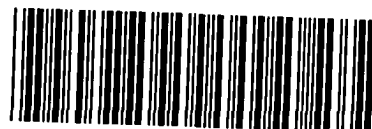


REGISTERED NUMBER: 07882099 (England and Wales)

**Report of the Directors and
Financial Statements
for the year ended 31 December 2017
for
Key Midco Limited**

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Key Midco Limited

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**Key Midco Limited
Company Information**

Directors:

D J Elliott
J R H Cumming
A D Maynard

Registered office:

Elmbrook House
18 – 19 Station Road
Sunbury on Thames
Surrey
TW16 6SU

Registered number:

07882099 (England and Wales)

Auditor:

Deloitte LLP
Statutory Auditor
Hill House
1 Little New Street
London
United Kingdom
EC4A 3TR

Bankers:

Royal Bank of Scotland
280 Bishopsgate
London
United Kingdom
EC2M 4RB

Key Midco Limited Directors' report

The directors of Key Midco Limited (the 'Company') present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year to 31 December 2017.

The Directors' report has been prepared in accordance with the special provisions relating to small companies entitled to the small companies' exemption.

The Directors of the Company are exempt from preparing a Strategic Report under the small companies' exemptions set out in Section 414B.

Principal activity

The principal activity of the Company in the period under review was that of holding company. The Company is a member of the Key Topco Limited group of companies (the 'Group'), an insurance broking group with an insurance claims and policy administration company in the UK, and with underwriting capacity available in Gibraltar.

Review of the business

The Company acts as a holding company and incurs interest costs on loan notes issued to finance investments and expects this to continue for the foreseeable future. During the year the Company issued £2.5 million of new secured investor notes to support the growth of the Group.

The results of the Company for the year ended 31 December 2017 are set out in the Statement of Comprehensive Income. The loss after tax for the financial year is £9.2 million (2016: £10.2 million). The loss is after finance costs of £9.0 million (2016: £7.6 million.)

Directors

The directors who have held office during the year to 31 December 2017 and to the date of this report are:

D J Elliott
J R H Cumming
A D Maynard (Appointed 9 May 2018)

All the directors who are eligible will offer themselves for re-election at the forthcoming Annual General Meeting.

The Group has made qualifying third party indemnity provisions for the benefit of directors of all Group companies which were made during the year and remain in force at the date of this report.

Dividends

No dividends have been paid in the year ended 31 December 2017 (2016: £nil).

The directors do not recommend payment of a final dividend on the ordinary shares for the year ended 31 December 2017. (2016: £nil).

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review which forms part of the Directors' Report. The Directors' Report also describes the financial position of the Company, its cash flows, liquidity risk and the Company's objectives. Policies and processes for managing its capital, its financial risk, management objectives, exposure to credit and liquidity risk are in place.

The Company and its subsidiaries meet their day to day working capital requirements from corporate cash balances. The UK broking market remains extremely competitive. The Company and its subsidiaries continue to monitor the uncertainty in the current environment. The directors are satisfied that their services will continue to be attractive to clients.

The directors note that the Company is in a net liability position, with total liabilities exceeding total assets by £40.7 million (2016: £31.5 million). The Company is a member of the Group's bank arrangements with Royal Bank of Scotland and receives financial support from its subsidiary companies to meet its working capital requirements.

Key Midco limited Directors' Report

After a review of the Company and its subsidiaries' cash flows and forecasts for the period of the next 3 years, and after reviewing banking facilities within which the business is expected to operate, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, while acknowledging the current guidance on going concern, including that from the FRC, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Principal risks and uncertainties

The Group has a risk committee that meets monthly which advises the Board on risk and compliance matters and monitors the risk appetite of the business. This committee reviews and challenges the output of the business and each division's risk maps.

The principal risks and uncertainties facing the Group are those relating to people, competition, errors and omissions and interruption to information processing capabilities.

i) Competitive risks

The nature of the current market combined with some very aggressive strategies from competitors puts significant pressure on the Group to retain existing business and to win new business. Further significant risk exists in maintaining relationships with aggregators and insurers. The Group mitigates these risks by continuing to enhance its value proposition to clients and regular and open meetings with aggregators and insurers.

ii) People risks

The willingness of competitors to offer key staff higher remuneration and benefits packages continues to be a risk to the Group's ability to attract and retain key people. Periodic benchmarking of salaries is carried out to ensure the Group remains competitive.

iii) Errors and omissions

The Group is subject to claims and litigation in the ordinary course of its business, principally in connection with the Group's insurance broking business. The Group mitigates this risk through regular review of the Group processes and, ultimately, the taking out of the appropriate insurance cover.

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk for the Company are interest rate risk, currency risk, credit risk and liquidity/cash flow risk.

i) Liquidity/cash flow risk

Liquidity and cash flow risk is the risk that cash may not be available to pay obligations when due. The Company carefully monitors levels of cash to ensure compliance with banking covenants. The directors of the Company use forecasts and budgets to monitor and control cash flows and working capital requirements.

ii) Interest rate risk

The Group has both cash deposits and holdings in government and corporate bonds in its portfolio. The primary market risk in the investment portfolio is interest rate risk, namely the fair value sensitivity of a fixed-income security or cash to changes in interest rates. The interest rate risk is managed through active investment portfolio management to ensure a prudent mix of fixed income investments with a varied maturity schedule. This is in line with guidelines issued by the ultimate parent company.

iii) Currency risk

The Company is exposed to currency risk in respect of revenue as well as assets and liabilities denominated in currencies other than pounds sterling. The Company seeks to mitigate the risk as far as possible by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

iv) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Company and its subsidiaries are exposed to credit risk are amounts due from clients and insurers in respect of brokerage not yet received and cash investment holdings.

**Key Midco limited
Directors' Report**

The use of premium credit with full recourse across the Group gives rise to potential debt through default by the clients with the premium credit provider.

The Company mitigates its credit risk for cash and investments by only depositing money or holding investments in entities with a sufficiently high credit rating. The credit rating required is that demanded by the ultimate parent company. In addition, the Company has investment guidelines that restrict the amount of the investment portfolio that can be placed with a single issuer, and the level of investment in a non-sovereign issue.

The Company mitigates its credit risk in respect of funded items by closely monitoring the debts created.

Brokerage and fee debtors are also monitored closely with a view to minimising the collection period of these items, particularly given the current economic climate.

Political donations

During the year no donations were made to political parties (2016: £nil).

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The directors have taken all the steps that they ought to have taken as directors in order to make themselves 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 s418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

On behalf of the board:



J R H Cumming - Director
2 July 2018

Key Midco Limited
Statement of Directors' responsibilities

Statement of Directors' responsibilities

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 judgments 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Key Midco Limited
Independent Auditor's Report
for the year ended 31 December 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEY MIDCO LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss 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 of Key Midco Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 15

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 FRC's Ethical Standard as applied to listed entities, 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.

Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was the impairment of fixed asset investments.
Materiality	The materiality that we used in the current year was £315,000 which was determined on the basis of absolute brought forward net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

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 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.

Key Midco Limited
Independent Auditor's Report
for the year ended 31 December 2017

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of fixed asset investments

Key audit matter description



This entity has fixed asset investments which are investments in the subsidiary undertakings at a current value of £31.96m. The subsidiaries are also the cash generating units (CGUs) contributing to the overall goodwill of the group. There is a risk of material misstatement that the carrying value of the investments in the financial statements is incorrect. Due to adverse trading conditions in 2017, the group was required to negotiate new terms of borrowing from the bank and funding from the ultimate controlling party.

Furthermore, due to the volatility of historic trading, there is a risk of material misstatement that management are unable to accurately forecast future cash flows which could negatively impact management's assessment of the need to impair the value of its investments in the cash generating units. This key audit matter is therefore focused on the reasonableness of management's budgets and forecasts used to support the recoverable amount valuation of the CGUs.

Due to the high level of judgements involved, we have determined that there was a potential for fraud through the manipulation of this balance. The investment in subsidiaries and supporting information has been provided in note 7 to the financial statements.

Management has also identified this as an area of critical accounting judgements and uncertainty in note 2 to the financial statements.

How the scope of our audit responded to the key audit matter



Our focus in this area has been to assess whether the forecasts and assumptions used in determining the recoverable amount of CGUs are consistent with the current operations and recent performance of the group.

The following audit procedures were performed:

1. Tested the accuracy and completeness of the forecast model by comparing the initial day 1 values to the audited values for the relevant account balances and transactions;
2. We have assessed the reasonableness of management's assumptions used in the impairment analysis including the cash flow and growth forecasts by comparing to actual volume growth and income per policy changes in the current year. Inflation rates used have been agreed to the most recent Bank of England forecasts;
3. We performed sensitivity analysis on management's forecasts to challenge the reasonableness of management's assumptions; and,
4. Following the derivation of the net present value of the CGU's we have checked that this is greater than the carrying value of investments.

Key Midco Limited
Independent Auditor's Report
for the year ended 31 December 2017

Key observations



After performance of the above audit procedures, we have concluded that fixed asset investments are appropriately stated.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£315,000
Basis for determining materiality	1% of absolute brought forward net assets (£31.5m).
Rationale for the benchmark applied	As this entity is an intermediate holding company with no trading income, shareholders' equity is deemed to be the most relevant factor on which to base materiality.



We agreed with the Board that we would report to the Board all audit differences in excess of £19,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our scoping has based on the materiality of each element of the income statement and Balance Sheet taking into account both qualitative and quantitative factors in our assessment

The scope of our audit was determined by obtaining an understanding of Key Midco Limited and its environment and assessing the risks of material misstatement at the Company level. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

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.

We have nothing to report in respect of these matters.

Key Midco Limited
Independent Auditor's Report
for the year ended 31 December 2017

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.

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 on the Financial Reporting Council's website at: 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.

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 the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 directors' report.

Key Midco Limited
Independent Auditor's Report
for the year ended 31 December 2017

Matters on which we are required to report by exception


Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.



Mark McIlquham (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
2 July 2018

Key Midco Limited
Statement of Comprehensive Income
for the year ended 31 December 2017

	Note	2017	2016
		£000	£000
Turnover		-	-
Administrative expenses		(141)	(86)
Impairment of investments	7	-	(2,517)
Operating loss		<u>(141)</u>	<u>(2,603)</u>
Finance costs	5	(9,035)	(7,621)
Loss on ordinary activities before taxation	4	<u>(9,176)</u>	<u>(10,224)</u>
Tax on loss on ordinary activities	6	-	-
Loss for the financial year		<u>(9,176)</u>	<u>(10,224)</u>
Total comprehensive loss attributable to equity shareholders of the Company		<u><u>(9,176)</u></u>	<u><u>(10,224)</u></u>

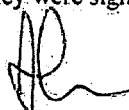
The company has reported no other comprehensive income.

Key Midco Limited
Balance Sheet
as at 31
December 2017

	Note	2017 £000	2016 £000
Fixed assets			
Investments	7	31,890	31,890
Current assets			
Debtors	8	4,455	2,433
Creditors			
Amounts falling due within one year	9	(27,576)	(22,999)
Net current liabilities		<u>(23,121)</u>	<u>(20,566)</u>
Total assets less current liabilities		8,769	11,324
Creditors			
Amounts falling due after more than one year	10	(49,500)	(42,879)
Net liabilities		<u>(40,731)</u>	<u>(31,555)</u>
Capital and reserves			
Called up share capital	12	9	9
Share premium		866	866
Profit and loss account		(41,606)	(32,430)
Shareholders' funds deficit		<u>(40,731)</u>	<u>(31,555)</u>

The financial statements of Key Midco Limited, company registered number 07882099, were approved by the Board of Directors and authorised for issue on 2 July 2017.

They were signed on its behalf by:



J R H Cumming - Director
2 July 2018

Key Midco Limited
Statement of changes in Equity
at 31 December 2017

	Note	Called-up share capital £000	Share premium £000	Profit and loss account £000	Total £000
At 1 January 2016		9	866	(22,206)	(21,331)
Loss and total comprehensive loss for the year		-	-	(10,224)	(10,224)
At 31 December 2016		9	866	(32,430)	(31,555)
Loss and total comprehensive loss for the year		-	-	(9,176)	(9,176)
At 31 December 2017	12	9	866	(41,606)	(40,731)

Key Midco Limited
Notes to the Financial Statements
for the year ended 31 December 2017

1. Accounting policies

The principal accounting policies adopted by the Company are set out below. The directors have reviewed the accounting policies and concluded that they are appropriate. They have been applied consistently throughout the year and to the preceding year in the preparation of the financial statements.

General information and basis of accounting

Key Midco Limited is a company incorporated in the United Kingdom under the Companies Act. The Company is a private Company limited by shares and is registered in England. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the directors' report on pages 2 to 4.

The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified to include certain items at fair value, and are in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Key Midco Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Key Midco Limited is consolidated in the financial statements of its ultimate parent, Key Topco Ltd, copies of which may be obtained at Elmbrook House, 18-19 Station Road, Sunbury-on-Thames, Surrey, TW16 6SU. Exemptions have been taken in these separate Company financial statements in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review which forms part of the Directors' Report. The Directors' Report also describes the financial position of the Company, its cash flows, liquidity risk and the Company's objectives. Policies and processes for managing its capital, its financial risk, management objectives, exposure to credit and liquidity risk are in place.

The Company and its subsidiaries meet their day to day working capital requirements from corporate cash balances. The UK broking market remains extremely competitive. The Company and its subsidiaries continue to monitor the uncertainty in the current environment and the directors are satisfied that their services will continue to be attractive to its clients.

The directors note that the Company is in a net liability position, with total liabilities exceeding total assets by £40.7 million (2016: £31.5 million).

After a review of the Company and its subsidiaries' cash flows and forecasts for the period of the next 3 years, and after reviewing the banking facilities within which the business is expected to operate, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, while acknowledging the current guidance on going concern, including that from the FRC, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Current tax assets and liabilities are offset only where there is a legally enforceable right to set off the amounts and the Company intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Key Midco Limited
Notes to the Financial Statements
for the year ended 31 December 2017

Deferred taxation

Deferred tax is provided in full on timing differences that have originated but not reversed at the balance sheet date and where transactions or events that result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of items of gains and losses in taxation assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are only offset when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are not discounted.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date or at realisable rates where covered by forward exchange contracts. Foreign currency transactions are translated into sterling at the rates of exchange at the dates the transactions occurred.

All gains and losses arising from foreign exchange transactions are recognised in the profit and loss account.

Interest and investment income

Interest income is recognised on an accruals basis. Dividends from associated undertakings are accounted for when declared.

Investment in subsidiaries

Investment in subsidiaries, are measured at cost less impairment.

Impairment

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit and loss as described below.

i) Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that have occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a carrying amount higher than the carrying value had no impairment been recognised.

ii) Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Key Midco Limited
Notes to the Financial Statements
for the year ended 31 December 2017

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

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.

i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price, including transaction costs, except for those financial assets classified as at fair value through profit and loss, which are initially measured at fair value, which is normally excluding transaction costs, unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- a) The contractual return to the holder is (i) a fixed amount; or (ii) a positive fixed rate of return or a positive variable rate; or a combination of a positive or a negative fixed rate and a positive variable rate.
- b) The contract may provide for repayments of the principal or return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.
- f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit and loss.

Commitments to make and receive loans which meet those conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when, a) the contractual rights to the cash flows from the financial assets expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise the ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged cancelled or expires.

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Errors and omissions and other claims

The Company is subject to claims and litigation in the ordinary course of its business, principally in connection with the Company's insurance broking business. The Company mitigates this risk through regular review of its processes and, ultimately, the taking out of the appropriate insurance cover.

2. Critical judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of fixed asset investments.

Determining whether an investment is impaired requires an estimation of the value in use of the cash-generating units to which the investment has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. The carrying amount of the investments at the balance sheet date was £32.0m (2016: £31.9m)

3. Staff costs

There were no staff costs for the year ended 31 December 2017 (2016: £nil). Required services were provided by staff of Complete Cover Group Ltd., a subsidiary undertaking. It is not practical to allocate the cost of their services to the Company.

4. Loss on ordinary activities before taxation

Information regarding directors, employees and audit fees

The director, JRH Cumming is an employee of another Group subsidiary, Complete Cover Group Limited and was remunerated by that company for his services to the Group as a whole and received no remuneration for his services as a director of this Company. The director, D J Elliott received no remuneration for his services as a director of this Company. Director's fees and expenses were payable to Darwin Private Equity LLP for services provided by D J Elliott of £70,773. (2016: £58,572). The Company had no other employees during the current year and prior period.

The audit fee of £2,781 (2016: £3,800) and annual filing fees were borne by a fellow subsidiary undertaking during the year. No other services were provided to this Company by the Company's auditor in the current and prior year.

5. Finance costs

	2017 £000	2016 £000
Interest payable and similar charges		
Loan notes interest payable	9,305	7,735
Other finance costs	-	-
Interest payable to group companies	-	35
	<u>9,305</u>	<u>7,770</u>
Interest receivable from group companies	270	149
Finance costs (net)	<u>9,035</u>	<u>7,621</u>

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6. Taxation

The tax charge on the loss on ordinary activities for the year was as follows:

	2017 £000	2016 £000
Current tax		
UK corporation tax	-	-
Tax rate reconciliation		
The difference between the total tax charge shown above and the amount calculated by applying the standard rate of corporation tax in the UK to the loss before tax is as follows:		
Loss on ordinary activities before tax	(9,176)	(10,224)
Tax credit at standard UK corporation tax rate of 19.25% (2016: 20%)	(1,766)	(2,045)
Expenses not deductible for tax purposes	1,791	1,384
Movement in unrecognised deferred tax	(25)	-
Interest deductible in later periods	-	667
Losses surrendered to group relief for no consideration	-	(6)
Total tax charge for the year	-	-

The UK corporation tax expense within these financial statements has been provided for at the rate of 19.25% (2016: 20%). On 18 November 2016 the UK Government enacted the reduction in the main rate of corporation tax rate to 19% effective from 1 April 2017. An additional reduction to 17%, effective from 1 April 2020, was announced in the Budget on 16 March 2016. Deferred tax assets and liabilities are measured at tax rates that are enacted at the balance sheet date and accordingly deferred tax has been recognised within these financial statements at the rate applicable when the asset or liability is expected to crystallise.

There is no expiry date on timing differences, unused tax losses or tax credits.

7. Fixed asset investments

Subsidiary undertakings

	£000
Cost	
At 1 January 2017 and 31 December 2017	36,695
Provision for impairment	£000
At 1 January 2017	4,735
Impairment adjustment	70
At 31 December 2017	4,805
Carrying value 31 December 2017	31,890
Carrying value 31 December 2016	31,960

Key Midco Limited
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Name	Country of incorporation	Principal activity	Share holding	% owned	
				2017	2016
Key Bidco Limited Complete Cover Group Limited ¹	United Kingdom	Holding company	Ordinary	100	100
Hyperformance Limited ¹	United Kingdom	Insurance intermediary	Ordinary	100	100
Mulsanne Holdings (Gibraltar) Limited ²	United Kingdom	Insurance intermediary	Ordinary	100	100
Mulsanne Insurance Company Limited ⁴	Gibraltar	Holding company	Ordinary	100	100
Insure your motor Limited ³	Gibraltar	Insurance underwriter	Ordinary	100	100
	United Kingdom	Dormant	Ordinary	100	100

The Company directly owns all the issued ordinary share capital of Key Bidco Limited. All other subsidiary undertakings are indirectly wholly owned through other group undertakings as noted below.

¹ Indirectly owned through Key Bidco Limited

² Indirectly owned through Complete Cover Group Limited.

³ Indirectly owned through Hyperformance Limited

⁴ Indirectly owned through Mulsanne Holdings (Gibraltar) Limited.

The registered office for companies incorporated in the United Kingdom is Elmbrook House, 18-19 Station Road, Sunbury-on-Thames, Surrey TW16 6SU.

The registered office for companies incorporated in Gibraltar is Grand Ocean Plaza, Ocean Village, Gibraltar.

Subsidiary undertakings have not been consolidated by the Company as permitted by s.400 of the Companies Act 2006 as they are consolidated in the financial statements of Key Topco Limited.

8. Debtors

	2017	2016
	£000	£000
Amount owed by fellow group undertaking	4,455	2,433
	<u>4,455</u>	<u>2,433</u>

Amounts owed by fellow group undertaking arises from unsecured inter-group financing on which interest is receivable at a variable rate of base rate + 6%. Balances are recoverable on demand.

9. Creditors: Amounts falling due within one year

	2017	2016
	£000	£000
Amounts owed to group undertakings	-	622
Loan interest on unsecured loan notes	27,500	22,366
Accruals and deferred income	76	11
	<u>27,576</u>	<u>22,999</u>

Amounts owed to fellow group undertakings consist of inter-group financing on which interest is payable at a variable rate of base rate + 6%, are unsecured and are recoverable on demand.

Loan interest on unsecured loan notes is due and payable at the next interest accrual date, being 31 December 2018, subject to consent to payment by the senior secured debt holders. The senior secured debt is held in Key Bidco Limited (a direct subsidiary) and owed to The Royal Bank of Scotland plc and to Close Brothers Limited.

10. Creditors: Amounts falling due after more than one year

	2017	2016
	£000	£000
Secured loan notes (note 11)	6,676	4,221
Unsecured loan notes (note 11)	37,624	35,550
Loan interest on secured loan notes	5,200	3,108
	<u>49,500</u>	<u>42,879</u>

Key Midco Limited
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11. Loans

An analysis of the maturity of loans is given below:

	2017 £000	2016 £000
Amounts falling due in more than one and less than five years:		
Repayable otherwise than by instalments		
Investor 12.5% unsecured loan notes 2022	21,913	19,839
Vendor 10% unsecured loan notes 2022	6,000	6,000
Management 12.5% unsecured loan notes 2022	9,711	9,711
New investor 25% secured loan notes 2022	2,000	2,000
New manager 25% secured loan notes 2022	2,221	2,221
New investor 50% secured loan notes 2022	2,455	-
	44,300	39,771

Both New investor 25% and 50% secured loan notes 2022 and New manager 25% secured loan note 2022 are secured by cross guarantees given by the Company and its subsidiaries, ranking in all respects after the existing senior secured debt in the Group. The senior secured debt is held in Key Bidco Limited (a direct subsidiary) and owed to The Royal Bank of Scotland plc and to Close Brothers Limited. The secured debt owed to RBS ranks in all aspect ahead of the senior debt owed to Close Brothers Limited.

When the New investor 25% notes and New manager 25% loan notes are redeemed, if the aggregate principal amount together with the amount of accrued interest is less than two and a half times the principal amount being redeemed, the Group will pay an additional amount equal to the difference between the two amounts.

When the New investor 50% notes issued on 17 October 2017 for £2,500,000 are redeemed, if the aggregate principal amount together with the amount of accrued interest is less than less than five times the principal amount being redeemed, the Company will be liable to pay an additional amount equal to the difference between the two amounts. The new investor 50% notes are stated net of unamortised issue costs of £45,000. The costs are being allocated to the Statement of Comprehensive Income over the life of the notes.

Both Investor 12.5% unsecured loan notes 2022 and New investor 25% secured loan notes 2022 are listed on the The International Stock Exchange (TISE). Currently no market exists for the notes. The New investor 50% secured loan notes 2022 will be submitted for listing during 2018.

On 28 March 2017, the Company issued PIK Note 3 for £2,074,369, constituting Investor 12.5% unsecured loan notes 2022, in satisfaction of outstanding interest.

12. Called up share capital

Allotted, called-up and fully paid

Number	Description	2017 £000	2016 £000
875,001	Ordinary shares of £0.01p each	9	9
		9	9

The Company has one class of ordinary shares which carry no right to fixed income.

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

13. Ultimate and immediate parent company

The Company's ultimate and immediate parent company is Key Topco Limited a company incorporated in the United Kingdom. The directors consider the ultimate controlling party to be Funds managed by Darwin Private Equity LLP a limited liability partnership registered in England and Wales.

The largest and smallest group in which the results of Key Midco Limited are consolidated is that headed by Key Topco Limited. Copies of the consolidated financial statements of Key Topco Limited may be obtained from Elmbrook House, 18-

Key Midco Limited
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19 Station Road, Sunbury-on-Thames, Surrey TW16 6SU.

14. Related party disclosures

The Company has taken advantage of exemption, under the terms of Financial Reporting Standard 102, section 33.1A, not to disclose related party transactions with wholly owned subsidiaries within the Group.

In the period Key Midco Limited has made payments to Darwin Private Equity LLP for Directors fees and expenses of £70,773 (2016: £58,572), in respect of the services provided by D J Elliott.

15. Contingent liabilities and guarantees

The Royal Bank of Scotland plc has a fixed and floating charge over all property and assets of the subsidiary companies, Complete Cover Group Limited and Hyperformance Limited. Secured borrowings at 31 December 2017 totalled £2,114,826 (2016: £2,365,000).

Close Brothers Limited trading as Close Brothers Premium Finance has a fixed and floating charge over all property and assets of Key Midco Limited and its subsidiary companies, Key Bidco Limited, Complete Cover Group Limited and Hyperformance Limited. This charge is subordinate to the fixed and floating charge held by The Royal Bank of Scotland. Secured borrowings at 31 December 2017 amounted to £2,585,744 (2016: £2,918,000).

The Company has provided a counter-indemnity to Darwin Private Equity 1 LP and Darwin Private Equity Friends and Family Fund LP, who have provided a guarantee to Close Brothers Limited for £2 million relating to the Close Brothers Limited Secured Borrowings.