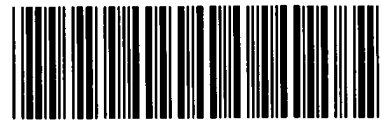


Company Registration No. 03902894 (England and Wales)

MODUS SERVICES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

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MODUS SERVICES LIMITED

COMPANY INFORMATION

Directors	G Beazley-Long P Francis M Webber B Watson K Rahuf A Thakrar	(Appointed 14 November 2018) (Appointed 30 April 2019) (Appointed 30 April 2019)
Secretary	S Brooks	
Company number	03902894	
Registered office	46 Charles Street Cardiff Wales CF10 2GE	
Auditor	Deloitte LLP Statutory Auditor 2 New Street Square London United Kingdom	
Bankers	Commerzbank AG London Branch PO Box 52715 London EC2P 2XY	

MODUS SERVICES LIMITED

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MODUS SERVICES LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The Directors present the strategic report for the year ended 31 March 2019.

Business review

There are no significant changes in the Company's principal activities during the year under review.

The Company has sub-contracted out some of these activities to other companies, including certain parties related to its Shareholders.

Financial Close was achieved on 4 May 2000. Refurbishment of the Ministry of Defence facility was completed on 21 July 2004 and has been fully operational.

The government's continued focus on rationalisation and utilisation of the wider estate continues to impact on the MOD and the Company. Following the success of the Optimisation project the Company was awarded another project for the reconfiguration of two floors for Other Government Departments (OGD). This is now designated the High Classification Area (HCA). The work was completed in December 2018 to time and budget. A separate project for the Curtis Green car park work was also completed to time and budget.

The scope and size of these variation projects continue to contribute to company turnover and profit. There continues to be a focus for change to the working environment that may lead to additional project work.

Lifecycle works continues in line with the approved plan.

Principal risks and uncertainties

The Company's activities expose it to a number of financial risks including liquidity risk, interest rate risk, credit risk and lifecycle risk. These risks are further explained in the Directors' Report.

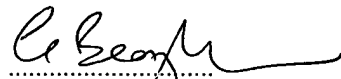
Future developments

The Directors are not aware, at the date of this report, of any major changes in the Company's activities in the next year.

Key performance indicators

The key performance indicator for the Company is the level of performance and unavailability deductions levied by the client, since this reflects the quality of the service being provided. During the period, the Company suffered nominal deductions.

On behalf of the board



G Beazley-Long

Director

18 June 2019

MODUS SERVICES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The Directors present their annual report and audited financial statements for the year ended 31 March 2019.

Principal activities

The principal activity of the Company is to design, refurbish, redevelop, finance, maintain and operate certain Ministry of Defence office facilities in London covered by a Project Agreement between Modus Services Limited and the Secretary of State for Defence, dated 4 May 2000, under the Government's Private Finance Initiative. The primary contract period of the Project Agreement is 30 years.

The Company's immediate parent company Modus Services (Holdings) Limited is owned and jointly controlled between: Palio (No 2) Limited (26.0%), a UK limited company under the control of Equitix Fund V LP; Innisfree M&G PPP LP (13.4%); Innisfree PFI Continuation Fund LP (48.0%) and Innisfree PFI Secondary Fund (12.6%).

Directors

The Directors who held office during the year and up to the date of signature of the financial statements were as follows:

C Corpetti	(Resigned 30 April 2019)
G Beazley-Long	
P Francis	
M Webber	
S Clark	(Resigned 14 November 2018)
C Dix	(Resigned 30 April 2019)
B Watson	(Appointed 14 November 2018)
K Rahuf	(Appointed 30 April 2019)
A Thakrar	(Appointed 30 April 2019)

Results

The results for the year are set out on page 8.

Ordinary dividends were paid amounting to £19,793,000 (2018: £22,465,000). The directors do not recommend payment of a final dividend.

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its Directors during the year. These provisions remain in force at the reporting date.

Financial risk management objectives and policies

Liquidity risk

The Company manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the Company has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the Company negotiated debt facilities with an external party to ensure that the Company has sufficient funds over the life of the PFI concession.

Interest rate risk

The Company's borrowings expose it to cash flow risk primarily due to the financial risks of changes in interest rates. The Company uses interest rate derivatives to manage the risk and reduce its exposure to changes in interest rates.

MODUS SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Credit risk

The Company's principal financial assets are cash, financial assets and trade and other receivables. The Company's credit risk is primarily attributable to its trade receivables which are with one counterparty, although in the opinion of the board of directors this risk is limited as the receivables are with a central government authority.

Lifecycle risk

Lifecycle expenditure is the main risk to the business. The risk being that the allowance for lifecycle costs factored into the financial model is insufficient to cover future lifecycle expenditure, thus resulting in lower profitability and reduced distributions. This is mitigated by regular lifecycle reviews undertaken by the management service provider and a detailed lifecycle review performed every few years.

Future developments

Details of future developments and events that have occurred after the balance sheet date can be found in the strategic report on page 1 and form part of this report by cross-reference.

Auditor

The auditor, Deloitte LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

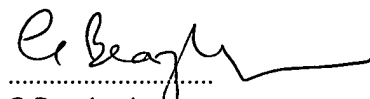
Statement of disclosure to auditor

Each of the Directors in office at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that he / she ought to have taken as a director in order 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 the provisions of section 418 of the Companies Act 2006.

On behalf of the board



G Beazley-Long

Director

Date: 18 June 2019

MODUS SERVICES LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2019

The Directors are responsible for preparing the annual 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 the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MODUS SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MODUS SERVICES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Modus Services Limited (the 'Company'):

- 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 including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes on pages 11 - 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 Financial Reporting Council's (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 are required by ISAs (UK) to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

MODUS SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF MODUS SERVICES LIMITED

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 respect of these matters.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors 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 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 on the FRC's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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 any material misstatements in the strategic report or the Directors' report.

MODUS SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF MODUS SERVICES LIMITED

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

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.



Jacqueline Holden FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

London

United Kingdom

Date: 18 June 2019

MODUS SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 £'000	2018 £'000
Turnover	3	46,858	56,282
Cost of sales		(33,412)	(43,711)
Gross profit		13,446	12,571
Interest receivable and similar income	7	33,699	36,689
Interest payable and similar expenses	8	(22,219)	(24,346)
Profit before taxation		24,926	24,914
Tax on profit	9	(6,168)	(6,014)
Profit for the financial year		18,758	18,900
Other comprehensive income			
Cash flow hedges gain arising in the year	13	9,938	22,396
Tax relating to other comprehensive income	16	(1,690)	(3,807)
Total comprehensive income for the year		27,006	37,489

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

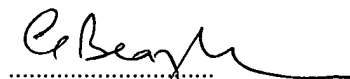
MODUS SERVICES LIMITED

BALANCE SHEET

AS AT 31 MARCH 2019

	Notes	2019 £'000	2018 £'000
Current assets			
Debtors falling due after more than one year	11	319,449	335,664
Debtors falling due within one year	11	55,538	60,783
Cash at bank and in hand		2,420	1,442
		<u>377,407</u>	<u>397,889</u>
Creditors: amounts falling due within one year	12	<u>(83,193)</u>	<u>(71,855)</u>
Net current assets being total assets less current liabilities		294,214	326,034
Creditors: amounts falling due after more than one year	13	(289,558)	(329,484)
Provisions for liabilities	15	(22,017)	(21,124)
Net liabilities		<u>(17,361)</u>	<u>(24,574)</u>
Capital and reserves			
Called up share capital	17	100	100
Hedging reserve	17	(45,139)	(53,387)
Profit and loss reserves	17	27,678	28,713
Total deficit		<u>(17,361)</u>	<u>(24,574)</u>

The financial statements were approved by the board of directors and authorised for issue on 18 June 2019 and are signed on its behalf by:



G Beazley-Long
Director

Company Registration No. 03902894

MODUS SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	Notes	Called up share capital £'000	Hedging reserve £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 April 2017		100	(71,976)	32,278	(39,598)
Year ended 31 March 2018:					
Profit for the year		-	-	18,900	18,900
Other comprehensive income:					
Cash flow hedges gains arising in the year		-	22,396	-	22,396
Tax relating to other comprehensive income		-	(3,807)	-	(3,807)
Total comprehensive income for the year		-	18,589	18,900	37,489
Dividends	10	-	-	(22,465)	(22,465)
Balance at 31 March 2018		100	(53,387)	28,713	(24,574)
Year ended 31 March 2019:					
Profit for the year		-	-	18,758	18,758
Other comprehensive income:					
Cash flow hedges gains arising in the year		-	9,938	-	9,938
Tax relating to other comprehensive income		-	(1,690)	-	(1,690)
Total comprehensive income for the year		-	8,248	18,758	27,006
Dividends	10	-	-	(19,793)	(19,793)
Balance at 31 March 2019		100	(45,139)	27,678	(17,361)

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

1 Accounting policies

Company information

Modus Services Limited is a private company limited by shares, domiciled and incorporated in the United Kingdom and registered in England and Wales. The registered office is 46 Charles Street, Cardiff, Wales CF10 2GE.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in pounds sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention, modified to include certain financial instruments at fair value and in accordance with FRS 102. The principal accounting policies adopted are set out below.

The Company is consolidated within the group accounts of Modus Services (Holdings) Limited. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the Cash Flow Statement and related notes.

The Company is also considered to be a qualifying entity for the disclosure exemptions relating to the requirements of Section 11 Paragraphs 11.39 to 11.48A as the equivalent disclosures required by this FRS are included in the consolidated financial statements of the Group in which the Company is consolidated.

1.2 Going concern

The Company is in a net liabilities position as at 31 March 2019 due to the fair value of the interest rate swaps. The Directors have reviewed the Company's forecasts and projections, taking into account future cash requirements and forecast receipts, which show that the Company can continue to meet its debts as they fall due.

The Directors therefore, at the time of approving the financial statements, have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Income received in respect of the service concession is allocated between revenue and capital repayment of, and interest income on, the PFI financial asset using the effective interest rate method. Service revenue is recognised as a margin on non-pass-through operating and maintenance costs.

Pass through income represents the direct pass through of recoverable costs, as specified in the Project Agreement.

Variation income relates to the recharge of costs incurred for the alteration of the facilities or the services provided, requested by the Authority.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1 Accounting policies

(Continued)

1.4 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.5 Financial instruments

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the balance sheet, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1 Accounting policies

(Continued)

Service concession

The Company is a special purpose entity that has been established to provide services under certain private finance agreements with The Secretary of State for Defence (the "Authority"). Under the terms of these Agreements, the Authority (as grantor) controls the services to be provided by the Company over the contract term. Based on the contractual arrangements the Company has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with FRS 102, Section 34.12 Service Concession Arrangements.

The Company has chosen to adopt the transitional arrangements available within FRS 102, Section 35.10 (i) and as such the service concession arrangement has continued to be accounted for using the same accounting policies being applied prior to the date of transition to FRS 102 (1 January 2014). The nature of the asset has therefore not changed; however, there was a change in the description from Finance Debtor to Financial Asset.

Under the terms of the arrangement, the Company has the right to receive a baseline contractual payment stream for the provision of the services from or at the direction of the grantor (the Authority), and as such the asset is accounted for as a financial asset. The financial asset has initially been recognised at the fair value of the consideration received, based on the fair value of the construction (or upgrade) services, plus any directly attributable transaction costs, provided in line with FRS 102.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognised when the Company's contractual obligations expire or are discharged or cancelled.

1.6 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

1.7 Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. 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.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

The Company does not hold or issue derivative financial instruments for speculative purposes.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1 Accounting policies

(Continued)

Hedge accounting

The Company designates certain hedging instruments, including derivatives, embedded derivatives and non-derivatives, as either fair value hedges or 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 risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income.

The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in the profit or loss 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 liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability concerned.

1.8 Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end 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. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Hedge accounting

The Directors consider the Company to have met the criteria for hedge accounting; the Company has therefore recognised fair value movements on derivatives in effective hedging relationships through other comprehensive income as well as the deferred tax thereon.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Valuation of derivative financial instruments

The Directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the Company uses valuation techniques to assess the reasonableness of the valuation provided by the derivative counterparty. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets. The fair value of derivative financial instruments at the balance sheet date was a liability of £54,383,000 (2018: £64,422,000 liability). The Directors do not consider the impact of own credit risk to be material.

Service concession arrangement

As disclosed in Note 1, the Company accounts for the project as a service concession arrangement. The Directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin that is used to recognise service revenue. The Directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the Company's forecasts. The Directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

3 Turnover and other revenue

An analysis of the Company's turnover is as follows:

	2019 £'000	2018 £'000
Turnover analysed by class of business		
Service fee income	35,539	32,029
Passthrough income	941	626
Variation income	10,378	23,627
	<u>46,858</u>	<u>56,282</u>

	2019 £'000	2018 £'000
Other significant revenue		
Interest income	33,699	36,689
	<u>33,699</u>	<u>36,689</u>

	2019 £'000	2018 £'000
Turnover analysed by geographical market		
United Kingdom	46,858	56,282
	<u>46,858</u>	<u>56,282</u>

4 Auditor's remuneration

	2019 £'000	2018 £'000
Fees payable to the Company's auditor and associates:		
For audit services		
Fees payable to the Company's auditor for the audit of the Company and the Company's parent company	31	31
	<u>31</u>	<u>31</u>
For other services		
Other assurance services	5	5
	<u>5</u>	<u>5</u>

5 Employees

The Company had no employees during the current or prior year.

6 Directors' remuneration

Amounts paid to related parties in connection with the provision for services of Non-Executive Directors were £356,000 (2018: £263,000). No Directors received remuneration for services to the Company during the current or prior year.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

7 Interest receivable and similar income

	2019 £'000	2018 £'000
Interest income		
Interest on bank deposits	341	188
Other interest income	33,358	36,501
Total interest income	33,699	36,689

8 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	20,978	23,105
Interest payable to parent undertakings	1,241	1,241
Total interest expense	22,219	24,346

9 Taxation

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on profits for the current period	6,965	5,863
Deferred tax		
Origination and reversal of timing differences	(797)	151
Total tax charge	6,168	6,014

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

9 Taxation

(Continued)

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2019 £'000	2018 £'000
Profit before taxation	24,926	24,914
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	4,736	4,734
Tax effect of expenses that are not deductible in determining taxable profit	1,415	1,284
Tax effect of utilisation of tax losses not previously recognised	17	75
Prior year adjustment	-	(79)
Taxation charge for the year	6,168	6,014

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2019 £'000	2018 £'000
Deferred tax arising on:		
Revaluation of financial instruments treated as cash flow hedges	1,690	3,807

For the year ended 31 March 2019, the UK rate of 19% is applied.

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective 1 April 2017 and to 18% effective 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provided a further reduction in the main rate of corporation tax to 17% effective 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

10 Dividends

	2019 £'000	2018 £'000
Interim paid	19,793	22,465

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

11 Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	872	2,319
Financial asset	16,215	17,892
Other financial assets	30,102	29,600
Other debtors	-	20
Prepayments and accrued income	8,349	10,952
	<u>55,538</u>	<u>60,783</u>
Amounts falling due after more than one year:		
Financial asset	319,449	335,664
	<u>319,449</u>	<u>335,664</u>
Total debtors	<u>374,987</u>	<u>396,447</u>

Other financial assets include amounts held within deposit accounts with a maturity of not less than three months from the initial deposit.

12 Creditors: amounts falling due within one year

	Notes	2019 £'000	2018 £'000
Bank loans and overdrafts	14	29,887	27,290
Trade creditors		474	14
Corporation tax		1,872	1,552
Other taxation		2,751	3,069
Unitary charge control account		43,829	31,441
Accruals and deferred income		4,380	8,489
		<u>83,193</u>	<u>71,855</u>

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

13 Creditors: amounts falling due after more than one year

	Notes	2019 £'000	2018 £'000
Bank loans and overdrafts	14	222,768	252,655
Amounts owed to parent undertakings	14	12,407	12,407
Derivative financial instruments measured at fair value through profit or loss		54,383	64,422
		<u>289,558</u>	<u>329,484</u>

Derivative financial instruments

The swaps have a fixed interest rate of 6.61% and 4.73% and expire in 2027. The interest rate swaps settle on a semi-annual basis. The floating rate on the interest rate swaps is six months' LIBOR. The Company will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Company's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

The fair value of the derivative financial instrument above comprise the fair value of the interest rate swap designated in an effective hedging relationship. The change in fair value of the interest rate swap that was recognised in other comprehensive income in the period was a gain of £9,938,000 (2018: a gain of £22,396,000).

Amounts included above which fall due after five years are as follows:

Payable by instalments	91,308	131,632
	<u>91,308</u>	<u>131,632</u>

14 Loans and overdrafts

	2019 £'000	2018 £'000
Bank loans	252,655	279,945
Loans from parent undertakings	12,407	12,407
	<u>265,062</u>	<u>292,352</u>
Payable within one year	29,887	27,290
Payable after one year	235,175	265,062
	<u>265,062</u>	<u>292,352</u>

The loans are secured by a fixed and floating charge over all the assets of the Company and a charge over the shares of the Company.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

14 Loans and overdrafts

(Continued)

Bank loans

The Company has bank loans provided by Commerzbank AG, (which have been syndicated out to various banks), which were used to finance the construction of the project. The loans are repayable in instalments based on an agreed percentage amount of the total facilities per annum through to 2027.

Interest on bank loans is charged at rates linked to LIBOR. The Company has entered into fixed interest rate swaps to mitigate its interest rate exposure. The fixed interest rates on the Term A Facility and Term B Facility, after taking into consideration the swaps, are 7.56% and 7.66% respectively during the operational phase.

Subordinated debt

Loans from parent undertaking comprise loans of £12,407,000 (2018: £12,407,000). The loans are subject to interest rates at an agreed arm's length rate of 10% per annum and repayable by 2026 in line with agreed repayment schedules.

15 Provisions for liabilities

	Notes	2019 £'000	2018 £'000
Deferred tax liabilities	16	22,017	21,124

16 Deferred taxation

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Liabilities 2019 £'000	Liabilities 2018 £'000
Balances:		
Accelerated capital allowances	31,262	32,790
Tax losses	-	(731)
Deferred tax asset on interest rate swap fair value	(9,245)	(10,935)
	<u>22,017</u>	<u>21,124</u>
Movements in the year:		2019 £'000
Liability at 1 April 2018		21,124
Credit to profit or loss		(797)
Charge to other comprehensive income		1,690
Liability at 31 March 2019		<u>22,017</u>

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

16 Deferred taxation

(Continued)

The deferred tax asset in relation to the interest rate swap liability is expected to affect profit or loss over the period to maturity of the interest rate swap.

During the year beginning 1 April 2019, the net reversal of the deferred tax assets and liabilities is expected to be £2,857,559. The reversal of the deferred tax asset and liability will have no impact on the corporation tax charge next year.

17 Called up share capital

	2019 £'000	2018 £'000
Ordinary share capital		
Issued and fully paid		
100,000 ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

The ordinary shares give no right to fixed income.

Other reserves

The Company's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses.

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

18 Related party transactions

Transactions with related parties

During the year the Company entered into the following transactions with related parties:

	2019 £'000	2018 £'000
Directors' Fees		
- Innisfree Limited	178	131
- Laing Investments Management Services Limited	178	131
Management Services Fees		
- HCP Social Infrastructure (UK) Limited	2,916	3,274
- HCP Management Services Limited	191	184
Subordinated Loan Notes (Shareholder)		
- Palio (No 2) Limited	323	323
- Innisfree M&G PPP LP	166	166
- Innisfree PFI Continuation Fund LP	596	596
- Innisfree PFI Secondary Fund	156	156
Dividends (Shareholder)		
- Palio (No 2) Limited	5,146	5,841
- Innisfree M&G PPP LP	2,652	3,010
- Innisfree PFI Continuation Fund LP	9,500	10,783
- Innisfree PFI Secondary Fund	2,494	2,831
	<u>24,496</u>	<u>27,426</u>

All other related parties have nil amounts due or receivable at the year end.

No guarantees have been given or received.

MODUS SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

19 Controlling party

The Company's immediate parent company is Modus Services (Holdings) Limited, a company incorporated in Great Britain and registered in England and Wales with a registered address off 46 Charles Street, Cardiff, Wales CF10 2GE. The smallest and largest group in which its results are consolidated is Modus Services (Holdings) Limited. Copies of the consolidated accounts are available from Companies House.

The Company's immediate parent company Modus Services (Holdings) Limited is owned and jointly controlled between: Palio (No 2) Limited (26.0%), a UK limited company under the control of Equitix Fund V LP; Innisfree M&G PPP LP (13.4%), an English Limited Partnership jointly managed by Innisfree Limited and M&G Investment Management Limited; Innisfree PFI Continuation Fund LP (48.0%) and Innisfree PFI Secondary Fund (12.6%), each of which are English Limited Partnerships managed by Innisfree Limited. Palio (No 2) Limited, Innisfree Limited and M&G Investment Management Limited are incorporated in Great Britain and registered in England and Wales.

The Directors consider there to be no ultimate controlling entity.