impaired requires an estimation of the value in use. The value in use calculation involves an estimation of future cash flows and the selection of appropriate discount rates to use in order to calculate present values.

The carrying value of goodwill and other intangible assets is £4,336,000 (2017: £3,668,000) at the balance sheet date; see notes 12 and 13. 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, contingent liabilities and onerous contracts

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. When a contract is expected to incur future unavoidable losses and has therefore become onerous, judgment is required to assess the future expected revenue and costs and hence to determine the appropriate level of provision. 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 2018 of £1,475,000 (2017: £821,000). Further details are included in Note 20.

Recoverability of aged debtors and accrued income

The Company has material amounts of billed and unbilled work outstanding at year end. Where balances become aged or subject to dispute the risk of recoverability increases. As a consequence there is significant management judgement involved in assessing the recoverability of these balances which involves consideration of Group contractual rights, work performed as well as the status of ongoing commercial negotiations. The Company has recognised a valuation allowance in respect of aged and disputed balances accordingly.

Notes (continued)

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Investments

Management performed an impairment review of investments in subsidiaries which resulted in an impairment of £17,200,000. The conditions of impairment were present in prior periods and as a consequence an impairment of £11,551,000 has been reflected as a prior period adjustment in the 2017 opening balance sheet whilst the remainder has been reflected in the 2017 financial year as a prior year adjustment of £5,714,000. Our impairment review primarily stems from estimation of future cashflows and the selection of appropriate discount rates. Discounted future cashflows are based on management's experience and judgement.

Measurement of defined benefit pension obligations

The measurement of defined benefit pension obligation requires judgement. It is dependent on material key assumptions including discount rates, life expectancy rates, future returns on assets and future contribution rates. The present value of defined benefit obligation at the balance sheet date is an asset of £41,000 (2017: £115,000 liability); see Note 21 for further details.

Notes (continued)

4 Turnover

By geographical market:

	2018 £000	2017 £000
United Kingdom	569,190	560,728
Jersey, Guernsey and Isle of Man	1,943	291
Republic of Ireland	1,487	318
	<u>572,620</u>	<u>561,337</u>

5 Expenses and auditor's remuneration

Included in operating profit/loss are the following:

	2018 £000	2017 £000
Loss on disposal of intangible fixed assets	10	-
Gain on disposal of tangible fixed assets	(1)	(44)
Exceptional item	1,635	-
	<u>1,645</u>	<u>(34)</u>

Auditor's remuneration:

	2018 £000	2017 £000
Audit of these financial statements	155	155

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 parent, Mitie Group plc.

Notes (continued)

6 Exceptional items

Investment

	2018 £000	Restated ² 2017 £000
Investment impairment	4,301	5,715
Investment write off	-	1,831
Total	<u>4,301</u>	<u>7,546</u>

1. The Company has restated 2017 income statement and balance sheet as per Note 1, page 13

Investments in Mitie Managed Services (South West and Wales) Ltd, Mitie Managed Services (Southern) Ltd, Mitie Landscape (Southern) Ltd, Mitie Landscape (Northern) Ltd, Mitie Payroll Service and Mitie Document Solutions Ltd, were written off in the year ended 31 March 2017, following the striking off of these entities during the year.

The restructure costs relate to costs of organisational change associated the the Group's Project Helix transformation programme including the transition costs associated with the outsourcing of certain back-office transactional processes.

Investments in Mitie Document Solutions Ltd, Mitie Services (Retail) Ltd, Mitie Transport Services Ltd, Mitie Compliance Ltd, and Direct Enquiries Holdings Ltd, were impaired in the year ended 31 March 2017.

7 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Operations	265	113
Administration	611	743
	<u>876</u>	<u>856</u>

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	27,549	28,339
Share based payments (See note 22)	(86)	1,634
Social security costs	3,460	4,129
Termination and redundancy payments	339	1,452
Pension costs	1,927	1,988
	<u>33,189</u>	<u>37,542</u>

Notes (continued)

8 Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	1,066	844
Amounts receivable under long term incentive schemes	7	24
Company contributions to money purchase pension plans	20	28
Compensation for loss of office	189	-
	<u>1,282</u>	<u>900</u>

In respect of the highest paid Director:

	2018 £000	2017 £000
Emoluments and amounts receivable under long term incentive schemes	487	367
Accrued pension under defined benefit pension scheme	-	46

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

	Number of Directors 2018	2017
Money purchase schemes	1	-
Defined benefit schemes	-	1
	<u>1</u>	<u>1</u>
The number of Directors who exercised share options was	3	1
The number of Directors in respect of whose services shares were received or receivable under long term incentive schemes was	1	1
	<u>1</u>	<u>1</u>

9 Other interest receivable and similar income

	2018 £000	2017 £000
Bank interest	50	-
Interest receivable and similar from Group undertakings	102	213
	<u>152</u>	<u>213</u>
Total interest receivable and similar income	<u>152</u>	<u>213</u>

Notes (continued)

10 Interest payable and similar expenses

	2018 £000	2017 £000
Interest payable on working capital facility	213	-
Interest payable to Group undertakings	452	1,010
Net pension scheme interest	3	1
	<u>668</u>	<u>1,011</u>
Total other interest payable and similar expenses	<u>668</u>	<u>1,011</u>

11 Taxation

	2018 £000	2017 £000
<i>Analysis of charge/(credit) in the year</i>		
Current tax on income for the period	-	(5,997)
Adjustments in respect of prior periods	(199)	(63)
Total current tax	(199)	(6,060)
<i>Deferred tax (see note 19)</i>		
Origination and reversal of temporary timing differences	164	(137)
Reduction in statutory tax rate	25	51
Adjustments in respect of prior periods	83	34
Total deferred tax	272	(52)
	<u>73</u>	<u>(6,112)</u>
Tax on profit	<u>73</u>	<u>(6,112)</u>

	2018 £000	2017 £000
<i>Tax recognised directly in equity</i>		
Current tax	(8)	(1)
Deferred tax	19	43
Total tax recognised directly in equity	<u>11</u>	<u>42</u>

Notes (continued)

11 Taxation (continued)

	2018 £000	2017 £000
<i>Reconciliation of effective tax rate</i>		
Profit for the year	1,902	19,495
Total tax expense	73	(6,112)
	<u>1,975</u>	<u>13,383</u>
Profit excluding taxation		
Tax using the UK corporation tax rate of 19% (2017: 20%)	375	2,677
Reduction in statutory tax rate on deferred tax balances	25	52
Expenses not deductible for tax purposes	(20)	1,446
Non-taxable income from shares in Group undertakings	-	(10,641)
Relief in respect of employee share options	(191)	383
Adjustments in respect of prior periods	(116)	(29)
	<u>73</u>	<u>(6,112)</u>
Total tax expense/(income)		

The main rate of corporation tax will remain at 19% until 1st April 2020 when it will reduce to 17%. These rates have been used to calculate the deferred tax balance as they were substantively enacted at the balance sheet date.

12 Goodwill

	£000
Cost	
At 1 April 2017	1,312
At 31 March 2018	<u>1,312</u>
Amortisation and impairment	
At 1 April 2017	-
At 31 March 2018	<u>-</u>
Net book value	
At 1 April 2017	1,312
At 31 March 2018	<u>1,312</u>

Notes (continued)

13 Intangible assets

	Software	Assets under construction	Total
	£000	£000	£000
Cost			
At 1 April 2017	3,526	-	3,526
Additions	-	3,024	3,024
Disposals	(60)	-	(60)
Transfers to other Group companies	678	-	678
Reclassification to tangible fixed assets	(446)	-	(446)
At 31 March 2018	3,698	3,024	6,722
Amortisation			
At 1 April 2017	1,170	-	1,170
Charge for the year	660	-	660
Disposals	(18)	-	(18)
Impairment	1,635	-	1,635
Transfers to other Group companies	251	-	251
At 31 March 2018	3,698	-	3,698
Net book value			
At 1 April 2017	2,356	-	2,356
At 31 March 2018	-	3,024	3,024

Intangibles are amortised over their estimated economic life of 5 years.

Notes (continued)

14 Tangible fixed assets

	Plant & vehicles £000
Cost	
Balance at 1 April 2017	2,209
Disposals	(3)
Transfers to other Group companies	(759)
Reclassification from intangible fixed assets	446
Balance at 31 March 2018	1,893
Depreciation and Impairment	
Balance at 1 April 2017	2,175
Depreciation charge for the year	27
Disposals	(2)
Transfers to other Group companies	(317)
Balance at 31 March 2018	1,883
Net book value	
At 1 April 2017	34
At 31 March 2018	10

Notes (continued)

15 Fixed asset investments

	Shares in group undertakings £000
Cost	
At 1 April 2016 as previously reported	371,512 ¹
Prior year adjustment investment write off	(11,551)
At 1 April 2016 restated	359,961
Write off of investments	(1,831)
Impairment of investments	(5,715) ¹
At 31 March 2017 (restated)	352,415
At 1 April 2017	352,415
Disposals	(1,246)
Transfers from Group undertakings ²	27,430
At 31 March 2018	378,599
Net book value	
At 31 March 2018	378,599
At 31 March 2017	352,415 ²

Notes:

1. Investments in Mitie Document Solutions Ltd, Mitie Services (Retail) Ltd, Mitie Transport Services Ltd, Mitie Compliance Ltd, and Direct Enquiries Holdings Ltd, were impaired in the year ended 31 March 2017 and restated as per Note 1.

2. During the year, the Company acquired from Mitie Group plc the investment in Mitie Services (Retail) Limited, Mitie Transport Services Limited, Mitie Cleaning Services Limited, Mitie Security Holdings Limited, Mitie Landscapes Limited, Mitie Pest Control (London) Limited, Mitie Document Solutions Limited and Mitie Client Services Limited. Mitie Group plc acquired the interest held by the Company in Mitie Technical Facilities Management Holdings Limited.

Subsidiary companies help are:

Company name	Country of incorporation	Class of shares held	Ownership	
			2018	2017
Direct Enquiries Holdings Limited	England and Wales	£1.00 ordinary A	100%	100%
Direct Enquiries Holdings Limited	England and Wales	£1.00 ordinary	100%	100%
Direct Enquiries Holdings Limited	England and Wales	£0.01 redeemable	100%	100%
Mitie Business Services Limited	England and Wales	£0.01 ordinary A	100%	100%
Mitie Business Services Limited	England and Wales	£0.01 ordinary B	100%	100%
Mitie Business Services Limited	England and Wales	£1.00 deferred	100%	100%

Notes (continued)

15 Fixed asset investments (continued)

Subsidiary companies held are:

Company name	Country of incorporation	Class of shares held	Ownership	
			2018	2017
Mitie Catering Services Limited	England and Wales	£1.00 ordinary A	51%	51%
Mitie Care and Custody Limited	England and Wales	£1.00 ordinary A	100%	100%
Mitie Cleaning Services Limited	England and Wales	£1.00 ordinary A	100%	100%
Mitie Cleaning Services Limited	England and Wales	£1.00 ordinary B	100%	71%
Mitie Cleaning Services Limited	England and Wales	£1.00 ordinary C	100%	0%
Mitie Client Services Limited	England and Wales	£1.00 ordinary A	100%	100%
Mitie Client Services Limited	England and Wales	£0.01 ordinary B	100%	0%
Mitie Client Services Limited	England and Wales	£1.00 ordinary C	100%	0%
Mitie Document Solutions Limited	England and Wales	£1.00 ordinary A	0%	100%
Mitie Document Solutions Limited	England and Wales	£1.00 ordinary B	0%	10%
Mitie Document Solutions Limited	England and Wales	£1.00 ordinary C	100%	0%
Mitie Landscapes Limited (Northern) Limited	England and Wales	£1.00 ordinary A	0%	0%
Mitie Landscapes Limited (Northern) Limited	England and Wales	£1.00 ordinary B	0%	0%
Mitie Landscapes Limited (Southern) Limited	England and Wales	£1.00 ordinary A	0%	0%
Mitie Landscapes Limited (Southern) Limited	England and Wales	£1.00 ordinary B	0%	0%
Mitie Landscapes Limited	England and Wales	£1.00 ordinary A	100%	100%
Mitie Landscapes Limited	England and Wales	£1.00 ordinary B	100%	67%
Mitie Landscapes Limited	England and Wales	£1.00 ordinary C	100%	0%
Mitie Managed Services (South West and Wales Limited)	England and Wales	£1.00 ordinary A	0%	100%
Mitie Managed Services (South West and Wales Limited)	England and Wales	£1.00 ordinary B	0%	37%
Mitie Managed Services (Southern) Limited	England and Wales	£1.00 ordinary	0%	100%
Mitie Managed Services Limited	England and Wales	£0.01 ordinary	100%	100%
Mitie Managed Services Limited	England and Wales	£1.00 deferred	100%	100%
Mitie Payroll Services Limited	England and Wales	£1.00 ordinary	0%	100%
Mitie Pest Control (London) Limited	England and Wales	£1.00 ordinary A	100%	0%
Mitie Pest Control (London) Limited	England and Wales	£1.00 ordinary B	100%	0%
Mitie Pest Control (London) Limited	England and Wales	£1.00 ordinary C	100%	0%
Mitie Pest Control Limited	England and Wales	£1.00 ordinary	100%	100%
Mitie PFI Limited	England and Wales	£1.00 ordinary A	100%	100%
Mitie PFI Limited	England and Wales	£1.00 ordinary B	100%	100%
Mitie Resources Limited	England and Wales	£1.00 ordinary	100%	100%
Mitie Security Holdings Limited	England and Wales	£1.00 ordinary A	100%	100%
Mitie Security Holdings Limited	England and Wales	£0.01 ordinary B	100%	0%
Mitie Security Holdings Limited	England and Wales	£0.01 ordinary C	100%	0%
Mitie Services (Retail) Limited	England and Wales	£1.00 ordinary A	100%	100%
Mitie Services (Retail) Limited	England and Wales	£1.00 ordinary B	100%	14%
Mitie Services (Retail) Limited	England and Wales	£1.00 ordinary C	100%	0%
Mitie Technical Facilities Management Holdings Limited	England and Wales	£1.00 ordinary	0%	1%
Mitie TS2 Limited	England and Wales	£0.001 ordinary B	100%	100%
Mitie Transport Services Limited	England and Wales	£1.00 ordinary A	100%	100%
Mitie Transport Services Limited	England and Wales	£1.00 ordinary B	100%	100%
Mitie Transport Services Limited	England and Wales	£1.00 ordinary C	100%	15%
Mitie Transport Services Limited	England and Wales	£1.00 ordinary D	100%	0%

The registered office of all companies listed above is Level 12 The Shard, 32 London Bridge Street, London, England SE1 9SG.

Mitie Managed Services (South West and Wales) Limited and Mitie Payroll Services Limited were dissolved on 4 April 2017.

Notes (continued)

16 Debtors

	2018 £000	2017 ¹ £000
Trade debtors	15,238	21,966
Mobilisation costs	-	488
Amounts owed by Group undertakings	37,502	23,033
Other debtors	4,694	779
Deferred tax assets (see note 19)	13,231	601
Corporation tax	7,268	7,062
Prepayments	1,630	1,273
Accrued income	12,548	73,582
Total	92,111	128,784
Due within one year	78,937	77,924
Due after more than one year	13,174	50,860

1. The Group has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.

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

Amounts owed by Group undertakings are interest bearing at a rate of circa 5% (2017: circa 5%) and are repayable on demand.

17 Deferred income from contracts with customers

	2018 ¹ £000
Deferred income	
Deferred income included within current liabilities	27,904
Deferred income included within non-current liabilities	10,050
Total deferred income	37,954

Note:

1. The Company has applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 2.

18 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	5,441	9,004
Amounts owed to Group undertakings	145,500	44,292
Taxation and social security	21,152	24,755
Other creditors	214	219
Accruals	9,165	65,184
Deferred income	-	35,249
Interest payable	-	157
Total	181,472	178,860

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

Amounts owed to Group undertakings are repayable on demand and bear no interest.

Notes (continued)

19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £000	2017 £000
Tangible fixed assets	524	439
Share-based payments	261	127
Provisions	8	35
Tax losses carried forward	12,438	-
	<u>13,231</u>	<u>601</u>
Net tax liabilities	<u>13,231</u>	<u>601</u>

Movement in deferred tax during the year

	1 April 2017 £000	Recognised in income £000	Recognised in equity £000	31 March 2018 £000
Tangible fixed assets	439	85	-	524
Share-based payments	127	127	7	261
Provisions	35	-	(27)	8
Tax losses carried forward	-	(483)	12,921	12,438
	<u>601</u>	<u>(271)</u>	<u>12,901</u>	<u>13,231</u>

Movement in deferred tax during the prior year

	1 April 2016 £000	Recognised in income £000	Recognised in equity £000	31 March 2017 £000
Tangible fixed assets	301	60	78	439
Share-based payments	247	-	(120)	127
Provisions	44	(9)	-	35
	<u>592</u>	<u>51</u>	<u>(42)</u>	<u>601</u>

The UK Government announced a reduction in the UK corporation tax rate from 19% to 17% from 1 April 2020, which has been substantively enacted.

The reduction in the balance sheet carrying value of deferred tax assets and liabilities to reflect the rate of tax at which those differences are expected to reverse has not had a material impact on the current year tax charge.

Notes (continued)

20 Provisions

	Insurance excess provision	Pension liability	Total
	£000	£000	£000
Balance at 1 April 2017	821	115	936
Provisions made during the year	654	-	654
Utilised	-	(115)	(115)
Balance at 31 March 2018	1,475	-	1,475

The insurance reserve provides for the self-insured element of Fleet and Liability claims that will typically settle over three to five years. This includes a provision for claims that are expected but have not yet been reported.

21 Retirement benefit schemes

The Company's employees are eligible to participate in either the Mitie Group plc Pension Scheme (a defined benefit scheme), Mitie Group plc's defined contribution schemes or, for certain employees transferred under TUPE, the Railway Scheme, which is an Admitted Body Scheme and part of the Local Government Pension Scheme.

The Company pays contributions of 13.9% in respect of employees who are members of the Mitie Group plc Pension Scheme as part of the Group arrangement. The Company does not account for the other income, expenses, gains, losses, assets and liabilities of the scheme; details of the scheme are set out in note 38 to the Mitie Group plc's financial statements. The scheme has now been closed as of November 2017.

The Company's contractual arrangements mean that it only participates in the Railway Scheme for a finite period up to the end of the contract. For this period some of the schemes are accounted for as a deferred benefit scheme and further information on the Company's share of the scheme is disclosed below.

	2018 £000	2017 £000
Total defined benefit asset	1,059	1,103
Total defined benefit liability	(1,018)	(1,218)
Net (assets)/liabilities for defined benefit obligations (see following table)	41	(115)

Notes (continued)

21 Retirement benefit schemes (continued)

Movements in net defined benefit (asset)/liability

	Defined benefit obligation		Fair value of plan assets		Net defined (asset)/liability	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Balance at 1 April	(1,218)	(981)	1,103	929	(115)	(52)
Included in profit or loss						
Current service cost	-	(11)	-	-	-	(11)
Interest cost/(income)	(32)	(36)	31	34	(1)	(2)
	<u>(1,250)</u>	<u>(1,028)</u>	<u>1,134</u>	<u>963</u>	<u>(116)</u>	<u>(65)</u>
Included in OCI						
Remeasurements loss/(gain):						
Actuarial loss/(gain)	215	(190)	(58)	-	157	(190)
Return on plan assets excluding interest income	-	-	-	128	-	128
	<u>(1,035)</u>	<u>(1,218)</u>	<u>1,076</u>	<u>1,091</u>	<u>41</u>	<u>(127)</u>
Other						
Contributions paid by the employer	-	-	-	12	-	12
Contributions paid by the scheme members		(5)		5		-
Benefits paid	17	5	(17)	(5)	-	-
	<u>(1,018)</u>	<u>(1,218)</u>	<u>1,059</u>	<u>1,103</u>	<u>41</u>	<u>(115)</u>
Balance at 31 March	<u>(1,018)</u>	<u>(1,218)</u>	<u>1,059</u>	<u>1,103</u>	<u>41</u>	<u>(115)</u>

Plan assets

	2018	2017
	£000	£000
Cash and cash equivalents	-	25
Equity instruments	547	432
Debt instruments e.g. Government bonds	512	588
Real estate	-	58
Total	<u>1,059</u>	<u>1,103</u>

Notes (continued)

21 Retirement benefit schemes (continued)

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by European governments and are AAA- or AA-rated.

Actuarial assumptions

The Company is required to pay regular contributions as decided by the Scheme Actuary and detailed in the Scheme's Schedule of Contributions.

The following are the principal actuarial assumptions at the reporting date:

	2018	2017
Discount rate at 31 March	2.60	2.65
Future salary increases	3.10	3.40
Retail price inflation	3.10	3.40
Consumer price inflation	2.10	2.40
Future pension increases	3.40	3.40

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 88 years (male), 89 years (female).
- Future retiree upon reaching 65: 89 years (male), 90 years (female).

The funding requirements are based on the pension fund's actuarial framework set out in the funding policies of the plan. The funding of the scheme is determined by the scheme actuary based on a separate actuarial valuation for funding purposes for which the assumption may differ from the assumptions above.

The Company expects to pay £12,000 (2017: £12,000) in contribution to its defined benefit plans in 2018. The weighted average duration of the defined benefit obligation at the end of the reporting period is around 20 years (2017: 20 years).

Notes (continued)

22 Share-based payments

The Mitie Group operates five equity-settled share option schemes, involving ordinary 2.5p shares in Mitie Group plc, which are open to employees of the Company. Full details of the schemes are given in the annual report of Mitie Group plc. The main terms of each scheme are as follows:

Discretionary schemes

Mitie Group plc long term incentive plan

Awards of shares or rights to acquire shares with an exercise price of nil and a vesting period of 3 - 5 years. Awards may be forfeited if the employee leaves the Group. Performance conditions must be satisfied which are based on movements in a range of market and non-market conditions.

Mitie Group plc executive share option scheme

The right to acquire shares at a predetermined price following a vesting period of three years. Options may be forfeited if the employee leaves the Group. Before options can be exercised, a performance condition, linked to growth in earnings per share, must be satisfied

Conditional share plan

Awards of shares or rights to acquire shares with an exercise price of nil and a vesting period of 1 - 2 years. Awards may be forfeited if the employee leaves the Group.

Non-discretionary schemes

Mitie Group plc SAYE scheme

The right to acquire shares at a predetermined price if the employee saves a regular amount over a three year period. Options must be exercised within six months of the date of vesting. Options may be forfeited if the employee leaves the Group.

Share incentive plan

Employees are invited to invest in Partnership shares which are purchased in the market on their behalf and held in a UK employee benefit trust. One Matching share is awarded for every ten Partnership shares purchased. Matching shares may be forfeited if the employee disposes of the Partnership shares within three years of purchase.

	2018	2017
Weighted average share price at date of exercise	265p	243p
Options outstanding prices	212p to 319p	201p to 319p
Weighted average remaining contractual life	4.3 years	5.0 years

The options outstanding at 31 March 2018 had exercise prices ranging from 212p to 319p (2017: 201p to 319p). During the year, options were granted in July, August, October, November 2017 and January 2018. In 2017, options were granted in May, July and August 2016.

The costs of options and conditional awards over the plc Parent Company shares granted to employees of the Company are accounted for as a credit in equity representing a capital contribution from the Parent Company.

Notes (continued)

23 Capital and reserves

Share capital authorised and fully paid	At start of year	At end of year	2018 £000	2017 £000
Ordinary Shares				
Ordinary shares at £1 each	38,750,002	38,750,002	38,750	38,750
	<u>38,750,002</u>	<u>38,750,002</u>	<u>38,750</u>	<u>38,750</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.

Dividend

The following dividends were recognised during the period:

	2018 £000	2017 £000
£nil (2017: £1.5131) per qualifying ordinary share	-	58,632
	<u>-</u>	<u>58,632</u>

24 Commitments

Commitments on behalf of Group undertakings

The Company is party with other Group undertakings to cross-guarantees of each others bank overdrafts and loans.

	2018 £000	2017 £000
Overall commitment	258,106	309,315
	<u>258,106</u>	<u>309,315</u>

25 Related parties

The Company is a participant in the Mitie Group plc Pension Scheme, a defined benefit scheme; the contributions payable under the scheme are apportioned to the Company on the basis of the percentage of pensionable payroll determined, by the scheme actuaries, for the scheme as a whole. The contributions payable to the scheme were £2,000 (2017: £216,000); £nil of this amount was payable to the scheme at 31 March 2018 (2017: £11,000). Full details of the scheme are set out in the Annual Report and Accounts of Mitie Group plc.

Notes *(continued)*

26 Subsequent events

There are no material post balance sheet events that require adjustment or disclosure.

27 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Mitie 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, UK or from www.mitie.com.