

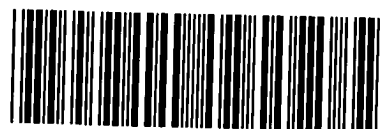
Mitie Treasury Management Limited

Annual Report and Financial Statements

Registered number 07351242

31 March 2018

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Company information

Directors

R J Blumberger
G Bonthron
P J G Dickinson
D M Forbes

Company 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
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 loss after tax for the Company in the year was £51,977,000 (2017: £7,795,000 profit). This is as a result of an impairment to investments of £51,831,000 as well as the Company ceasing to charge the Group a management fee for its services and lower interest received from loans to Group companies. The Company also has charges in the year relating to the pension scheme as discussed below.

In the year to 31 March 2018, Mitie Treasury Management Limited utilised Mitie Group plc's committed banking facility of £275m, which remains in place until July 2021.

During the year the Company paid a capital contribution of £51,557,000 in relation to the transfer of the Mitie Group plc defined benefit pension scheme. The pension liability was transferred from another Group company, on 14 November 2017, as part of a flexible apportionment agreement. Additionally, £660,006,000 of investments in subsidiaries were moved into the Company from across the Group. This is due to the fact that during the year, the Mitie Group underwent a process to rationalise and simplify the corporate structure which included the acquisition of minority shareholder interests. The reorganisation was facilitated through Mitie Treasury Management Limited who acquired a number of investments through share for share exchanges. No gain or loss arose in the Company as a result of these steps.

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.

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 to not trade in financial instruments.

As at 31 March 2017 the Group held a number of cross-currency interest rate swaps designated as fair value hedges on US\$48.0m of Private Placement (PP) notes. Fixed interest cash flows denominated in US\$ from the US Private Placement market were exchanged for floating interest cash flows denominated in sterling. These fair value hedges were assessed as being highly effective as at 31 March 2017 and up until their maturity date in December 2017.

The Group holds a number of cross-currency interest rate swaps designated as cash flow hedges on US\$153.0m of Private Placement (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 2018.

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:



R J Blumberger
Director

25 July 2018

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 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.

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.

Directors

The Directors who held office during the year were:

Director	Date of appointment
R J Blumberger	23/02/2018
G Bonthron	
D M Forbes	
P J G Dickinson	23/02/2018

Dividends

No dividend was declared or paid in the year (2017: £5,302 per ordinary share).

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

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/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's 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

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

By order of the Board



R J Blumberger
Director

Level 12 The Shard
32 London Bridge Street
London
England
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 financial performance 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 available 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 2018 which comprise the Profit and loss account, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and notes to the financial statements 1 to 23, 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 loss 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 Treasury Management Limited

(continued)

Matters on which we are required to report by exception

In 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	2017 £000
Administrative expenses		(3,463)	(181)
Investment Impairment	10	(51,831)	
Other operating income	3	-	2,292
		<hr/>	<hr/>
Operating (loss)/profit	4	(55,294)	2,111
Other interest receivable and similar income	7	26,175	29,395
Interest payable and similar expenses	8	(22,731)	(22,285)
		<hr/>	<hr/>
(Loss)/profit before taxation		(51,850)	9,221
		<hr/>	<hr/>
Tax on (loss)/profit	9	(127)	(1,426)
		<hr/>	<hr/>
(Loss)/profit for the financial year		(51,977)	7,795
		<hr/> <hr/>	<hr/> <hr/>

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

Statement of comprehensive income

	Note	2018 £000	2017 £000
(Loss)/profit for the year		(51,977)	7,795
		<hr/>	<hr/>
Other comprehensive income/(expense)			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit liability/asset	16	7,431	-
Income tax on items that will not be reclassified to profit or loss	9	(1,263)	-
		<hr/>	<hr/>
		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	17	854	(4,689)
		<hr/>	<hr/>
		854	(4,689)
		<hr/>	<hr/>
Other comprehensive income/(expense) for the year, net of income tax	17	7,022	(4,689)
		<hr/>	<hr/>
Total comprehensive (expense)/income for the year		(44,955)	3,106
		<hr/> <hr/>	<hr/> <hr/>

Balance sheet

	<i>Note</i>	2018 £000	2017 £000
Fixed assets			
Investments in subsidiaries	10	659,731	-
		<u>659,731</u>	<u>-</u>
Current assets			
Debtors (including £9,318,000 due after more than one year (2017: £nil))	12	535,522	506,249
Financial assets	11	6,103	35,787
Cash at bank and in hand		-	73,117
		<u>541,624</u>	<u>615,153</u>
Creditors: amounts falling due within one year	13	(269,930)	(611,591)
Net current assets		<u>271,695</u>	<u>3,562</u>
Total assets less current liabilities		<u>931,425</u>	<u>3,562</u>
Creditors: amounts falling due after more than one year	14	(258,106)	-
Pension liability	16	(54,707)	-
Provisions for liabilities		<u>(54,707)</u>	<u>-</u>
Net assets		<u><u>618,613</u></u>	<u><u>3,562</u></u>
Capital and reserves			
Called up share capital	17	554,034	1
Share premium account	17	105,973	-
Other reserves	17	(6,511)	(7,365)
Profit and loss account	17	(34,883)	10,926
Shareholders' funds		<u><u>618,613</u></u>	<u><u>3,562</u></u>

The financial statements of Mitie Treasury Management Limited, company number 07351242, 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	Hedging and translation reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2016	1	-	(2,676)	8,652	5,977
Total comprehensive income for the year					
Profit for the year	-	-	-	7,795	7,795
Other comprehensive income (see note 17)	-	-	(4,689)	-	(4,689)
Total comprehensive income for the year	-	-	(4,689)	7,795	3,106
Transactions with owners, recorded directly in equity					
Tax on loan revaluation - prior year adjustment	-	-	-	(219)	(219)
Dividends	-	-	-	(5,302)	(5,302)
Total contributions by and distributions to owners	-	-	-	(5,521)	(5,521)
Balance at 31 March 2017	1	-	(7,365)	10,926	3,562

	Called up share capital £000	Share premium £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 (expense)/income for the year					
Profit for the year	-	-	-	(51,977)	(51,977)
Other comprehensive income (see note 17)	-	-	854	6,168	7,022
Total comprehensive (expense)/income for the year	-	-	854	6,023	(44,955)
Transactions with owners, recorded directly in equity					
Issue of shares	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

Notes

1 Accounting policies

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

The Company's ultimate parent, 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 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 102 *Reduced Disclosure Framework* ("FRS 102").

In these financial statements, the Company has applied the exemptions available under FRS 102 in respect of the following disclosures:

- 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; and
- Disclosures in respect of the compensation of Key Management Personnel.

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. The adoption of IFRS 15 had no material impact on the Company.

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 2.

Measurement convention

The financial statements are prepared on the historical cost basis.

Notes (continued)

1 Accounting policies (continued)

Foreign currency

The financial statements are prepared in the functional currency applicable to the Company. 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.

Classification of 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 derivatives 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, financing liabilities, including 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, and deferred contingent consideration which is measured at the Directors' best estimate of the likely future obligation.

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

Notes (continued)

1 Accounting policies (continued)

Derivative financial instruments and hedging

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 re-measured to their fair value, determined by reference to market rates, at each balance sheet date and included as financial assets or liabilities as appropriate. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The 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 profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item. Hedge accounting is discontinued when the 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 profit or loss from that date.

Cash flow hedges

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

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.

Investments in subsidiaries

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

Notes (continued)

1 Accounting policies (continued)

Employee benefits

Retirement benefit costs

The Company operates the Mitie Group plc pension scheme, a defined benefit multi-employer scheme, the assets and liabilities of which are held independently from the Group. 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. 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, the return on plan 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 outside profit and loss and presented in the statement of comprehensive income.

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; 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)*

2 Accounting estimates and judgements

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant.

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 no critical accounting judgements that are considered to have a significant effect on the amounts recognised in the financial statements.

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 concluded that no additional provision for impairment is required.

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 £54,707,000.

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 18.

3 Other operating income

	2018	2017
	£000	£000
Treasury management fee receivable from Group undertakings	-	2,292
	<u>-</u>	<u>2,292</u>

Notes (continued)

4 Expenses and auditor's remuneration

Included in profit are the following:

Auditor's remuneration:

	2018	2017
	£000	£000
Audit of these financial statements	<u>6</u>	<u>6</u>

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.

5 Staff numbers and costs

Mitie Treasury Management Limited had no employees in the year ended 31 March 2018.

6 Directors' remuneration

	2018	2017
	£000	£000
Directors' emoluments	190	145
Amounts receivable under long term incentive schemes	-	7
Company contributions to money purchase pension plans	20	19
	<u> </u>	<u> </u>

	Number of Directors	
	2018	2017
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	<u>1</u>	<u>1</u>
The number of Directors in respect of whose services shares were received or receivable under long term incentive schemes was	<u>-</u>	<u>1</u>

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

Director	Remunerated by	Disclosed by
R J Blumberger	Mitie Group plc	Mitie Ltd
P J G Dickinson	Mitie Group plc	Mitie Ltd

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

Notes (continued)

7 Other interest receivable and similar income

	2018 £000	2017 £000
Bank interest	51	11,266
Interest receivable and similar from Group undertakings	26,124	16,088
Foreign exchange gains	-	2,041
Total interest receivable and similar income	<u>26,175</u>	<u>29,395</u>

8 Interest payable and similar expenses

	2018 £000	2017 £000
Interest payable and similar on bank loans and overdrafts	2,845	10,415
Private placement interest and fees	9,884	9,727
Gain arising on derivatives in a designated fair value hedge	(2,719)	(4,969)
Loss arising on adjustment for the hedge item in a designated fair value hedge	2,764	5,107
Interest payable and similar to Group undertakings	9,064	-
Foreign exchange loss	-	2,005
Net interest on net defined benefit pension plan liability	893	-
Total other interest payable and similar expenses	<u>22,731</u>	<u>22,285</u>

Notes (continued)

9 Taxation

	2018 £000	2017 £000
<i>Analysis of charge in the year</i>		
UK corporation tax at 19% (2017: 20%)		
Current tax on income for the period	-	1,423
Adjustments in respect of prior periods	130	3
	<u>130</u>	<u>1,426</u>
Total current tax	130	1,426
Origination and reversal of temporary timing differences	(3)	-
	<u>(3)</u>	<u>-</u>
Total deferred tax	(3)	-
Tax on (loss)/profit	<u>127</u>	<u>1,426</u>
	<u>2018</u> <u>£000</u>	<u>2017</u> <u>£000</u>
<i>Tax recognised directly in equity</i>		
Current tax	-	219
Deferred tax	1,263	-
	<u>1,263</u>	<u>219</u>
Total tax recognised directly in equity	1,263	219
	<u>2018</u> <u>£000</u>	<u>2017</u> <u>£000</u>
<i>Reconciliation of effective tax rate</i>		
(Loss)/profit for the year	(51,977)	7,795
Total tax expense	127	1,426
	<u>(51,850)</u>	<u>9,221</u>
(Loss)/profit excluding taxation	(51,850)	9,221
Tax using the UK corporation tax rate of 19% (2017: 20%)	(9,851)	1,844
Expenses not deductible for tax purposes	9,848	(421)
Adjustments in respect of prior periods	130	3
	<u>127</u>	<u>1,426</u>
Total tax expense	127	1,426

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.

Notes (continued)

10 Fixed asset investments

The Company has the following investments in subsidiaries:

	Shares in Group undertakings £000
Cost	
At 1 April 2017	-
Additions	711,562
At 31 March 2018	711,562
Provisions for impairment	
At 1 April 2017	-
Impairment	(51,831)
At 31 March 2018	(51,831)
Net book value	
At 31 March 2018	659,731
At 1 April 2017	-

On 18 October 2017, as part of the reorganisation of the group headed by Mitie Group plc, the Company acquired shareholdings in the companies listed below.

On 14 November 2017, the Company made a capital contribution to Mitie Shared Services Limited in respect of the transfer of the liabilities under the Mitie Group plc Pension Scheme (see note 16). This amount has been impaired to reflect the expected recoverable amount.

	Country of Incorporation	Class of shares held	Ownership	
			2018	2017
Mitie Investments Limited	England and Wales	Ordinary	100%	0%
Mitie Holdings Limited	England and Wales	Ordinary	100%	0%
Mitie Technical Facilities Management Holdings Limited	England and Wales	Ordinary	100%	0%
Mitie International Limited	England and Wales	Ordinary	100%	0%
Mitie Business Services UK Limited	England and Wales	A Ordinary	100%	0%
Mitie Business Services UK Limited	England and Wales	B Ordinary	100%	0%
Mitie Business Services UK Limited	England and Wales	C Ordinary	100%	0%
Mitie Shared Services Limited	England and Wales	Ordinary	100%	0%
Mitie Group Pension Scheme Trustee Company Limited	England and Wales	Ordinary	100%	0%
Mitie Reinsurance Company Limited	Guernsey	Ordinary	100%	0%
Mitie Deutschland GmbH	Germany	Ordinary	100%	0%
Mitie France SAS	France	Ordinary	100%	0%
Mitie Polska Sp. z o.o.	Poland	Ordinary	100%	0%
Mitie Norge Aksjeselskap	Norway	Ordinary	100%	0%
Mitie Sverige AB	Sweden	Ordinary	100%	0%
Mitie Suomi Oy	Finland	Ordinary	100%	0%
Mitie Schweiz GmbH	Switzerland	Ordinary	100%	0%
Mitie Nederland B.V.	Netherlands	Ordinary	100%	0%
Mitie Espana. S.L.	Spain	Ordinary	100%	0%
Mitie Belgium Security BVBA	Belgium	Ordinary	100%	0%
Cole Motors Limited	England and Wales	Ordinary	100%	0%

Jabez Holdings Limited	England and Wales	Ordinary	100%	0%
Mitie Environmental Limited	England and Wales	A Ordinary	100%	0%
Mitie Environmental Limited	England and Wales	B Ordinary	100%	0%
Mitie Company Secretarial Services Limited	England and Wales	Ordinary	100%	0%
Mitie Trustee Limited	England and Wales	Ordinary	100%	0%

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.

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Notes (continued)

10 Fixed asset investments (continued)

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.

11 Other financial assets

	2018 £000	2017 £000
Derivative financial assets (see note 18) - current	6,103	35,787
	<u>6,103</u>	<u>35,787</u>

12 Debtors

	2018 £000	2017 £000
Trade debtors	-	35
Amounts owed by Group undertakings	526,196	506,214
Other debtors	21	-
Deferred tax	9,300	-
Interest receivable	5	-
Total	<u>535,522</u>	<u>506,249</u>

Due in less than one year	526,204	506,249
Due after more than one year	9,318	-
	<u>535,522</u>	<u>506,249</u>

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 £518,870,000 (2017: £499,906,000) relating to loans bearing interest at between 1.83% and 7.20% per annum (2017: 1.81% and 7.20% per annum).

Mitie Treasury Management Limited
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Notes (continued)

13 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Bank loans and overdrafts	129,507	231,415
Trade creditors	1	-
Amounts owed to Group undertakings	136,351	84,883
Taxation and social security	1	6
Corporation tax	1,294	1,164
Accruals	328	142
Private placement notes	-	293,981
Interest payable	2,448	-
	<u>269,930</u>	<u>611,591</u>

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.

14 Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
RCF loans	54,337	-
Private placement notes (see note 19)	203,769	-
	<u>258,106</u>	<u>-</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.

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 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

Notes (continued)

14 Creditors: amounts falling due after more than one year (continued)

terms as the borrowings and are considered to be highly effective. The amount, maturity and interest terms of the PP notes are shown below. US\$96.0m of these PP notes were settled in December 2017 upon maturity, along with the associated swaps.

Tranche	Maturity date	Amount	Interest terms	Swap interest
7 year	16 December 2017	US\$48.0m	US\$ fixed at 3.38%	£ fixed at 3.88%
7 year	16 December 2017	US\$48.0m	US\$ fixed at 3.39%	£ LIBOR +1.26%
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 4.05%
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 4.0%	n/a

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

	2018	2017
	%	%
Overdraft	2.0	2.0
RCF loans	1.5	1.4
Private placement notes	3.9	3.8

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Provisions	9,300	-	-	-	9,300	-
Net tax assets	9,300	-	-	-	9,300	-

Movement in deferred tax during the year

	1 April 2017	Recognised in income	Recognised in equity	Transfer of pension scheme	31 March 2018
	£000	£000	£000	£000	£000
Provisions	-	3	(1,263)	10,560	9,300
	-	3	(1,263)	10,560	9,300

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)

16 Retirement benefit schemes

On 14 November 2017, the liability for the Mitie Group plc Pension Scheme (the 'Group Scheme') was transferred to the Company via a flexible apportionment agreement. The liability for the Group Scheme was previously disclosed in Mitie Shared Services Limited, now a wholly owned subsidiary of the Company. The transfer of the scheme liability net of the associated deferred tax asset has been reflected as a capital contribution by the Company to Mitie Shared Services Limited resulting in an addition to fixed asset investments of £51,557,000, which has been subsequently impaired (see Note 16).

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 November 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 trust 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 local 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 is pending approval.

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 Trustees 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)

16 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	<p>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.</p> <p>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.</p> <p>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.</p>
Changes in bond yields	<p>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.</p>
Inflation risk	<p>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.</p>
Life expectancy	<p>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.</p>

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)

16 Retirement benefit schemes (continued)

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.

	2018 £000	2017 £000
Defined benefit asset	182,270	-
Defined benefit liability	(236,977)	-
Net liabilities for defined benefit obligations (see following table)	<u>(54,707)</u>	<u>-</u>

Movements in net defined benefit liability

	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Assets/liabilities transferred in respect of a flexible apportionment agreement	(240,767)	-	178,650	-	(62,117)	-
Included in profit or loss						
Current service cost	(470)	-	-	-	(470)	-
Past service cost (including curtailments)	(1,884)	-	-	-	(1,884)	-
Administrative expense	-	-	(386)	-	(386)	-
Interest cost/(income)	(3,209)	-	2,316	-	(893)	-
	<u>(246,330)</u>	<u>-</u>	<u>180,580</u>	<u>-</u>	<u>(65,750)</u>	<u>-</u>
Included in OCI						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from:						
- Change in demographic assumptions	5,888	-	-	-	5,888	-
- Change in financial assumptions	(993)	-	-	-	(993)	-
- Experience adjustment	(5)	-	-	-	(5)	-
Return on plan assets excluding interest income	-	-	2,541	-	2,541	-
	<u>(241,440)</u>	<u>-</u>	<u>183,121</u>	<u>-</u>	<u>(58,319)</u>	<u>-</u>
Other						
Contributions paid by the employer	-	-	3,612	-	3,612	-
Contributions paid by the scheme members	(30)	-	30	-	-	-
Benefits paid	4,493	-	(4,493)	-	-	-
Balance at 31 March	<u>(236,977)</u>	<u>-</u>	<u>182,270</u>	<u>-</u>	<u>(54,707)</u>	<u>-</u>

Notes (continued)

16 Retirement benefit schemes (continued)

Plan assets

	2018 £000	2017 £000
Cash and cash equivalents	11,998	-
Equity instruments	66,311	-
Debt instruments - Government bonds	26,882	-
Debt instruments - Corporate bonds	21,980	-
Real estate	9,520	-
Diversified growth fund	45,579	-
Total	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.

Around 67% (2017: 0%) of the assets are held in equities, property and pooled investment vehicles which seek a higher expected level of return over the long-term.

Actuarial assumptions

The Group made a total contribution to the Group scheme of £4,400,000 during the year (2017: £2,033,000), including an additional payment of £2,990,000 in relation to payment against the funding deficit. The payment made after the flexible apportionment transfer amounted to £3,612,000. The Group expects to make contributions of around £5,600,000 to the Group scheme in the coming year, including £4,200,000 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 40.5% and 44.9% of annual pay for the remaining active members. The employer contribution rate is the balance of the total cost after the 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.

Notes *(continued)*

16 Retirement benefit schemes *(continued)*

Group Scheme details

The following table sets out details of the membership of the Group Scheme:

Scheme details at last valuation date

	Group scheme
Active members - by number	182
Active members - by proportion of funding liability	20.4%
Total pensionable salary roll pa	£8.4m
Deferred members - by number	853
Deferred members - by proportion of funding liability	52%
Total deferred pensions pa (at date of leaving scheme)	£4.6m
Pensioner members - by number	640
Pensioner members - by proportion of funding liability	£2.7m

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

	2018
	%
Discount rate at 31 March	2.60
Future salary increases	3.10
Retail price inflation	3.10
Consumer price inflation	2.10
Future pension increases	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)

16 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.

17 Capital and reserves

Share capital authorised and fully paid	At start of year	Number of issues	At end of year	2018 £000	2017 £000
Ordinary Shares					
Ordinary shares at £1 each	1,000	554,033,024	554,034,024	554,034	1
	<u>1,000</u>	<u>554,033,024</u>	<u>554,034,024</u>	<u>554,034</u>	<u>1</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.

During the year, investments in subsidiaries with a fair value of £660,006,000 were moved into the Company from across the Group. Consideration was in the form of share for share exchanges. The Company issued 554,033,024 shares at nominal value with a share premium of £105,973,000 recognised.

Notes *(continued)*

17 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.

Dividend

The following dividends were recognised during the period:

	2018	2017
	£000	£000
Enil (2017: £5,302) per qualifying ordinary share	-	5,302
	<u>-</u>	<u>5,302</u>
	<u>-</u>	<u>5,302</u>

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	Total other comprehensive (loss)/income £000
Remeasurement 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>7,022</u>	<u>7,022</u>
Total other comprehensive income 31 March 2018	<u>7,022</u>	<u>7,022</u>

Other comprehensive loss - comparative

	Hedging and translation reserve £000	Total other comprehensive income £000
Net change in fair value of cash flow hedges reclassified to profit or loss	(4,689)	(4,689)
	<u>(4,689)</u>	<u>(4,689)</u>
Total other comprehensive income 31 March 2017	<u>(4,689)</u>	<u>(4,689)</u>

Notes (continued)

18 Derivative financial instruments

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

	Assets	Assets	Liabilities	Liabilities
	2018	2017	2018	2017
	£000	£000	£000	£000
Cross currency interest rate swaps designated as cash flow hedges	6,102	27,035	-	-
Cross currency interest rate swaps designated as fair value hedges	-	8,752	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Derivative financial instruments hedging private placement notes	<u>6,103</u>	<u>35,787</u>	<u>-</u>	<u>-</u>

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.

19 Financial risk management

Risk management objectives

The Company's treasury function 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 Group policies and reviewed regularly. Group policy is to not trade in financial instruments. The risk management policies remain unchanged from the previous year.

Interest rate risk

The Company's activities expose it to the financial risks of interest rate volatility. 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. Having issued US\$249.0m and £95.0m of notes in the US PP fixed rate market, the Company has swapped US\$48.0m into floating rate debt. Details of derivative financial instruments are given in derivative financial instruments in note 18 above.

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.

If 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 2018 and reserves would increase by £0.5m (2017: £0.2m).

Notes (continued)

19 Financial risk management (continued)

Foreign currency risk

The Company has limited exposure to transactional foreign currency risk from trading transactions in currencies other than its functional currency. The Company considers the need to hedge its exposures appropriately 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).

At 31 March 2018 £15.7m (2017: £17.1m) of loans were held denominated in foreign currency.

Liquidity risk

The Company participates in the Group's cash forecasting process to measure its liquidity risk using a cash flow projection model which considers the maturity of its assets and liabilities and the projected cash flows from operations.

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

	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 liabilities	64,801	198,384	31,515	294,700
	Within one year £000	In the second to fifth years £000	After five years £000	Total £000
Financial liabilities at 31 March 2017				
Bank loans and overdrafts	231,415	-	-	231,415
Private placement notes	293,980	-	-	293,980
Financial liabilities	525,395	-	-	525,395

Notes *(continued)*

19 Financial risk management *(continued)*

Credit risk

The Company's credit risk is monitored on an ongoing basis and formally reported quarterly. The value of business placed with financial institutions is reviewed on a daily basis.

The 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 it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity. The Company's capital structure is reviewed regularly. The Company is not subject to externally imposed regulatory capital requirements.

Hedging activities

Cash flow hedges

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 periods to December 2022 and denominated in US\$ from the US Private Placement market are exchanged for fixed interest cash flows denominated in sterling. The Company also holds a number of forward exchange currency contracts designated as hedges of highly probable forecast transactions. All cash flow hedges were assessed as being highly effective as at 31 March 2018.

20 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	2017
	£000	£000
Overall commitment	258,106	309,315

21 Ultimate parent company and parent company of larger group

The Company is a subsidiary 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 Level 12 The Shard, 32 London Bridge Street, London, SE1 9SG. 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.

Notes *(continued)*

22 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 (2017: £98,000); £nil of this amount was payable to the scheme at 31 March 2018 (2017: £5,000). 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

23 Subsequent events

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