

Mitie Treasury Management Limited

Annual Report and Financial Statements

Registered number 07351242

31 March 2019



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Company information

Directors

M Idle
G Bonthron
D M Forbes
P J G Dickinson

Secretary

Mitie Company Secretarial Services Limited

Registered office

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

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Strategic report

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

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

Review of the business

The principal activity of the Company is to raise external debt finance for Mitie Group plc. There have not been any significant changes in the Company's principal activities in the year under review. The Company holds the defined benefit pension scheme for Mitie Group plc. As at 31 March 2019 the net liability for the defined pension scheme stands at £61,425,000 (2018: £54,707,000). The Company received dividends of £39,413,000 (2018: nil) from its subsidiaries during the year.

As shown in the Company's profit and loss account on page 9, the profit after tax was £38,773,000 (2018: £51,977,000 loss after tax). In the year ended 31 March 2019 Mitie Treasury Management Limited utilised Mitie Group plc's committed banking facility of £275m, which remains in place until July 2021.

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 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.

Operational Risks

Significant health, safety or environmental incidents

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

System, process or control failure

Increased reliance on business systems 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 underpin the mitigation activity for this risk. These reviews are carried out alongside regular, formal, documented testing of business critical systems.

Strategic report (continued)

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.

The Directors have reviewed the financial risk management objectives and policies of the Company. The Group's Treasury function monitors and manages the financial risks relating to the operations of the Group. These risks include interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by Group policies and reviewed regularly. Group policy is not to trade in financial instruments.

The Company holds a number of cross currency interest rate swaps designated as cash flow hedges. Bi-annual fixed interest cash flows arising over the period to December 2022 and denominated in US\$ for the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. All cash flow hedges were assessed as being highly effective as at 31 March 2019.

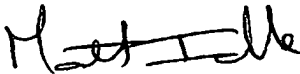
Future developments

The Directors expect the general level of activity to remain consistent in the forthcoming year.

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:



M Idle
Director

19 July 2019

Directors' report

The Directors present the Annual Report and audited Financial Statements of Mitie Treasury Management Limited ('the Company') for the year ended 31 March 2019.

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

Going concern

The Company's business activities, together with the factors likely to affect its future development and position are set out in the Strategic report.

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its ultimate parent and fellow subsidiaries.

The Directors, having assessed the responses of the Directors of the Company's ultimate parent Mitie Group plc to their enquiries, 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
M Idle	18/01/2019	
G Bonthron		
D M Forbes		
P J G Dickinson		
R J Blumberger		18/01/2019

Dividends

No dividend was declared or paid in the year (2018: no dividend).

Environment

The Group endeavours to identify, monitor and manage the impact of their activities on the environment and is fully committed to environmental accountability and protection. The Company operates in accordance with Group policies which are described in the Group's annual 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.

Directors' report *(continued)*

Disclosure of information to auditor

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

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

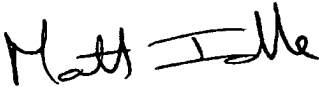
Other information

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

Auditor

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

By order of the Board



M Idle
Director

Level 12
The Shard
32 London Bridge Street
SE1 9SG

19 July 2019

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

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

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

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

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

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

Independent auditor's report to members of Mitie Treasury Management Limited

Opinion

We have audited the financial statements of Mitie Treasury Management Limited ("the Company") for the year ended 31 March 2019 which comprise Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet and Statement of Changes in Equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 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 Strategic report and Directors' 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 Treasury Management Limited

(continued)

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the 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

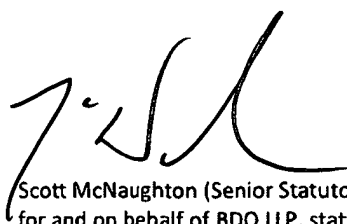
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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.



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

19 July 2019

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

Profit and loss account

	Note	2019 £000	2018 £000
Administrative expenses		(6,999)	(3,463)
Investment impairment	8	(286)	(51,831)
Operating loss		(7,285)	(55,294)
Income from shares in group undertakings		39,413	-
Other interest receivable and similar income	5	29,343	26,175
Interest payable and similar expenses	6	(23,976)	(22,731)
Profit/(loss) before taxation		37,495	(51,850)
Tax on profit/(loss)	7	(517)	(127)
Profit/(loss) for the financial year		36,978	(51,977)

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

Statement of comprehensive income

	Note	2019 £000	2018 £000
Profit/(loss) for the year		36,978	(51,977)
Other comprehensive income/(expense)			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit liability	13	(13,601)	7,431
Income tax on items that will not be reclassified to profit or loss	7	2,312	(1,263)
		(11,289)	6,168
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of cash flow hedges reclassified to profit or loss	14	1,656	854
		1,656	854
Other comprehensive (expense)/income for the year, net of income tax	14	(9,633)	7,022
Total comprehensive income/(expense) for the year		27,345	(44,955)

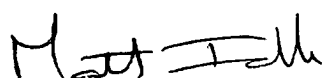
The notes on pages 12 to 34 form an integral part of these financial statements.

Balance sheet

	<i>Note</i>	2019 £000	2018 £000
Non-current assets			
Financial assets	15	16,425	-
Investments in subsidiaries	8	664,371	659,731
Deferred tax asset	12	11,490	9,300
		<u>692,286</u>	<u>669,031</u>
Current assets			
Debtors	9	589,798	526,221
Financial assets	15	-	6,103
		<u>589,798</u>	<u>532,324</u>
Creditors: amounts falling due within one year	10	(348,855)	(269,929)
Net current assets		<u>240,943</u>	<u>262,394</u>
Total assets less current liabilities		<u>933,229</u>	<u>931,425</u>
Creditors: amounts falling due after more than one year	11	(224,051)	(258,106)
Pension liability	13	(61,425)	(54,707)
		<u>647,753</u>	<u>618,613</u>
Net assets		<u>647,753</u>	<u>618,613</u>
Capital and reserves			
Called up share capital	14	554,034	554,034
Share premium account	14	105,973	105,973
Hedging and translation reserves	14	(4,855)	(6,511)
Profit and loss account	14	(7,399)	(34,883)
		<u>647,753</u>	<u>618,613</u>
Shareholders' funds		<u>647,753</u>	<u>618,613</u>

The notes on pages 12 to 34 form an integral part of these financial statements.

The financial statements of Mitie Treasury Management Limited, company number 07351242, were approved by the Board of Directors and authorised for issue on 19 July 2019 and were signed on its behalf by:



M Idle
Director

Statement of changes in equity

	Called up share capital £000	Share premium account £000	Hedging and translation reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2017	1	-	(7,365)	10,926	3,562
Total comprehensive income					
Loss for the Year	-	-	-	(51,977)	(51,977)
Other comprehensive expense (see note 14)	-	-	854	6,168	7,022
Total comprehensive income/(expenses) for the year	-	-	854	(45,809)	(44,955)
Transactions with owners					
Issue of share capital	554,033	-	-	-	554,033
Share premium	-	105,973	-	-	105,973
Total contributions by and distributions to owners	554,033	105,973	-	-	660,006
Balance at 31 March 2018	554,034	105,973	(6,511)	(34,883)	618,613

	Called up share capital £000	Share Premium Account £000	Hedging and translation reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2018	554,034	105,973	(6,511)	(34,883)	618,613
Total comprehensive income					
Profit for the Year	-	-	-	36,978	36,978
Other comprehensive income/(expense) (see note 14)	-	-	1,656	(11,289)	(9,633)
Total comprehensive income for the year	-	-	1,656	25,689	27,345
Transactions with owners					
Total contributions from owner	-	-	-	1,795	1,795
Total contributions by and distributions to owners	-	-	-	1,795	1,795
Balance at 31 March 2019	554,034	105,973	(4,855)	(7,399)	647,753

The notes on pages 12 to 34 form an integral part of these financial statements.

Notes

1 Accounting policies, judgements and estimates

a) General information

Mitie Treasury Management 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 07351242. The Company's registered office is Level 12, The Shard, 32 London Bridge Street, SE1 9SG. Details of the Company's activities are set out in the Strategic Report.

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.

b) Statement of compliance with FRS101

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

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

c) Basis of preparation

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;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- 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.

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;

There are no new and mandatorily effective standards in the year that would have a material impact on the 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 below.

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

Measurement convention

The financial statements are prepared on the historical cost basis.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies

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.

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

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

Financial instruments

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.

Financial assets comprise trade and other receivables and cash and cash equivalents that are measured at initial recognition at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised including 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 and bank and other borrowings. These are measured at initial recognition at fair value and subsequently at amortised cost with the exception of derivative financial instruments which are measured at fair value. Bank and other borrowings are stated at the amount of the net proceeds after deduction of transaction costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

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.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Derivative financial instruments and hedge accounting

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

The Company may designate certain hedging instruments including derivatives as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

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

Cash flow hedges

Hedges are classified as cash flow hedges when they hedge the exposure to changes in cash flows that are attributable to a particular risk associated with either a recognised asset or liability or a forecast transaction. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity within the Company's translation and hedging reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

Investments in subsidiaries

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

Notes (continued)

1 Accounting policies (continued)

d) Significant accounting policies (continued)

Employee benefits

Retirement benefit costs

The Company participates in a number of 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. 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.

Current service cost and past service cost are recognised in profit and loss, in administrative expenses, whilst the net interest cost is recognised in net finance costs.

The retirement benefit obligation 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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The 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 when the Company intends to settle its current tax assets and liabilities on a net basis.

Notes (continued)

1 Accounting policies (continued)

d) Significant accounting policies (continued)

Dividends

Dividends are recognised when they become legally receivable. This is when approved by the shareholders of the subsidiary company.

e) 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 (d) above, management has made the following judgements that have the most effect on the amounts recognised in the financial statements.

Recoverability of amounts owed by Group undertakings

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

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.

Fixed asset investments

The measurement of investments accounted for as fixed assets involves the estimation of future cash flows in the underlying businesses to determine whether the value of the investment has been impaired. The directors have considered these cash flows and have recognised a £286,000 impairment.

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 asset and future contribution rates. The present value of defined benefit obligation at the balance sheet date is £61,426,000.

Derivative financial instruments

The principal area of estimation is the valuation of derivative financial instruments, whose fair values have been determined using market information and discounted cash flow analysis as discussed in note 15.

Notes (continued)

2 Auditor's remuneration

Auditor's remuneration:

	2019 £000	2018 £000
Audit of these financial statements	-	6
Audit fees borne by Mitie Group plc and not recharged	6	-
	<u>6</u>	<u>-</u>

3 Staff numbers and costs

Mitie Treasury Management Limited had no employees in the year ended 31 March 2019 (2018: nil).

4 Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	156	190
Amounts receivable under long term incentive schemes	13	-
Company contributions to money purchase pension plans	-	20
	<u>169</u>	<u>210</u>

	Number of Directors 2019	2018
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	1	1
	<u>1</u>	<u>1</u>

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

Director	Remunerated by	Disclosed by
M Idle	Mitie Limited	Mitie Limited
P J G Dickinson	Mitie Limited	Mitie Limited
R J Blumberger	Mitie Limited	Mitie Limited

G Bonthron had no remuneration for qualifying services as a Director during the year.

Notes *(continued)*

5 Other interest receivable and similar income

	2019	2018
	£000	£000
Bank interest	113	51
Interest receivable and similar from Group undertakings	29,230	26,124
	<hr/>	<hr/>
Total interest receivable and similar income	29,343	26,175
	<hr/> <hr/>	<hr/> <hr/>

6 Interest payable and similar expenses

	2019	2018
	£000	£000
Interest payable and similar on bank loans and overdrafts	3,331	2,845
Private placement interest and fees	7,815	9,884
Interest payable to Group undertakings	11,540	9,064
Gain arising on derivatives in a designated fair value hedge	-	(2,719)
Loss arising on adjustment for the hedge item in a designated fair value hedge	-	2,764
Net pension scheme interest	1,290	893
	<hr/>	<hr/>
Total other interest payable and similar expenses	23,976	22,731
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

7 Taxation

	2019 £000	2018 £000
<i>Analysis of charge in the year</i>		
<i>UK corporation tax at 19% (2018: 19%)</i>		
Current tax on income for the period	355	-
Adjustments in respect of prior periods	40	130
	<hr/>	<hr/>
Total current tax	395	130
Origination and reversal of temporary timing differences	260	(3)
Reduction in statutory tax rate	(138)	-
	<hr/>	<hr/>
Tax on profit/(loss)	517	127
	<hr/>	<hr/>
	2019 £000	2018 £000
<i>Tax recognised directly in equity</i>		
Current tax	-	-
Deferred tax	(2,312)	1,263
	<hr/>	<hr/>
Total tax recognised directly in equity	(2,312)	1,263
	<hr/>	<hr/>
	2019 £000	2018 £000
<i>Reconciliation of effective tax rate</i>		
Profit/(loss) for the year	36,978	(51,977)
Total tax expense	517	127
	<hr/>	<hr/>
Profit/(loss) excluding taxation	37,495	(51,850)
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 19% (2018: 19%)	7,124	(9,851)
Reduction in statutory tax rate on deferred tax balances	(137)	-
Expenses not deductible for tax purposes	638	9,848
Non-taxable income from shares in Group undertakings	(7,148)	-
Adjustments in respect of prior periods	40	130
	<hr/>	<hr/>
Total tax expense	517	127
	<hr/>	<hr/>

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

Notes (continued)

8 Fixed asset investments

The Company has the following investments in subsidiaries:

	Shares in Group undertakings £000
Cost	
At beginning of year	711,562
Additions	8,753
Reduction in contingent considerations	(3,827)
At end of year	716,488
Provisions for impairment	
At beginning of year	51,831
Impairment of investment	286
At end of year	52,117
Net book value	
At 31 March 2018	659,731
At 31 March 2019	664,371

During the year the Company received a claim under an original acquisition agreement reducing the cost of investment in Mitie Technical Facilities Management Holdings Limited by £3,827,000. A £286,000 impairment was recognised in relation to various overseas subsidiaries.

	Country of Incorporation	Class of shares held	Ownership 2019	2018
Mitie Investment Limited	England and Wales	Ordinary	100%	100%
Mitie Holdings Limited	England and Wales	Ordinary	100%	100%
Mitie Technical Facilities Management Holdings Limited	England and Wales	Ordinary	100%	100%
Mitie International Limited	England and Wales	Ordinary	100%	100%
Mitie Business Services UK Limited	England and Wales	A Ordinary	100%	100%
Mitie Business Services UK Limited	England and Wales	B Ordinary	100%	100%
Mitie Business Services UK Limited	England and Wales	C Ordinary	100%	100%
Mitie Shared Services Limited	England and Wales	Ordinary	100%	100%
Mitie Group Pension Scheme Trustee Company Limited	England and Wales	Ordinary	100%	100%
Mitie Deutschland GmbH	Germany	Ordinary	100%	100%
Mitie France SAS	France	Ordinary	100%	100%
Mitie Polska Sp x.o.o.	Poland	Ordinary	100%	100%
Mitie Norge Aksjeselskap	Norway	Ordinary	100%	100%
Mitie Sverige AB	Sweden	Ordinary	100%	100%
Mitie Suomi Oyu	Finland	Ordinary	100%	100%
Mitie Schweiz GmbH	Switzerland	Ordinary	100%	100%
Mitie Nederland B.V.	Netherlands	Ordinary	100%	100%
Mitie Espana S.L	Spain	Ordinary	100%	100%
Mitie Belgium Security BVBA	Belgium	Ordinary	100%	100%
Cole Motors Limited	England and Wales	Ordinary	100%	100%
Jabaz Holdings Limited	England and Wales	Ordinary	100%	100%
Mitie Company Secretarial Services Limited	England and Wales	Ordinary	100%	100%

Notes (continued)

8 Fixed asset investments (continued)

	Country of Incorporation	Class of shares held	Ownership	
Mitie Environmental Limited	England and Wales	A Ordinary	100%	100%
Mitie Environmental Limited	England and Wales	B Ordinary	100%	100%
Mitie Trustee Limited	England and Wales	Ordinary	100%	100%
Vision Security Group Ltd	England and Wales	Ordinary	100%	100%

The registered address of subsidiaries is level 12, The Shard, 32 London Bridge Street, London, SE1 9SG with the exception of the companies listed below.

The registered address of Mitie Belgium Security BVBA is c/o Regus Brussels South Station, Marcel Broodthaersplein 8 (box 5), 1060, Brussels (Sint-Gillis), Belgium.

The registered address of Mitie Deutschland GmbH is Meßstetter Straße 8, 70567, Stuttgart, Germany.

The registered address of Mitie España, S.L. is Osborne Clarke, Avenida Diagonal, 477, Planta 20, 08036, Barcelona, Spain.

The registered address of Mitie France SAS is 259 rue St Honore, 75001, Paris, France.

The registered address of Mitie Nederland B.V. is Hoofdweg 52A, 3067 GH Rotterdam, P.O.Box 8540, 3009 AM Rotterdam, Netherlands.

The registered address of Mitie Norge Aksjeselskap is Kongensgate 9, 0153, Oslo, Norway.

The registered address of Mitie Polska Sp. z o.o. is Solec 22, 00-410, Warsaw, Poland.

The registered address of Mitie Reinsurance Company Limited is Maison Trinity, Trinity Square, St. Peter Port, GY1 4AT, Guernsey.

The registered address of Mitie Schweiz GmbH is Brandschenkestrasse 90, CH-8027, Zurich, Switzerland.

The registered address of Mitie Suomi Oy is c/o Ov Visma Services Infocon Ab, Pormestarinrinne 8, 00160 Helsinki, Finland.

The registered address of Mitie Sverige AB is Kungsgatan 55, 111 22 Stockholm, Sweden.

9 Debtors

	2019 £000	2018 £000
Amounts owed by Group undertakings	585,124	526,196
Other debtors	4,603	21
Interest receivable	70	5
Taxation and social security	1	(1)
Total	589,798	526,221
 Due within one year	 589,798	 526,221

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

Amounts owed by Group undertakings are repayable on demand.

Included within amounts owed from Group undertakings above is £539,801,000 (2018: £519,352,000) relating to loans bearing interest at 5% per annum (2018: between 1.83% and 7.20% per annum).

Notes *(continued)*

10 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Bank loans and overdrafts	101,605	129,507
Trade creditors	5	1
Amounts owed to Group undertakings	204,098	136,351
Corporation tax	358	1,294
Other creditors	53	-
Accruals	138	328
Interest payable	2,598	2,448
Private placement notes (see note 15)	40,000	-
	<u>348,855</u>	<u>269,929</u>

Included within amounts owed to Group undertakings above is £120,000,000 (2018: £50,000,000) relating to a loan bearing interest at 5% per annum (2018: 5% per annum).

11 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Bank loans and overdrafts	52,161	54,337
Private placement notes (see note 15)	171,890	203,769
	<u>224,051</u>	<u>258,106</u>

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

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

Notes (continued)

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2019 £000	2018 £000
Provisions	11,490	9,300
Net tax Assets	<u>11,490</u>	<u>9,300</u>

Movement in deferred tax during the year

	1 April 2018 £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination £000	31 March 2019 £000
Provisions	9,300	(122)	2,312	-	11,490
	<u>9,300</u>	<u>(122)</u>	<u>2,312</u>	<u>-</u>	<u>11,490</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)

13 Retirement benefit schemes

Defined benefit schemes

The Company operates the Mitie Group plc Pension Scheme (Group scheme), which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their final pensionable pay.

The scheme closed to new members in 2006, with new employees able to join one of the defined contribution schemes. The main Group scheme has now been closed as of October 2017.

Pensions in payment are generally increased in line with RPI inflation, subject to certain caps and floors. Benefits are payable on death and other events such as withdrawal from active service.

The Group scheme is operated under the UK regulatory framework. Benefits are paid to members from the trust-administered fund, where the Trustee is responsible for ensuring that the scheme is sufficiently funded to meet current and future benefit payments. Plan assets are held in trust and are governed by pension legislation. If investment experience is worse than expected or the actuarial assessment of the scheme's liabilities increases, the Group's financial obligations to the scheme rise.

The nature of the relationship between the Group and the Trustee is also governed by regulations and practice. The Trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment out performance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (which are determined by the Trustee with advice from the scheme actuary). The most recent triennial valuation was carried out as at 31 March 2017 and was concluded in March 2019.

The Trustee's other duties include managing the investment of the scheme's assets, administration of plan benefits and exercising of discretionary powers. The Group works closely with the Trustee to manage the scheme.

All Group companies account for the contributions to the Group scheme payable in respect of their employees and as part of a Group arrangement the Company accounts for the other income, expenses, gains, losses, assets and liabilities of the scheme.

Notes (continued)

13 Retirement benefit schemes (continued)

Risks and risk management

The Group scheme, in common with the majority of UK plans, has a number of risks. These areas of risk and the ways in which the Group has sought to manage them, are set out below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements:

<u>Risk</u>	<u>Description</u>
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation for accounting is calculated using a discount rate set with reference to corporate bond yields.

The Group scheme holds a large proportion of its assets (67%) in equities and other return-seeking assets (principally diversified growth funds ('DGFs') and property). The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level has the potential to be volatile in the short-term, potentially resulting in short-term cash requirements or alternative security offers which are acceptable to the Trustee and an increase in the net defined benefit liability recorded on the Group's balance sheet.

The Group believes that equities and DGFs offer the best returns over the long-term with an acceptable level of risk and hence holds a significant proportion of these types of asset. However, the scheme's assets are well-diversified by investing in a range of asset classes, including property, government bonds and corporate bonds. The Group scheme holds 25% of its assets in DGFs which seek to maintain high levels of return whilst achieving lower volatility than direct equity funds. The allocation to return seeking assets is monitored to ensure it remains appropriate given the scheme's long-term objectives. The investment in bonds is discussed further below.

Changes in bond yields	Falling bond yields tend to increase the funding and accounting liabilities. However, the investment in corporate and government bonds offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.
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Inflation risk	The majority of the scheme's benefit obligations are linked to inflation. Higher inflation will lead to higher liabilities (although caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the Group scheme's assets are either unaffected by inflation (fixed interest bonds) or loosely correlated with inflation (equities), meaning that an increase in inflation will also increase the deficit.
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Life expectancy	The majority of the schemes' obligations are to provide a pension for the life of the member, so unexpected increases in life expectancy will result in an increase in the obligations.
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Areas of risk management

Although investment decisions in the scheme are the responsibility of the Trustee, the Group takes an active interest to ensure that pension plan risks are managed efficiently. The Group and Trustee have agreed a long-term strategy for reducing investment risk where appropriate.

Certain benefits payable on death before retirement are insured.

The information disclosed below is in respect of the whole of the plan for which the Company is allocated a responsibility under an agreed Group policy throughout the periods shown. The pension liability was transferred from another Group company, on 14 November 2017, as part of a flexible apportionment agreement.

Notes *(continued)*

13 Retirement benefit schemes *(continued)*

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

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 32 to the Mitie Group plc's financial statements. The Company's contractual arrangements mean that it only participates in the **Local Government Pension Schemes/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 is disclosed below. For the other Local Government Pension Schemes the Company's contractual arrangements mean that it is not exposed to any deficit or surplus arising and as a result accounts for these as defined contribution schemes. The total expense relating to defined contribution plans in the year was £16,667,000 (2018: £13,300,000).

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed Group policy throughout the periods shown.

	2019	2018
	£000	£000
Defined benefit asset	190,433	182,270
Total defined benefit liability	(251,858)	(236,977)
Net liabilities for defined benefit obligations (see following table)	(61,425)	(54,707)

Notes (continued)

13 Retirement benefit schemes (continued)

Movements in net defined benefit liability

	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000
Balance at 1 April	(236,977)	(240,767)	182,270	178,650	(54,707)	(62,117)
Included in profit or loss						
Current service cost	(393)	(470)	-	-	(393)	(470)
Administrative expense	-	-	(1,142)	(386)	(1,142)	(386)
Past service cost	(1,601)	(1,884)	-	-	(1,601)	(1,884)
Interest (cost)/income	(6,057)	(3,209)	4,766	2,316	(1,291)	(893)
	(245,028)	(246,330)	185,894	180,580	(59,134)	(65,750)
Included in OCI						
Remeasurements (loss)/gain:						
Actuarial (loss)/gain arising from:						
- Change in demographic assumptions	-	5,888	-	-	-	5,888
- Change in financial assumptions	(13,614)	(993)	-	-	(13,614)	(993)
- Experience adjustment	(1,292)	(5)	-	-	(1,292)	(5)
Return on plan assets excluding interest income	-	-	1,306	2,541	1,306	2,541
	(259,934)	(241,440)	187,200	183,121	(72,734)	(58,319)
Other						
Contributions paid by the employer	1	-	11,306	3,612	11,307	3,612
Contributions paid by the scheme members	(40)	(30)	41	30	1	-
Benefits paid	8,115	4,493	(8,114)	(4,493)	1	-
Balance at 31 March 2019	(251,858)	(236,977)	190,433	182,270	(61,425)	(54,707)

Plan assets

	2019	2018
	£000	£000
Cash and cash equivalents	5,945	11,998
Equity instruments	51,637	66,311
Debt instruments - Corporate bonds	51,923	21,980
Debt instruments - Government bonds	27,122	26,882
Real estate	16,802	9,520
Diversified growth fund	37,004	45,579
Total	190,433	182,270

The investment portfolios are diversified, investing in a wide range of assets, in order to provide reasonable assurance that no single asset or type of asset could have a materially adverse impact on the total portfolio. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of government and corporate bonds, designed to mirror movements in corresponding liabilities.

Notes (continued)

13 Retirement benefit schemes (continued)

Further information in respect of the Group scheme

The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2017.

Following the £2,990,000 paid in November 2017, the Group paid additional contributions of £10,492,000 (2018: £4,400,000) to the Group scheme during the year ended 31 March 2019, including amounts of £3,790,000 and £1,819,000 in respect of the disposals of the Pest Control business and Social Housing business.

The Group expects to make contributions of around £6,554,000 to the Group scheme in the coming year, including £9,480,000 against the funding deficit. Employees' contribution to the cost of the scheme is generally paid through a salary sacrifice arrangement.

The table below sets out the details of the latest funding valuation of the Group scheme as at 31 March 2017.

Details of latest funding valuation

Date of last formal funding valuation	31 March 2017
Assets at valuation date	£178.7 million
Funding liabilities at valuation date	£225.3 million
Deficit at valuation date	£46.6 million

The total contribution rate is between 40.1% and 45.0% of annual pay for the remaining active members. The employer contribution rate is the balance of the total cost after deducting the employee rate, which ranges depending on section and earnings. The total contribution excludes any allowances for expenses met by the scheme.

To eliminate the funding deficit the Trustee and the Group agreed that additional contributions (i.e. over and above those required to cover benefits being accrued) will be paid into the scheme of £58.0m by 31 March 2027, of which £11.9m are due by 31 March 2020. On 27 November 2017, the Group paid the first of these additional contributions amounting to £3.0m. Under this recovery plan, if the assumptions made are borne out in practice, the deficit would be eliminated by 31 March 2027.

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:

	2019	2018
Discount rate at 31 March	2.40	2.60
Future salary increases	3.20	3.10
Retail price inflation	3.20	3.10
Consumer price inflation	2.20	2.10
Future pension increases	3.50	3.40

Accounting assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's defined benefit pension scheme are set after consultation with independent, professionally qualified actuaries.

The discount rate used to determine the present value of the obligations is set by reference to market yields on high quality corporate bonds. The assumptions for price inflation are set by reference to the difference between yields on longer-term conventional government bonds and index-linked bonds. The assumption for increases in pensionable pay takes into account expected salary inflation, the cap at CPI, and how often the cap is likely to be exceeded.

The assumptions for life expectancy have been set with reference to the actuarial tables used in the latest funding valuations, with a lower 'best-estimate' allowance for future improvements to mortality.

Notes (continued)

13 Retirement benefit schemes (continued)

The sensitivity of the defined benefit obligation for the Group scheme to changes in the principal assumptions is shown in the table below:

	Impact on defined benefit obligation		
	Change in assumption	Increase/(decrease) in obligations	Increase / (decrease) in obligations £m
Discount rate	0.1%	(2.0)%	(5.0)
RPI inflation*	0.1%	1.5%	3.8
CPI inflation (excluding pay)	0.1%	0.7%	1.8
Pay increases	0.1%	0.0%	-
Life expectancy	1 year	3.9	9.8

* Including other inflation-linked assumptions (CPI inflation, pension increases, salary growth).

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date.

Some of the above changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the Group Scheme holds a proportion of its assets in UK corporate bonds. A fall in the discount rate as a result of lower UK corporate bond yields would lead to an increase in the value of these assets, thus mitigating the increase in the defined benefit obligation to some extent.

The duration, or average term to payment for the benefits due, weighted by liability, is around 22 years for the Group scheme.

14 Capital and reserves

Share capital authorised and fully paid	At start of year	At end of year	2019 £000	2018 £000
Ordinary Shares				
Ordinary shares at £1 each	554,034,024	554,034,024	554,034	554,034
	<u>554,034,024</u>	<u>554,034,024</u>	<u>554,034</u>	<u>554,034</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.

Notes (continued)

14 Capital and reserves (continued)

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.

Hedging and translation reserve

The hedging and translation reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Other comprehensive income

	Hedging and translation reserve £000	Profit and Loss account £000	Total other comprehensive income/(loss) £000
Remeasurement of defined benefit liability	-	(13,601)	(13,601)
Income tax on items that will not be reclassified to profit or loss	-	2,312	2,312
Net change in fair value of cash flow hedges reclassified to profit or loss	1,656	-	1,656
	<u>1,656</u>	<u>(11,289)</u>	<u>(9,633)</u>
Total other comprehensive income 31 March 2019	<u>1,656</u>	<u>(11,289)</u>	<u>(9,633)</u>

Other comprehensive income - comparative

	Hedging and translation reserve £000	Profit and Loss account £000	Total other comprehensive (loss)/income £000
Remeasurements of defined benefit liability	-	7,431	7,431
Income tax on items that will not be reclassified to profit or loss	-	(1,263)	(1,263)
Net change in fair value of cash flow hedges reclassified to profit or loss	854	-	854
	<u>854</u>	<u>6,168</u>	<u>7,022</u>
Total other comprehensive income 31 March 2018	<u>854</u>	<u>6,168</u>	<u>7,022</u>

Notes (continued)

15 Financial instruments

Classification

The Company's principal financial assets are cash and cash equivalents, trade receivables and derivative financial instruments. With the exception of derivative financial instruments and contingent consideration receivable, all financial assets are held and measured at amortised cost.

The Company's principal financial liabilities are trade payables and financing liabilities. With the exception of derivative financial instruments, all financial liabilities are held and measured at amortised cost.

Derivative financial instruments are measured initially at fair value at the date the contract is entered into and are subsequently remeasured to their fair value through the income statement unless they are designated as hedges for which hedge accounting can be applied.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense) for each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

Risk management objectives

The Company's treasury department monitors and manages the financial risks relating to the operations of the Company. These risks include those arising from interest rates, foreign currencies, liquidity, credit and capital management. The Company seeks to minimise the effects of these risks by using effective control measures and, where appropriate, derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by Company policies and reviewed regularly. Company policy is to not trade in financial instruments. The risk management policies remain unchanged from the previous year.

Private placement notes

Following the issue on 16 December 2010 of US\$96.0m and £40.0m of private placement (PP) notes in the United States Private Placement market, on 13 December 2012, the Company issued a further US\$153.0m and £55.0m of PP notes. The PP notes are unsecured and rank pari passu with other senior unsecured indebtedness of the Company. In order to manage the risk of foreign currency fluctuations and to manage the Company's finance costs through a mix of fixed and variable rate debt, the Company has entered into cross-currency interest rate swaps. The swap contracts have the same duration and other critical terms as the borrowings and are considered to be highly effective. The amount, maturity and interest terms of the PP notes are as shown below.

Tranche	Maturity date	Amount	Interest terms	Swap interest
9 year	16 December 2019	£40.0m	£ fixed at 4.38%	n/a
10 year	16 December 2022	US\$76.0m	US\$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	US\$77.0m	US\$ fixed at 3.85%	£ fixed at 4.02%
10 year	16 December 2022	£25.0m	£ fixed at 3.87%	n/a
12 year	16 December 2024	£30.0m	£ fixed at 4.04%	n/a

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

	2019	2018
	%	%
Overdraft	2.7	2.0
Bank loans	1.6	1.4
Private placement notes	4.1	3.8

Notes (continued)

15 Financial instruments (continued)

Interest rate risk

The Company's activities expose it to the financial risks of interest rates. The Company's Treasury function reviews its risk management strategy on a regular basis and will appropriately enter into derivative financial instruments in order to manage interest rate risk.

Interest rate sensitivity

The interest rate sensitivity has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. All financial liabilities, other than financing liabilities, are interest free.

If underlying interest rates had been 0.5% higher/lower and all other variables were held constant, the Company's profit after tax for the year ended 31 March 2019 and reserves would increase by £0.8m (2018: £0.7m).

Foreign currency risk

The Company has limited exposure to transactional foreign currency risk from trading transactions in currencies other than the functional currency. The Company considers the need to hedge its exposures as appropriate and will enter into forward foreign exchange contracts to mitigate any significant risks.

In addition, the Company has fully hedged the US dollar exposure on its private placement notes into sterling using cross-currency interest rate swaps (see Hedging activities below).

Included in bank loans were £13.1m (2018:£15.7m) of loans denominated in foreign currency.

Liquidity risk

The Company participates in the Group's cash forecasting process to monitor its liquidity risk using a cash flow projection model which considers the maturity of the Company's assets and liabilities and the projected cash flows from operations. Bank loans under committed facilities, which allow for appropriate headroom in the Company's daily cash movements, are then arranged.

The tables below summarise the maturity profile (including both un-discounted interest and principal cash flows) of the Company's financial liabilities.

	Within one year £000	In the second to fifth years £000	After five years £000	Total £000
Financial liabilities at 31 March 2019				
Private placement notes	47,391	160,415	30,909	238,715
RCF loans	53,895	1,413	-	55,308
Financial liabilities¹	101,286	161,828	30,909	294,023
	Within one year £000	In the second to fifth years £000	After five years £000	Total £000
Financial liabilities at 31 March 2018				
Private placement notes	7,829	196,135	31,515	235,479
RCF loans	56,972	2,249	-	59,221
Financial liabilities¹	64,801	198,384	31,515	294,700

Note:

1. Financing liabilities maturity profile is exclusive of the £16,425,000 (2018: £6,102,000) derivative asset which would naturally offset the settlement value of maturing private placement notes.

Notes (continued)

15 Financial instruments (continued)

Credit risk

The Company's credit risk is monitored on an ongoing basis. The value of business placed with Financial institutions is reviewed on a daily basis.

The Company's credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies and are managed through regular review.

Capital management risk

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity.

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

Hedging activities

Cash flow hedges

The Company holds a number of cross-currency interest rate swaps designated as cash flow hedges on US\$153.0m of PP notes. Biannual fixed interest cash flows denominated in US dollars arising over the periods to December 2022 from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. All cash flow hedges were assessed as being highly effective as at 31 March 2019.

Derivative financial instruments

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

	Assets 2019 £000	Assets 2018 £000
Derivative financial instruments hedging private placement notes	16,425	6,103
Total	16,425	6,103
Included in current assets	-	6,103
Included in non-current assets	16,425	-
Total	16,425	6,103

Derivative financial instruments are measured at fair value. Fair values of derivative financial instruments are calculated based on a discounted cash flow analysis using appropriate market information for the duration of the instruments.

Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from other observable inputs for the asset or liability; and

Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

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

Notes (continued)

16 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.

	2019	2018
	£000	£000
Overall commitment	<u>264,051</u>	<u>258,106</u>

17 Related parties

Related parties with which the Company has transacted

Under FRS 101 the Company is exempt from disclosing key management personnel compensation and transactions with other companies wholly owned by Mitie Group plc.

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 paid to the scheme were £6,000 (2018: £6,000): £nil of this amount was payable to the scheme at 31 March 2019 (2018: £nil). Full details of the scheme are set out in the Annual Report and Accounts of Mitie Group plc.

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

18 Subsequent events

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

19 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Mitie Group plc which is the immediate parent company incorporated in Scotland. 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, SE1 9SG, UK or from www.mitie.com.