

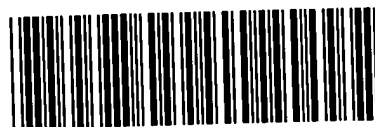
Mitie Care and Custody Limited

Annual Report and Financial Statements

Registered number 06976230

31 March 2018

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Company information

Directors

P J G Dickinson
C A Dobell
D A Spencer

Secretary

Mitie Company Secretarial Services Limited

Registered office

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

Auditor

BDO LLP
Statutory Auditor
55 Baker Street
London
W1U 7EU

Strategic report

Mitie Care and Custody 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 provide outsourced custody services to HM Government, including the management of prisons and immigration removal centres. There have not been any significant changes in the Company's principal activities in the year under review.

As shown in the Company's profit and loss account on page 9, the Company's turnover was £35,350,000 (2017: £34,329,000) and the profit after tax was £616,000 (2017: £870,000).

Recently, the Company was awarded a 10-year Detention & Escorting contract with the Home Office to provide immigration services. It is the largest ever contract for the Company worth an estimated £525m. The award of such a significant contract reinforces the Company's position as the largest supplier of immigration detention services to the UK Government and will double the division's size in 2019.

Key performance indicators

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

Principal risks and uncertainties

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

Key risks include:

Strategic Risks

Changes in the market and to the economic conditions

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

Financial Risks

Reliance on material counterparties

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

Strategic report *(continued)*

Operational Risks

Significant health, safety or environmental incidents

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

System, process or control failure

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

Attracting and retaining skilled people

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

Financial risk management

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

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

Future developments

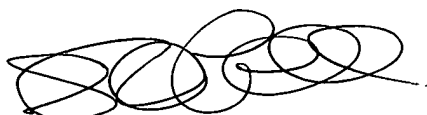
Following the recent award of a 10-year Detention & Escorting contract, the general level of activity of the Company will grow considerably in the forthcoming year. The Company has a very robust pipeline of bidding activity throughout the coming year and the Directors are confident that, if awarded, any further increased volumes of business will mobilise during 2019.

The government is committed to an outsourcing agenda, providing certainty to the existing pipeline. We expect a new range of opportunities in our core criminal justice markets to be created through expiration of our competitors' existing contracts and further central government initiatives.

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:



C A Dobell

Director

28 November 2018

Directors' report

The Directors present the Annual Report and audited Financial Statements of Mitie Care and Custody 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	Date of resignation
P J G Dickinson	27/02/2018	
C A Dobell		
D Gibson		03/11/2017
D A Spencer		

Dividends

No dividend was declared or paid in the year (2017: £2.57 per A Ordinary share and £0.08 per B 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.

Directors' report *(continued)*

Employees

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

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

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

Political contributions

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

Disclosure of information to auditor

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

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

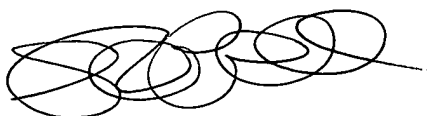
Other information

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

Auditor

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

By order of the Board



C A Dobell
Director

Level 12 The Shard
32 London Bridge Street
London
SE1 9SG
28 November 2018

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

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

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

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

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

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

Independent auditor's report to members of Mitie Care and Custody Limited

Opinion

We have audited the financial statements of Mitie Care and Custody Limited ("the Company") for the year ended 31 March 2018 which comprise the Profit and loss account, 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 profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Independent auditor's report to the members of Mitie Care and Custody Limited *(continued)*

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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

BDO LLP

Oliver Chinneck (Senior Statutory Auditor)
for and on behalf of BDO LLP, statutory auditor
London
28 November 2018

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

Profit and loss account

	<i>Note</i>	2018 £000	2017 ¹ £000
Turnover	4	35,350	34,329
Cost of sales		(31,275)	(30,143)
		<hr/>	<hr/>
Gross profit		4,075	4,186
Administrative expenses		(3,599)	(2,647)
Mobilisation cost write-off		-	(611)
		<hr/>	<hr/>
Operating profit	5	476	928
Other interest receivable and similar income	8	320	219
Interest payable and similar expenses	9	(36)	(32)
		<hr/>	<hr/>
Profit before taxation		760	1,115
Tax on profit	10	(144)	(245)
		<hr/>	<hr/>
Profit for the financial year		616	870
		<hr/> <hr/>	<hr/> <hr/>

Note:

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

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

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

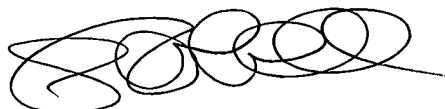
Balance sheet

	Note	2018 £000	2017 ¹ £000
Non-current assets			
Tangible assets	11	682	945
Contract asset	14	965	-
		<u>1,647</u>	<u>945</u>
Current assets			
Stocks	12	53	64
Debtors (including £349,000 due after more than one year (2017: £83,000))	13	6,603	4,223
Cash at bank and in hand		7,662	5,284
Contract asset	14	175	-
		<u>14,493</u>	<u>9,571</u>
Creditors: amounts falling due within one year	15	(9,243)	(7,035)
Deferred income	14	(2,077)	-
Net current assets		<u>3,173</u>	<u>2,536</u>
Total assets less current liabilities		<u>4,820</u>	<u>3,481</u>
Creditors: amounts falling due after more than one year			
Deferred income	14	(2,233)	-
Provisions for liabilities	17	(45)	(56)
Net assets		<u>2,542</u>	<u>3,425</u>
Capital and reserves			
Called up share capital	19	385	385
Share premium account	19	313	313
Profit and loss account	19	1,844	2,727
Shareholders' funds		<u>2,542</u>	<u>3,425</u>

Note:

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

The financial statements of Mitie Care and Custody Limited, company number 06976230, were approved by the Board of Directors and authorised for issue on 28 November 2018 and were signed on its behalf by:



C A Dobell
Director

Statement of changes in equity

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2016	385	313	2,743	3,441
Profit for the year	-	-	870	870
Total tax recognised directly in equity	-	-	(1)	(1)
Total comprehensive income for the year	-	-	869	869
Equity-settled share-based payment transactions	-	-	(116)	(116)
Dividends	-	-	(1,001)	(1,001)
Total contributions by and distributions to owners	-	-	(885)	(885)
Balance at 31 March 2017	385	313	2,727	3,425

	Called up share capital £000	Share Premium Account £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2017	385	313	2,727	3,425
Impact of change in accounting policy ¹	-	-	(1,764)	(1,764)
Adjusted balance at 1 April 2017	385	313	963	1,661
Profit for the year	-	-	616	616
Total comprehensive income for the year	-	-	616	616
Share-based payments	-	-	265	265
Total contributions by and distributions to owners	-	-	265	265
Balance at 31 March 2018	385	313	1,844	2,542

Note:

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

Notes

1 Accounting policies

Mitie Care and Custody Limited (the "Company") is a private company limited by shares and is incorporated in England and Wales and domiciled in the UK. The Company's registered number is 06976230. The Company's registered office is Level 12 The Shard, 32 London Bridge Street, London, SE1 9SG. Details of the Company's activities are set out in the Strategic Report.

The Company's ultimate parent undertaking, Mitie Group plc includes the Company in its consolidated financial statements. The consolidated financial statements of Mitie Group plc, which are prepared in accordance with International Financial Reporting Standards, are available to the public and may be obtained from www.mitie.com.

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

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

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

Early adoption of IFRS 15

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

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

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

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

Notes (continued)

1 Accounting policies (continued)

Early Adoption of IFRS 15 (continued)

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

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

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

Contract modifications

A contract modification takes place when the amendment creates new enforceable rights and obligations or changes the existing price or scope (or both) of the contract, and the modification has been approved. Contract modifications can be approved in writing, by oral agreement, or implied by customary business practices.

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

Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the stand alone selling price of the distinct good or service. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Step 2 - Identify the performance obligations in the contract

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

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

Step 3 - Determine the transaction price

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

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

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

Notes (continued)

1 Accounting policies (continued)

Early Adoption of IFRS 15 (continued)

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

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

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

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

Where deemed appropriate, the Company will utilise the practical expedient within IFRS15, allowing revenue to be recognised at the amount which the Company has the right to invoice, where that amount corresponds directly with the value to the customer of the Company's performance completed to date.

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

Repeat service-based contracts (single and bundled contracts)

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

Short-term service-based arrangements

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

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

Other revenue

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

Contract assets

Pre-contract costs

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

Notes (continued)

1 Accounting policies (continued)

Early Adoption of IFRS 15 (continued)

Contract fulfilment costs

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

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

Contract fulfilment costs covered within the scope of another accounting standard, such as inventories, intangible assets, or property, plant and equipment are not capitalised as contract fulfilment assets but are treated according to the other standard.

Accrued income and deferred income

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

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

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

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

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

Notes (continued)

1 Accounting policies (continued)

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

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

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosure in respect of related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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

- IFRS 2 Share Based Payments in respect of Group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

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

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

Measurement convention

The financial statements are prepared on the historical cost basis.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the Company

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

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

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

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

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

Employee benefits

Retirement benefit costs

The Company participates in a number of defined benefit schemes. In respect of the schemes in which the Company participates, the Company accounts for its legal and constructive obligations over the period of its participation which is for a fixed period only. The Company operates a number of defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

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

Intra-group financial instruments

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

Notes (continued)

1 Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged so as to write off the cost less expected residual value of the assets over their estimated useful lives and is calculated on a straight-line basis as follows:

- Plant and vehicles: 3 - 10 years

Impairment of non-current assets

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

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

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

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

Stocks

Stocks are stated at the lower of cost and net realisable value. Costs represent materials, direct labour and overheads incurred in bringing the inventories to their present condition and location. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and estimated selling costs. Provision is made for obsolete, slow moving or defective items where appropriate.

Leasing

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Any lease incentives are amortised on a straight-line basis over the non-cancellable period for which the Company has contracted to lease the asset, together with any further terms for which the Company has the option to continue to lease the asset if, at the inception of the lease, it is judged to be reasonably certain that the Company will exercise the option.

Invoice discounting

The Company uses a non-recourse customer invoice discounting facility under which certain trade receivable balances are sold to the Company's relationship banks. The trade receivables are sold without recourse to the Company and therefore the trade receivable balance is derecognised.

Notes (continued)

1 Accounting policies (continued)

Provisions for liabilities

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

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

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

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

Costs incurred, after confirmation of preferred bidder, that are specific costs incurred to ensure that the project or programme has appropriate organisational, operational and technical infrastructures and mechanisms in place to enable the delivery of full services under the contract target operating model are defined as mobilisation costs. These costs are included within trade and other receivables on the balance sheet provided that the costs relate directly to the contract, are separately identifiable, can be measured reliably and that the future net cash inflows from the contract are estimated to be no less than the amounts capitalised.

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

Turnover under IAS 18 in relation to prior year

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

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

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

Notes (continued)

1 Accounting policies (continued)

Share-based payments

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

Save As You Earn (SAYE) options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

Taxation

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

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

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

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

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

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

Amendments to IFRSs that are mandatorily effective for the current year

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

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

New Standards not yet adopted

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

Notes (continued)

2 Explanation of transition to IFRS 15

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

Reconciliation of equity

	31 March 2018						2017 ¹
	Balances without adoption of IFRS15	Adjustments				2018 as reported	
	£000	A £000	B £000	C £000	D £000	£000	£000
Fixed assets							
Tangible assets	682	-	-	-	-	682	945
Contract asset	-	-	-	965	-	965	-
	<u>682</u>	<u>-</u>	<u>-</u>	<u>965</u>	<u>-</u>	<u>1,647</u>	<u>945</u>
Current assets							
Stocks	53	-	-	-	-	53	64
Trade debtors	3,215	-	-	-	-	3,215	1,777
Contract assets	-	-	-	175	-	175	-
Mobilisation costs	314	(314)	-	-	-	-	385
Amounts owed by Group undertakings	1,067	-	-	-	-	1,067	397
Other debtors	147	-	-	-	-	147	162
Deferred tax asset	131	-	-	-	218	349	83
Prepayments	307	-	-	-	-	307	219
Interest receivables	-	-	-	-	-	-	50
Accrued income	1,518	-	-	-	-	1,518	1,150
Cash at bank and in hand	7,662	-	-	-	-	7,662	5,284
	<u>14,414</u>	<u>(314)</u>	<u>-</u>	<u>175</u>	<u>218</u>	<u>14,493</u>	<u>9,571</u>
Creditors: amounts due within one year							
Trade creditors	(2,507)	-	-	-	-	(2,507)	(1,165)
Amounts owed to Group undertakings	(1,142)	-	-	-	-	(1,142)	(192)
Taxation and social security	(1,594)	-	-	-	-	(1,594)	(1,429)
Other creditors	(220)	-	-	-	-	(220)	(227)
Accruals	(3,595)	-	-	-	-	(3,595)	(3,014)
Deferred income	(220)	-	(4,089)	4,309	-	-	(830)
Corporation tax	(582)	-	-	-	397	(185)	(178)
	<u>(9,860)</u>	<u>-</u>	<u>(4,089)</u>	<u>4,309</u>	<u>397</u>	<u>(9,243)</u>	<u>(7,035)</u>
Deferred income re: contract liabilities	-	-	-	(2,077)	-	(2,077)	-

Notes (continued)

2 Explanation of transition to IFRS 15 (continued)

	31 March 2018						
	Balances without adoption of IFRS15	Adjustments				2018 as reported	2017 ¹
		A	B	C	D		
	£000	£000	£000	£000	£000	£000	£000
Net current assets	4,554	(314)	(4,089)	2,407	615	3,173	2,536
Total assets less current liabilities	4,554	(314)	(4,089)	5,449	615	4,820	3,481
Accruals and deferred income	-	-	-	(2,233)	-	(2,233)	-
	-	-	-	-	-	-	-
Provisions for liabilities							
Other provisions	(45)	-	-	-	-	(45)	(56)
	(45)	-	-	(2,233)	-	(2,278)	(56)
Net assets	6,208	(314)	(4,089)	1,139	(402)	2,542	3,425
Capital and reserves							
Called up share capital	385	-	-	-	-	385	385
Share premium account	313	-	-	-	-	313	313
Profit and loss account	5,510	(314)	(4,089)	1,139	(402)	1,844	2,727
Shareholders' equity	6,208	(314)	(4,089)	1,139	(402)	2,542	3,425

Note:

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

Notes (continued)

2 Explanation of transition to IFRS 15 (continued)

Reconciliation of profit

31 March 2018							
	Balances without adoption of IFRS 15	Adjustments				2018 as reported	2017 ¹
	£000	A £000	B £000	C £000	D £000	£000	£000
Turnover	37,656	-	(2,306)	-	-	35,350	(34,329)
Cost of sales	(33,096)	682	-	1,139	-	(31,275)	30,143
Gross profit	4,560	682	(2,306)	1,139	-	4,075	(4,186)
Administrative expenses	(2,987)	(612)	-	-	-	(3,599)	3,258
Operating profit	1,573	70	(2,306)	1,139	-	476	(928)
Other interest receivable and similar income	320	-	-	-	-	320	(219)
Interest payable and similar expenses	(36)	-	-	-	-	(36)	32
Profit before taxation	1,857	70	(2,306)	1,139	-	760	(1,115)
Tax on profit	(356)	-	-	-	212	(144)	245
Profit for the year	1,501	70	(2,306)	1,139	212	616	(870)

Note:

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

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

	Net assets £000	Revenue £000	Profit for the year £000
Balances without adoption of IFRS 15	3,425	37,656	1,500
IFRS 15 adjustments:			
A - Mobilisation assets	(385)	-	70
B - Design and development and other upfront fees	(1,784)	(2,306)	(2,306)
C - Contract assets and deferred income	-	-	1,140
D - Tax	403	-	212
As reported total	1,661	35,350	616

Notes (continued)

2 Explanation of transition to IFRS15 (continued)

Adjustment A – Mobilisation assets

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

The Company has therefore derecognised the asset as at 1 April 2017 leading to a decrease in reserves of £385,000.

The adjustment to the profit for the year ended 31 March 2018 is a credit of £70,000 to reverse additions and write back amortisation on the mobilisation balance written off.

Adjustment B – Design and development and other upfront fees

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

The Company has determined that £1,782,000 of revenue previously recognised should be presented as deferred income at 1 April 2017 leading to a decrease in reserves by the same amount. The adjustment to the profit for the year ended 31 March 2018 is a £2,306,000 credit following the rephasing of upfront payments.

Adjustment C – Contract assets

Following the adoption of IFRS 15, the Company has presented deferred income from contracts with customers separately on the balance sheet. The balance of pre-IFRS 15 current deferred income amounting to £175,000 and non-current deferred income of £964,000 has been reclassified as a result.

Adjustment D – Tax

A tax deduction is available at 1 April 2017 for the one-off transitional adjustments recognised in opening equity. This tax deduction gives rise to tax losses at 1 April 2017, creating a deductible temporary difference for which a deferred tax asset of £185,000 is recognised at 1 April 2017, leading to an increase in reserves by the same amount. The tax impact of the IFRS 15 impacts on the profit for the year ended 31 March 2018 is a credit of £212,000.

Notes (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Revenue recognition

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

The Company's current policy under IFRS 15

Management is required to form a number of key judgements and assumptions in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise (refer to Note 1). This includes an assessment of the costs the Company incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised.

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

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

The Company's prior year policy under IAS 18 and IAS 11

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

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

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

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

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

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

Notes *(continued)*

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.

Recoverability of aged debtors and accrued income

The Company has material amounts of billed and unbilled work outstanding at year end as outlined in Note 13. Where balances become aged or subject to dispute the risk of recoverability increases. As a consequence there is significant management judgement involved in assessing the recoverability of these balances which involves consideration of contractual rights, work performed as well as the status of ongoing commercial negotiations.

4 Turnover

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

5 Operating profit

Included in operating profit are the following:

	2018 £000	2017 £000
Impairment of mobilisation costs	-	611
	<u> </u>	<u> </u>

Auditor's remuneration:

	2018 £000	2017 £000
Audit of these financial statements	10	9
	<u> </u>	<u> </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.

Notes (continued)

6 Staff numbers and costs

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

	Number of employees	
	2018	2017
Operations	673	661
Administration	2	14
	<u>675</u>	<u>675</u>

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	19,134	18,382
Share-based payments (See note 18)	143	116
Social security costs	1,900	1,748
Termination and redundancy payments	29	144
Contribution to defined contribution plans	636	577
	<u>21,842</u>	<u>20,967</u>

7 Directors' remuneration

	2018	2017
	£000	£000
Directors' emoluments	441	486
Company contributions to money purchase pension plans	56	65
Compensation for loss of office	-	124
	<u></u>	<u></u>

In respect of the highest paid Director:

	2018	2017
	£000	£000
Emoluments and amounts receivable under long term incentive schemes	250	234
Money purchase pension contributions	28	28
	<u></u>	<u></u>

Notes (continued)

7 Directors' remuneration (continued)

	Number of Directors 2018	2017
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	2	3
The number of Directors who exercised share options was	-	1

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

Director	Remunerated by	Disclosed by
P J G Dickinson	Mitie Group plc	Mitie Limited
D Gibson	Mitie Group plc	Mitie Technical Facilities Management Limited
C A Dobell	Mitie Care & Custody Ltd	Mitie Care & Custody Ltd

8 Other interest receivable and similar income

	2018 £000	2017 £000
Interest receivable and similar from Group undertakings	320	219
Total interest receivable and similar income	320	219

9 Interest payable and similar expenses

	2018 £000	2017 £000
Interest payable on working capital facility	36	32
Total other interest payable and similar expenses	36	32

Notes (continued)

10 Taxation

	2018 £000	2017 £000
<i>Analysis of charge in the year</i>		
Current tax on income for the period	-	288
Adjustments in respect of prior periods	7	-
Total current tax	<u>7</u>	<u>288</u>
<i>Deferred tax (see note 16)</i>		
Origination and reversal of temporary timing differences	119	(52)
Reduction in statutory tax rate	4	10
Adjustments in respect of prior periods	14	(1)
Total deferred tax	<u>137</u>	<u>(43)</u>
Tax on profit	<u><u>144</u></u>	<u><u>245</u></u>
	2018 £000	2017 £000
<i>Tax recognised directly in equity</i>		
Deferred tax	-	1
Total tax recognised directly in equity	<u><u>-</u></u>	<u><u>1</u></u>
	2018 £000	2017 £000
<i>Reconciliation of effective tax rate</i>		
Profit for the year	616	870
Total tax expense	144	245
Profit excluding taxation	<u><u>760</u></u>	<u><u>1,115</u></u>
Tax using the UK corporation tax rate of 19% (2017: 20%)	145	223
Reduction in statutory tax rate on deferred tax balances	3	10
Expenses not deductible for tax purposes	1	1
Relief in respect of employee share options	(26)	12
Adjustments in respect of prior periods	21	(1)
Total tax expense	<u><u>144</u></u>	<u><u>245</u></u>

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)*

11 Tangible fixed assets

	Plant & vehicles £000
Cost	
Balance at 1 April 2017	1,742
Additions	49
	<hr/>
Balance at 31 March 2018	1,791
	<hr/>
Depreciation and Impairment	
Balance at 1 April 2017	797
Depreciation charge for the year	312
	<hr/>
Balance at 31 March 2018	1,109
	<hr/>
Net book value	
At 1 April 2017	945
	<hr/>
At 31 March 2018	682
	<hr/>

12 Stocks

	2018 £000	2017 £000
Consumables	53	64
	<hr/>	<hr/>
	53	64
	<hr/>	<hr/>

Notes (continued)

13 Debtors

	2018 £000	2017 ¹ £000
Trade debtors	3,215	1,777
Mobilisation costs	-	385
Amounts owed by Group undertakings	1,067	397
Other debtors	147	162
Deferred tax assets (see note 16)	349	83
Interest receivable	-	50
Prepayments	307	219
Accrued income	1,518	1,150
Total	6,603	4,223
Due within one year	6,254	4,140
Due after more than one year	349	83

Note:

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

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

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

14 Contract assets and deferred income from contracts with customers

	2018 ¹ £000
Contract assets	
included within current assets	965
included within non-current assets	175
Total contract assets	1,140
Deferred income	
Deferred income included within current liabilities	2,077
Deferred income included within non-current liabilities	2,233
Total deferred income	4,310

Note:

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

Notes (continued)

15 Creditors: amounts falling due within one year

	2018 £000	2017 ¹ £000
Trade creditors	2,507	1,165
Amounts owed to Group undertakings	1,142	192
Taxation and social security	1,594	1,429
Corporation tax	185	178
Other creditors	220	227
Accruals	3,595	3,014
Deferred income	-	830
	<u>9,243</u>	<u>7,035</u>

Note:

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

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

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

16 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £000	2017 £000
Tangible fixed assets	58	59
Share-based payments	62	15
Provisions	11	9
Tax losses carried forward	218	-
	<u>349</u>	<u>83</u>

Notes (continued)

16 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

	1 April 2017 £000	Recognised in income £000	Recognised in equity £000	31 March 2018 £000
Tangible fixed assets	59	(1)	-	58
Share-based payments	15	47	-	62
Provisions	9	2	-	11
Tax losses carried forward	-	(185)	403	218
	<u>83</u>	<u>(137)</u>	<u>403</u>	<u>349</u>

Movement in deferred tax during the prior year

	1 April 2016 £000	Recognised in income £000	Recognised in equity £000	31 March 2017 £000
Tangible fixed assets	24	35	-	59
Share-based payments	8	8	(1)	15
Provisions	9	-	-	9
	<u>41</u>	<u>43</u>	<u>(1)</u>	<u>83</u>

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

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

17 Provisions

	Insurance Excess Provision £000	Total £000
Balance at 1 April 2017	56	56
Provisions reversed during the year	(11)	(11)
Balance at 31 March 2018	<u>45</u>	<u>45</u>

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

Notes (continued)

18 Share based payments

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

Discretionary schemes

Mitie Group plc long term incentive plan

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

Mitie Group plc executive share option scheme

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

Conditional share plan

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

Non-discretionary schemes

Mitie Group plc SAYE scheme

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

Share incentive plan

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

	2018	2017
Weighted average share price at date of exercise	241p	238p
Options outstanding prices	221p to 316p	201p to 319p
Weighted average remaining contractual life	4.1 years	4.4 years

The options outstanding at 31 March 2018 had exercise prices ranging from 221p to 316p (2017: 201p to 319p). During the year, options were granted in July, August, October, November 2017 and January 2018. In 2017, options were granted in May, July, November, December 2016 and January 2017.

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

Notes (continued)

19 Capital and reserves

Share capital authorised and fully paid	At start of year	At end of year	2018 £000	2017 £000
Ordinary Shares				
A Ordinary shares at £1 each	382,500	382,500	383	383
B Ordinary shares at £0.01 each	237,527	237,527	2	2
C Ordinary shares at £1 each	1	1	-	-
	<u>620,028</u>	<u>620,028</u>	<u>385</u>	<u>385</u>

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

Share premium account

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

Profit and loss account

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

Dividend

The following dividends were recognised during the period:

	2018 £000	2017 £000
£nil (2017: £2.57) per qualifying A ordinary share	-	982
£nil (2017: £0.08) per qualifying B ordinary share	-	19
	<u>-</u>	<u>1,001</u>

20 Operating leases

At 31 March 2018, the company has annual commitments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
Less than one year	38	19
Between one and five years	51	30
	<u>89</u>	<u>49</u>

During the year, £27,000 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £20,000)

Notes *(continued)*

21 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 payable to the scheme were £nil (2017: £8,352). Full details of the scheme are set out in the Annual Report and Accounts of Mitie Group plc. 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 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

22 Subsequent events

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

23 Ultimate parent company and parent company of larger group

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