

Company Registration No. 01593831 (England and Wales)

CAPITA SECURE INFORMATION SOLUTIONS LIMITED
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

COMPANY INFORMATION

Directors	S N Taylor on behalf of Capita Corporate Director Limited C F Baker J Cowan S Frewing A J Timlin	(Appointed 7 June 2019) (Appointed 29 June 2020)
Secretary	Capita Group Secretary Limited	
Company number	01593831	
Registered office	30 Berners Street London England W1T 3LR	
Auditor	KPMG LLP 15 Canada Square London E14 5GL	
Banker	Barclays Bank PLC 1 Churchill Place London E14 5HP	

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

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CAPITA SECURE INFORMATION SOLUTIONS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present the Strategic Report and financial statements for the year ended 31 December 2019.

Review of the business

Capita Secure Information Solutions Limited (“the Company”) is a wholly owned subsidiary (indirectly held) of Capita plc. Capita plc along with its subsidiaries are hereafter referred to as “the Group”. The Company operates within the Software division.

The principal activity of the Company continued to be that of a service provider, primarily to public sector customers including central government, local government, government agencies and emergency services. Services provided include development and deployment of technology and radio communication products, systems and business processing services. The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

The Company adopted IFRS 16 during the year which sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company has applied IFRS 16 using modified retrospective approach, the effect of which is explained in note no. 7,10,19 and 27.

As shown in the Company's income statement on page 10, revenue has increased from £139,085,725 in 2018 to £141,067,156 in 2019 and operating profit has decreased from £4,034,096 in 2018 to £3,517,700 in 2019. Profit in the year decreased primarily as a result of marketing services and set up cost amounting to £5,262,312 (2018: £nil) charged by Capita Software (US) LLC, a wholly indirectly owned subsidiary of Capita plc. following the transfer pricing regulations between the UK and the USA. The Company has also received dividends in specie from the subsidiaries of £16,734,962 representing the net assets of the subsidiaries during the year. As a result, the cost of investments in these subsidiaries of £16,801,247 were impaired.

The balance sheet on 11 and 12 of the financial statements shows the Company's financial position at the year end. The net assets of the Company has decreased from £9,761,640 in 2018 to £8,361,572 in 2019. Net assets have decreased as a result of the in-year loss, as can be seen on the Statement of Changes in Equity within these financial statements. Details of amounts owed by/to its parent company and fellow subsidiary undertakings are shown in notes 14 and 16 in the financial statements.

Key performance indicators used by Capita plc are operating margins, free cash flow, capital expenditure and return on capital employed. Capita plc and its subsidiaries manage their operations on a divisional basis and as a consequence, some of these indicators are monitored only at a divisional level. The performance of the Software division for 2019 is discussed in the Group's annual report which does not form part of this report. The Strategic report in the Annual Report of the Group provides further detail and is available to the public and may be obtained from Capita plc's website on <http://investors.capita.com>.

Principal risks and uncertainties

The Company is subject to various risks and uncertainties during the ordinary course of its business, many of which result from factors outside of its control. The Company's risk management framework provides reasonable (but cannot provide absolute) assurance that significant risks are identified and addressed. An active risk management process identifies, assesses, mitigates and reports on strategic, financial, operational and compliance risk.

The principal themes of risk for the Company are:

- Strategic: changes in economic and market conditions such as contract pricing and competition.
- Financial: significant failures in internal systems of control and lack of corporate stability.
- Operational: including recruitment and retention of staff, maintenance of reputation and strong supplier and customer relationships, operational IT risk, and failures in information security controls.
- Compliance: non-compliance with laws and regulations. The Company must comply with an extensive range of requirements that govern and regulate its business.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

- Brexit : Management considers the incremental risk to the business as a result of Brexit to be low. The core of our operations is essential public sector services, including NHS, police and ambulance services. These are unlikely to be affected. In addition, the business enjoys the continued support of the wider Capita Group, which relies heavily on large scale, essential public contracts for the provision of essential services that are relatively Brexit-proof. Management's conclusion is that no adjustments or additional disclosures are required related to Brexit risk.

To mitigate the effect of these risks and uncertainties, the Company adopts a number of systems and procedures, including:

- Regularly reviewing trading conditions to be able to respond quickly to changes in market conditions.
- Applying procedures and controls to manage compliance, financial and operational risks, including adhering to internal control framework.

Capita plc has also implemented appropriate controls and risk governance techniques across all of its businesses these are discussed in the Capita plc's annual report which does not form part of this report.

Section 172 Statement

The Company forms part of the Software division of the Group and Capita plc's section 172 statement applies to both the Division and the Company to the extent it relates to the Company's activities. Common policies and practices are applied throughout the Group via divisional management teams and a common governance framework. The following disclosure describes how the Directors have had regard to the matters set out in section 172(1a) to (f) and forms the Directors' statement required under section 414CZA of the Companies Act 2006.

Further details of the Group approach to each stakeholder are provided in Capita plc's section 172 statement which can be found on page 39 of Capita plc's Annual Report.

Stakeholder	Strategic issue	Engagement	Outcome	Principal decision*
Our people	Workforce engagement; organisational culture; employee net promoter score	People surveys; regular all-employee communications	Established managers' commitments; research into future of work	Application of standard Capita plc policies and procedures; refreshed purpose, values and behaviours
Clients and customers	Net promoter score; quality and sustainability; additional value	Client survey; regular meetings with key clients and customers	Receipt of regular detailed feedback summaries; application of standard Capita plc policies and procedures which includes the establishment of Group contract review committee to ensure delivery against contractual obligations	Collaboration with clients and customers on key contracts
Suppliers and partners	Payment practices	Capita plc holds regular meetings with Federation of Small Businesses; account management meetings with large suppliers	Application of Group payment policies including supplier charter; signatory to UK Prompt Payment Code (target 95% of supplier payments within 60 days)	

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Stakeholder	Strategic issue	Engagement	Outcome	Principal decision*
Society	Operating responsibly	Meetings, memberships and surveys of non-governmental organisations and charities	Group established responsible business strategy and responsible business committee; approval of third-party transaction guidelines; commitment to real living wage in 2020; enhanced family pay policies; Fair Tax Mark accreditation	Approval of new code of conduct

* Principal decisions are those that are material to the Group and/or significant to any of our key stakeholder groups

On behalf of the board.



S N Taylor on behalf of Capita Corporate Director Limited

Director

Date :9 September 2020

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their Directors' report and financial statements for the year ended 31 December 2019.

Results and dividends

The results for the year are set out on page 10.

No interim or final dividend was paid during the year (2018: £nil).

Environment

Capita plc recognises the importance of its environmental responsibilities, monitors its impact on the environment, designs and implements policies to reduce any damage that may be caused to the Group's activities. The Company operates in accordance with Groups policies, which are described in the Group's annual report which does not form part of this report. Initiatives taken to minimise the Company's impact on the environment include safe disposal of waste, recycling and reducing energy consumption.

Employees

Details of the number of employees and related cost can be found in note 23 to the financial statements.

Directors

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

S J Maynard	(Resigned 29 June 2020)
S N Taylor on behalf of Capita Corporate Director Limited	
C F Baker	
J Cowan	
S Frewing	(Appointed 7 June 2019)
A J Timlin	(Appointed 29 June 2020)

Political donations

The Company made no political donations and incurred no political expenditure during the year (2018: £nil).

Employee involvement

The Company participates in the Group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings, newsletters, email notices and intranet communications. These communication initiatives enable employees to share information within and between business units and employees are encouraged, through an open door policy, to discuss with management matters of interest to the employee and subjects affecting day to day operations of the Company. The Group's share incentive plan is designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the group.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the Company continues and that the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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

The Directors are responsible for preparing 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 the Directors 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 income statement 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Statement of disclosure to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the Company's auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps he/she might reasonably be expected to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Qualifying third party indemnity provisions

The Company has granted an indemnity to the Directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report.

On behalf of the board.



S N Taylor on behalf of Capita Corporate Director Limited

Director

30 Berners Street, London, United Kingdom, W1T 3LR

9 September 2020

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITA SECURE INFORMATION SOLUTIONS LIMITED

Opinion

We have audited the financial statements of Capita Secure Information Solutions Limited (“the Company”) for the year ended 31 December 2019 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1.1 to the financial statements which indicates that the company is reliant on its ultimate parent undertaking, Capita plc, in regard to its ability to continue as a going concern. Under a severe but plausible downside scenario Capita plc may require completion of its planned disposal programme, which requires shareholder approval and approval from the group’s lenders. These agreements with third parties constitute a material uncertainty that may cast significant doubt on the company’s ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITA SECURE INFORMATION SOLUTIONS LIMITED

Strategic report and Directors' report

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF CAPITA SECURE INFORMATION SOLUTIONS LIMITED

The purpose of our audit work and to whom we owe our responsibilities

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.



Robert Brent (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditors

Chartered Accountants

15 Canada Square

London

E14 5GL

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9 September 2020

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 £
Revenue	3	141,067,156	139,085,725
Cost of sales		(108,394,840)	(111,393,322)
Gross profit		32,672,316	27,692,403
Administrative expenses		(29,154,616)	(23,658,307)
Operating profit	4	3,517,700	4,034,096
Investment income	5	16,734,962	-
Impairment of investments	12	(16,801,247)	-
Net finance costs	6	(3,023,208)	(100,921)
Profit before tax		428,207	3,933,175
Income tax (charge)/credit	8	(627,229)	1,007,420
Total comprehensive (expense)/income for the year		(199,022)	4,940,595

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

There are no recognised gains and losses other than those passing through the income statement.

The notes on pages 14 to 47 form an integral part of these financial statements.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £	2018 £
Non-current assets			
Property, plant and equipment	9	3,088,936	4,159,854
Right-of-use assets	10	1,771,100	-
Intangible assets	11	23,221,685	20,411,469
Investments in subsidiaries	12	4,902,281	21,703,428
Contract fulfilment assets	13	38,406,211	38,491,627
Trade and other receivables	14	946,962	329,087
Deferred tax	8	5,266,614	2,449,180
		77,603,789	87,544,645
Current assets			
Trade and other receivables	14	41,881,608	53,772,519
Income tax receivable		-	2,626,991
Cash	15	6,710,014	1,714,518
		48,591,622	58,114,028
Total assets		126,195,411	145,658,673
Current liabilities			
Trade and other payables	16	30,440,653	59,108,565
Deferred income	17	34,082,068	32,941,287
Financial liabilities	18	4,065,358	5,716,468
Lease liabilities	19	668,536	-
Provisions	20	690,882	421,644
Income tax payable		3,940,862	-
		73,888,359	98,187,964
Non-current liabilities			
Deferred income	17	42,986,752	37,709,069
Lease liabilities	19	958,728	-
		43,945,480	37,709,069
Total liabilities		117,833,839	135,897,033
Net assets		8,361,572	9,761,640

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2019

	Notes	2019 £	2018 £
Capital and reserves			
Issued share capital	21	3,036,847	3,036,847
Capital reserve		-	1,201,046
Capital redemption reserve		8,196,023	8,196,023
Retained deficit		(2,871,298)	(2,672,276)
Total equity		8,361,572	9,761,640

The notes on pages 14 to 47 form an integral part of financial statements.

Approved by Board and authorised for issue on 9 September 2020



**S N Taylor on behalf of Capita Corporate Director Limited
Director**

Company Registration No. 01593831

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Capital Reserve	Capital redemption reserve	Retained deficit	Total equity
	£	£	£	£	£
At 1 January 2018	3,036,847	1,201,046	8,196,023	(7,612,871)	4,821,045
Total comprehensive income for the year	-	-	-	4,940,595	4,940,595
At 31 December 2018	3,036,847	1,201,046	8,196,023	(2,672,276)	9,761,640
Total comprehensive expense for the year	-	-	-	(199,022)	(199,022)
Movements during the year	-	(1,201,046)	-	-	-
At 31 December 2019	3,036,847	-	8,196,023	(2,871,298)	8,361,572

Share capital – The balance classified as share capital is the nominal proceeds on issue of the Company’s equity share capital, comprising 3,036,847 ordinary shares.

Capital reserve- This was created in the year 2014 on account of fair valuation exercise carried out on adoption of FRS 101.

During the transition from UK GAAP to FRS 101 in 2015, the Company reported £1,201,046 which represented the discounted value of its intercompany loans at the time of transition, as Capital reserve. During 2019, loans were transferred to the parent entity following a group-wide loan re organisation and accordingly, the capital reserve has been reversed during the year.

Capital redemption reserve – The Company can redeem shares by repaying the market value to the shareholder whereupon the shares are cancelled. Redemption must be from distributable profits. The capital redemption reserve represents shares redeemed.

Retained deficit – Represents accumulated losses in the Company.

The notes from page 14 - 47 form an integral part of the financial statements.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

1.1 Basis of preparation

Capita Secure Information Solutions Limited is a Company incorporated and domiciled in the United Kingdom.

The financial statements are prepared under the historical cost basis except where stated otherwise and in accordance with applicable accounting standards.

In determining the appropriate basis of preparation for the annual report and financial statements for the year ended 31 December 2019, the Directors are required to consider whether the Company will be able to operate within the level of available facilities and cash for the foreseeable future, being a period of at least 12 months following the approval of these accounts. The Directors have concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, including the potential impact of COVID-19 as set out below.

Since late March 2020, the Group and the Company have faced challenges and uncertainties due to the COVID-19 pandemic.

The Directors expect revenue over the rest of the year to remain resilient, given the client base and the long-term nature of our contracts. Major clients are essential public sector blue light services with inelastic demand. Nevertheless, to enable a robust assessment of the medium term forecast financial performance the Directors commissioned an exercise in June 2020 to revisit the outlook to the end of 2021 ahead of the normal business plan process. The high level of uncertainty as to how the COVID-19 pandemic might evolve over the remainder of 2020 and into 2021, including whether or not there will be a second wave and what impact this may have on the operation of the business, makes precise forecasting challenging. There is a higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the Company's financial forecasts.

The bottom-up forecasts have been subject to review and challenge by management and the Directors. The forecasts include overlays for additional financial benefits that are expected to be driven by the Group transformation programme. These include sales growth together with margin improvements and further cost out targets. The Directors have approved the 2021 outlook which, on the assumption that the overlays are successfully delivered, supports the base case and time period assessed as part of the going concern review for these financial statements.

In addition to the base case, the Directors considered severe but plausible downside scenarios, recognising there is execution risk associated with a transformation programme of such magnitude that has been impacted by the broader political and economic uncertainty introduced by COVID-19. Offsetting these risks the Directors have considered available mitigations within the direct control of the Company, including (restructuring and limiting variable rewards). Finally, the assessment has considered the extent to which the Company is reliant on the Group.

The Company is reliant on the Group in respect of the following

- provision of administrative support services and should the Group be unable to deliver these services, the Company would have difficulty in continuing to trade;
- participation in the Group's notional cash pooling arrangements, of which £3,402,958 was advanced by the Company at 31 July 2020. In the event of a default by the Group, the Company may not be able to access this facility.
- recovery of receivables of £10,223,825 from fellow Group undertakings as of 31 July 2020. If these receivables are not able to be recovered when forecast by the Company, then the Company may have difficulty in continuing to trade; and
- revenue from other group entities and key contracts that may be terminated in the event of a default by the Group.

Given the reliance the Company has on the Group, the Directors have considered the financial position of the ultimate parent undertaking as disclosed in its most recent financial statements, being for the six months ended 30 June 2020.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Ultimate parent undertaking – Capita plc

The Capita plc Board ('the Board') concluded that it was appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties and sensitivities, including the potential impact of COVID-19, when preparing the Group's consolidated financial statements for the six months to 30 June 2020. These financial statements were approved by the Board on 17 August 2020 and are available on the Group's website (www.capita.com/investors).

To address the medium-term resilience of the Group, the Board have announced the planned disposal of the Education Software Services business ('ESS'). It is the Board's expectation that these funds will provide the necessary liquidity headroom to address any potential shortfalls arising in the downside scenarios evaluated, albeit with potentially limited covenant headroom as at 30 June 2021. It is also the Board's expectation that these funds will provide for compliance with all covenants although in certain circumstances this headroom is potentially limited at June 2021. The Board has confidence in the robustness of its primary mitigation (the ESS disposal) against the downside scenarios considered. The Board has several other options which are being actively pursued to provide further resilience in the event of a downside scenario. These include additional disposals and a refinancing of short-term maturities.

Material uncertainty

The disposal of ESS is subject to shareholder and lender approval, both of which are outside the control of the Company. Accordingly, this gives rise to material uncertainty, as defined in auditing and accounting standards, relating to events and circumstances which may cast significant doubt about the Group's ability to continue as a going concern.

The Board is confident that the ESS disposal will be approved by shareholders and lenders, and based on this expectation believes that, even in a plausible but severe downside scenario, the Group will continue to have adequate financial resources to realise its assets and discharge their liabilities as they fall due over the period to 31 December 2021.

Conclusion

Although the Company has a reliance on the Group detailed above, even in a severe but plausible downside for both the Company and the Group, the Directors are confident the Company will continue to have adequate financial resources to realise its assets and discharge its liabilities as they fall due over the period to 31 December 2021. Consequently, the annual report and financial statements have been prepared on the going concern basis and do not include any adjustments which would be required if the going concern basis of preparation were to be deemed inappropriate.

However, as the Group's disposal of ESS is subject to shareholder and lender approval, both of which are outside the control of the Group, this gives rise to a material uncertainty relating to events and circumstances which may cast significant doubt about the Group and therefore also the Company's ability to continue as a going concern.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.2 Compliance with accounting standards

The Company has applied FRS 101 – Reduced Disclosure Framework in the preparation of its financial statements. The Company has prepared and presented these financial statements by applying the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("EU-IFRSs"), but made amendments, where necessary, in order to comply with The Companies Act 2006.

The Company's ultimate parent undertaking, Capita plc, includes the Company in its consolidated statements. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU-IFRS) and are available to the public and may be obtained from Capita plc's website on <http://investors.capita.com>.

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

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible 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;
- Disclosures in respect of IFRS 9;
- Certain Disclosures in respect of IFRS 15; and
- Certain Disclosures in respect of IFRS 16.

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

- Certain disclosures required by IFRS 2 Share Based Payments in respect of Group settled share based payments;
- Certain disclosures required by IAS 36 Impairments of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company, in the current and prior periods including the comparative period reconciliation for goodwill;
- Certain Disclosures required by IFRS 13 Fair Value Measurement.; and
- Disclosures required by IFRS 7 Financial Instrument Disclosures.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 16 Leases. In addition, the Company has adopted a new IFRIC as detailed below.

Initial adoption of IFRS 16 Leases

IFRS 16 (effective 1 January 2019) replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company applied IFRS 16 using the modified retrospective approach, under which the Company has measured the right-of-use assets at the value of lease liability (adjusted for prepaid lease payments). Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under IAS 17 and related interpretations. The accounting policy under IFRS 16 is set out in 1.8.

On adoption of IFRS 16, the Company immediately recognised right of use asset representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 (effective 1 January 2019) addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The Company has initially applied IFRIC 23 Uncertainty over Income Tax Treatments at 1 January 2019. The Company applies judgement in quantifying uncertainties over income tax treatments and has considered whether it should adjust its uncertain tax provisions in line with this new criteria. There is no impact on the Company's financial statements due to application of IFRIC 23 (2018: £nil).

In addition, the Company has adopted the new amendments to standards detailed below but they do not have a material effect on the Company's financial statements.

New amendments or interpretation	Effective date
Prepayment features with negative compensation (Amendments to IFRS 9)	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
Plan amendment, curtailment or settlement (Amendments to IAS 19)	1 January 2019
Annual improvements to IFRS Standards 2015-2017 cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	1 January 2019

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition

The Company operates a number of diverse businesses and therefore it uses a variety of methods for revenue recognition based on the principles set out in IFRS 15. Many of the contracts entered are long term and complex in nature given the breadth of solutions the Company offers.

The revenue and profits recognised in any period are based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

In determining the amount of revenue and profits to record, and related balance sheet items (such as contract fulfilment assets, capitalisation of costs to obtain a contract, trade receivables, accrued income and deferred income) to recognise in the period, management is required to form a number of key judgements and assumptions. 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. These judgements are inherently subjective and may cover future events such as the achievement of contractual milestones, performance KPIs and planned cost savings. In addition, for certain contracts, key assumptions are made concerning contract extensions and amendments, as well as opportunities to use the contract developed systems and technologies on other similar projects.

Revenue is recognised either when the performance obligation in the contract has been performed (so 'point in time' recognition) or 'over time' as control of the performance obligation is transferred to the customer.

For all contracts, the Company determines if the arrangement with a customer creates enforceable rights and obligations. This assessment results in certain Master Service Agreements ('MSA's') not meeting the definition of a contract under IFRS 15 and as such the individual call-off agreements, linked to the MSA, are treated as individual contracts.

The Company enters into contracts which contain extension periods, where either the customer or both parties can choose to extend the contract or there is an automatic annual renewal, and/or termination clauses that could impact the actual duration of the contract. Judgement is applied to assess the impact that these clauses have when determining the appropriate contract term. The term of the contract impacts both the period over which revenue from performance obligations may be recognised and the period over which contract fulfilment assets and capitalised costs to obtain a contract are expensed.

For contracts with multiple components to be delivered such as transformation, transitions and the delivery of outsourced services, management applies judgement to consider whether those promised goods and services are (i) distinct - to be accounted for as separate 2 performance obligations; (ii) not distinct - to be 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 to the customer.

At contract inception the total transaction price is estimated, being the amount to which the Company expects to be entitled and has rights to under the present contract. This includes an assessment of any variable consideration where the Company's performance may result in additional revenues based on the achievement of agreed KPIs. Such amounts are only included based on the expected value or the most likely outcome method, and only to the extent that it is highly probable that no revenue reversal will occur.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition (continued)

The transaction price does not include estimates of consideration resulting from change orders for additional goods and services unless these are agreed.

Once the total transaction price is determined, the Company allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied. The Company infrequently sells standard products with observable standalone prices due to the specialised services required by customers and therefore the Company applies judgement to determine an appropriate standalone selling price. More frequently, the Company sells a customer bespoke solution, and in these cases the Company typically uses the expected cost-plus margin or a contractually stated price approach to estimate the standalone selling price of each performance obligation.

The Company may offer price step downs during the life of a contract, but with no change to the underlying scope of services to be delivered. In general, any such variable consideration, price step down or discount is included in the total transaction price to be allocated across all performance obligations unless it relates to only one performance obligation in the contract.

For each performance obligation, the Company determines if revenue will be recognised over time or at a point in time. Where the Company recognises revenue over time for long term contracts, this is in general due to the Company performing and the customer simultaneously receiving and consuming the benefits provided over the life of the contract.

For each performance obligation to be recognised over time, the Company applies a revenue recognition method that faithfully depicts the Company's performance in transferring control of the goods or services to the customer. This decision requires assessment of the real nature of the goods or services that the Company has promised to transfer to the customer. The Company applies the relevant output or input method consistently to similar performance obligations in other contracts.

When using the output method, the Company recognises 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. Where the output method is used, for long term service contracts where the series guidance is applied (see below for further details), the Company often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimation of number of users, level of service activity or fees collected.

If performance obligations in a contract do not meet the overtime criteria, the Company recognises revenue at a point in time (see below for further details).

The Company disaggregates revenue from contracts with customers by contract type, as management believe this best depicts how the nature, amount, timing and uncertainty of the Company's revenue and cash flows are affected by economic factors. Categories are: 'long-term contractual – greater than two years'; and 'short-term contractual – less than two years'. Years based from service commencement date.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition (continued)

Long term contractual - greater than 2 years

The Company provides a range of services in various segments under customer contracts with a duration of more than two years.

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes (i) long term outsourced service arrangements in the public and private sectors; and (ii) active software licence arrangements (see definition below).

The Company considers that the services provided meet the definition of a series of distinct goods and services as they are (i) substantially the same and (ii) have the same pattern of transfer (as the series constitutes services provided in distinct time increments (e.g., daily, monthly, quarterly or annual services)) and therefore treats the series as one performance obligation. Even if the underlying activities performed by the Company to satisfy a promise vary significantly throughout the day and from day to day, that fact, by itself, does not mean the distinct goods or services are not substantially the same.

For the majority of long service contracts with customers in this category, the Company recognises revenue using the output method as it best reflects the nature in which the Company is transferring control of the goods or services to the customer.

Active software licences are those where the Company has a continuing involvement after the sale or transfer of control to the customer, which significantly affects the intellectual property to which the customer has rights. The Company is in a majority of cases responsible for any maintenance, continuing support, updates and upgrades and accordingly the sale of the initial software is not distinct. The Company's accounting policy for licences is discussed in more detail below.

Short term contractual - less than 2 years

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes (i) short term outsourced service arrangements in the public and private sectors; and (ii) software maintenance contracts.

The Company has assessed that maintenance and support (i.e. on-call support, remote support) for software licences is a performance obligation that can be considered capable of being distinct and separately identifiable in a contract if the customer has a passive licence. These recurring services are substantially the same as the nature of the promise is for the Company to 'stand ready' to perform maintenance and support when required by the customer. Each day of standing ready is then distinct from each following day and is transferred in the same pattern to the customer.

Transactional (Point in time) contracts

The Company delivers a range of goods or services in all reportable segments that are transactional services for which revenue is recognised at the point in time when control of the goods or services has transferred 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.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition (continued)

Transactional (Point in time) contracts (continued)

The nature of contracts or performance obligations categorised within this revenue type is diverse and includes (i) provision of IT hardware goods; (ii) passive software licence agreements; (iii) commission received as agent from the sale of third party software; and (iv) fees received in relation to delivery of professional services.

Passive software licences are licences which have significant stand-alone functionality and the contract does not require, and the customer does not reasonably expect, the Company to undertake activities that significantly affect the licence. Any ongoing maintenance or support services for passive licences are likely to be separate performance obligations. The Company's accounting policy for licences is discussed in more detail below.

Contract modifications

The Company's contracts are often amended for changes in contract specifications and requirements. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations.

The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

- a. prospectively as an additional separate contract;
- b. prospectively as a termination of the existing contract and creation of a new contract;
- c. as part of the original contract using a cumulative catch up; or
- d. as a combination of (b) and (c).

For contracts for which the Company has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised over time, the modification will always be treated under either (a) or (b). (d) may arise when a contract has a part termination and a modification of the remaining performance obligations.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price. Importantly any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur.

Principal versus agent

The Company has arrangements with some of its customers whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods and services to the customer. The Company acts as a principal if it controls a promised good or service before transferring that good or service to the customer. The Company is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably the discretion the Company has in establishing the price for the specified good or service, whether the Company has inventory risk and whether the Company is primarily responsible for fulfilling the promise to deliver the service or good.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition (continued)

Principal versus agent(continued)

This assessment of control requires judgement in particular, in relation to certain service contracts. An example, is the provision of certain recruitment and learning services where the Company may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the Company is acting as a principal, revenue is recorded on a gross basis. Where the Company is acting as an agent revenue is recorded at a net amount reflecting the margin earned.

Licences

Software licences delivered by the Company can either be right to access ('active') or right to use ('passive') licences. Active licences are licences which require continuous upgrade and updates for the software to remain useful, all other licences are treated as passive licences. The assessment of whether a licence is active or passive involves judgement. The key determinant of whether a licence is active is whether the Company is required to undertake activities that significantly affect the licensed intellectual property (or the customer has a reasonable expectation that it will do so) and the customer is, therefore, exposed to positive or negative impacts resulting from those changes.

When software upgrades are sold as part of the software licence agreement (i.e. software upgrades are promised to the customer), the Company applies judgement to assess whether the software upgrade is distinct from the licence (i.e. a separate performance obligation). If the upgrade is considered fundamental to the ongoing use of the software by the customer, the upgrades are not considered distinct and not accounted for as a separate performance obligation.

The Company considers for each contract that includes a separate licence performance obligation all the facts and circumstances in determining whether the licence revenue is recognised over time or at a point in time from the go live date of the licence.

Contract related assets and liabilities

As a result of the contracts which the Company enters into with its customers, a number of different assets and liabilities are recognised on the Company's balance sheet. These include but are not limited to:

- Property, plant and equipment
- Intangible assets
- Contract fulfilment assets[^]
- Contract assets derived from costs to obtain a contract[^]
- Trade receivables
- Accrued income[^]
- Deferred income[^]

[^] Refer below for the accounting policy applied following the adoption of IFRS 15

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition (continued)

Contract fulfilment assets

Contract fulfilment costs are divided into (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred.

When determining the appropriate accounting treatment for such costs, the Company firstly considers any other applicable standards.

If those other standards preclude capitalisation of a particular cost, then an asset is not recognised under IFRS 15.

If other standards are not applicable to contract fulfilment costs, the Company applies the following criteria which, if met, result in capitalisation:

- (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract;
- (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (iii) the costs are expected to be recovered.

The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable. The Company regularly incurs costs to deliver its outsourcing services in a more efficient way (often referred to as 'transformation' costs).

These costs may include process mapping and design, system development, project management, hardware (generally in scope of the Company's accounting policy for property, plant and equipment), software licence costs (generally in scope of the Company's accounting policy for intangible assets), recruitment costs and training.

Capitalisation of costs to obtain a contract

The incremental costs of obtaining a contract with a customer are recognised as an asset if the Company expects to recover them. The Company incurs costs such as bid costs, legal fees to draft a contract and sales commissions when it enters into a new contract.

Judgement is applied by the Company when determining what costs qualify to be capitalised in particular when considering whether these costs are incremental and whether these are expected to be recoverable. For example, the Company considers which type of sales commissions are incremental to the cost of obtaining specific contracts and the point in time when the costs will be capitalised.

The Company has determined that the following costs may be capitalised as contract assets (i) legal fees to draft a contract (once the Company has been selected as a preferred supplier for a bid); and (ii) sales commissions that are directly related to winning a specific contract. Costs incurred prior to selection as preferred supplier are not capitalised but are expensed as incurred.

Utilisation, derecognition and impairment of contract fulfilment assets and capitalised costs to obtain a contract

The Company utilises contract fulfilment assets and capitalised costs to obtain a contract to cost of sales over the expected contract period using a systematic basis that mirrors the pattern in which the Company transfers control of the service to the customer.

The utilisation charge is included within cost of sales. Judgement is applied to determine this period, for example whether this expected period would be the contract term or a longer period such as the estimated life of the customer relationship for a particular contract if, say, renewals are expected.

A contract fulfilment asset or capitalised costs to obtain a contract is derecognised either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.4 Revenue recognition (continued)

Management is required to determine the recoverability of contract related assets within property, plant and equipment, intangible assets as well as contract fulfilment assets, capitalised costs to obtain a contract, accrued income and trade receivables. At each reporting date, the Company determines whether or not the contract fulfilment assets and capitalised costs to obtain a contract are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant contracts or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract.

The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific KPIs that could trigger variable consideration, or service credits.

Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Deferred and accrued income

The Company's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and services being provided. The Company often agrees payment schedules at the inception of long term contracts under which it receives payments throughout the term of the contracts. These payment schedules may include performance-based payments or progress payments as well as regular monthly or quarterly payments for ongoing service delivery. Payments for transactional goods and services may be at delivery date, in arrears or part payment in advance.

Where payments made are greater than the revenue recognised at the period end date, the Company recognises a deferred income contract liability for this difference. Where payments made are less than the revenue recognised at the period end date, the Company recognises an accrued income contract asset for this difference.

At each reporting date, the Company assesses whether there is any indication that accrued income assets may be impaired by considering whether the revenue remains highly probable that no revenue reversal will occur. Where an indicator of impairment exists, the Company makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.5 Goodwill

Goodwill is stated at cost less accumulated impairment losses. It is not amortised but is tested annually for impairment which is in accordance with FRS 101.A2.8. This is not in accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The Directors consider that this would fail to give a true and fair view of the profit for the period and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

1.6 Other intangibles

Other intangibles are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over its estimated useful life of between 3 and 10 years.

In the case of capitalised software development costs, research expenditure is charged to the Income Statement in the period in which it is incurred. Development expenditure is charged off in the same way unless and until the Company is satisfied as to the technical, commercial and financial viability of the individual projects. In these cases, the development expenditure is capitalised and amortised over the period during which the Company is expected to benefit.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Freehold land is not depreciated. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold improvements	over life of the lease
Fixtures, fittings & equipment	5 years
Computer equipment	3-5 years

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.8 Leasing

The Company leases various assets, comprising land and buildings and equipment.

The determination whether an arrangement is, or contains, a lease is based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The following sets out the Company's lease accounting policy for all leases with the exception of leases with low value and term of 12 months or less which we have taken the exemption in the standard. These are expensed to the income statement.

At the inception of the lease, the Company recognises a right-of-use asset and a lease liability. A lease liability is recognised in the balance sheet at the present value of minimum lease payments determined at the inception of the lease. A right-of-use asset of equivalent value is also recognised. Right-of-use assets are depreciated using the straight-line method over the shorter of estimated life or the lease term. Depreciation is included within the line item administrative expenses in the income statement.

The Company as a lessee - Right-of-use assets and lease liabilities

Right-of-use assets are measured at cost, which comprised the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date, less any lease incentives received at or before the adoption date. Depreciation is included within administrative expenses in the income statement. Right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right-of-use assets exclude leases with a low value and term of 12 months or less. These leases are expensed to the income statement as incurred.

Lease liabilities are measured at amortised cost using the effective interest rate method. Lease payments are apportioned between a finance charge and a reduction of the lease liability based on the constant interest rate applied to the remaining balance of the liability. Interest expense is included within the line item net finance costs in the consolidated income statement.

The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at inception date. The payments also include any lease incentives and any penalty payments for terminating the lease, if the lease term reflects the lessee exercising that option. Lease liability is adjusted for any prepayment

The lease term determined comprises the non-cancellable period of the lease contract. Periods covered by an option to extend the lease are included if the Company has reasonable certainty that the option will be exercised and periods covered by the option to terminate are included if it is reasonably certain that this will not be exercised.

The lease liability is subsequently remeasured (with a corresponding adjustment to the related right-of-use asset) when there is a change in future lease payments due to a renegotiation or market rent review, a change of an index or rate or a reassessment of the lease term. Payments associated with leases that have a term of less than 12 months or are of low value are recognised as an expense in the income statement as incurred.

1.9 Investments in subsidiaries

All investments are initially recorded at their cost. Subsequently they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

1.10 Long term contracts

Amount recoverable on long term contracts, which are included in debtors, are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.11 Pensions

The Company participates in a number of defined contribution schemes and contributions are charged to the profit and loss account in the year in which they are due. These schemes are funded and contributions are paid to separately administered funds. The assets of these schemes are held separately from the Company. The Company remits monthly pension contributions to Capita Business Services Limited, a fellow subsidiary undertaking, which pays the group liability centrally. Any unpaid contributions at the year-end have been accrued in the accounts of Capita Business Services Limited.

In addition, the Company participates in a number of defined benefit pension schemes which require contributions to be made to separate trustee-administered funds.

Where the Company participates in public sector defined benefit pension schemes, this is for a finite period and there are contractual protections in place to limit the financial risks to the Company of the membership of these schemes by its employees and as such the pension costs are reported on a defined contribution basis recognising a cost equal to its contribution paid during the period.

The Company also has employees who are members of a defined benefit scheme operated by the group – the Capita Pension & Life Assurance Scheme (the “Capita DB Scheme”).

The Capita DB Scheme closed to future accrual of benefit on 30 November 2017 for the majority of active members – where these members were subsequently offered membership of the group’s principal defined contribution scheme. However, there remain a number of employees of the Company accruing benefits on a defined benefit basis in the Capita DB Scheme.

As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the Capita DB Scheme to participating entities, the net defined benefit cost of the Capita DB Scheme is recognised fully by the principal employer (Capita Business Services Limited). The Company then recognises a cost equal to its contribution paid during the period. The contributions payable by the participating entities are determined on the following basis:

-The Capita DB Scheme provides benefits on a defined benefit basis funded from assets held in a separate trustee-administered fund.

-The Capita DB Scheme is a non-segregated scheme but there are around 200 different sections in the scheme where each section provides benefits on a particular basis (some based on final salary, some based on career average earnings) to particular groups of employees.

-At each funding assessment of the Capita DB Scheme (carried out triennially), the contribution rates for all those sections where there are remaining active members are calculated. These are then rationalised such that sections with similar employer contribution rates (when expressed as a percentage of pensionable pay) are grouped together and an average employer contribution rate for each of the rationalised groups calculated.

-The Company's contribution is consequently calculated by applying the appropriate average employer contribution rate to the pensionable pay of its employees participating in the Capita DB Scheme.

A full funding assessment of the Capita DB Scheme is carried out every three years by an independent qualified actuary for the Trustee of the scheme, with the last full assessment carried out at 31 March 2017. The next scheme funding assessment is being carried out with an effective date of 31 March 2020.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill;
- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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 profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.13 Share-based payments

The Company participates in various share option and share incentive schemes operated by Capita plc, the ultimate parent undertaking. Details of these schemes are contained in the Group's annual report.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense, attributable to the Company, since the previous balance sheet date is recognised in the profit and loss account and settled with Capita plc, the ultimate parent undertaking.

In accordance with IFRS 2, share option awards of the ultimate parent company's equity instruments in respect of settling grants to employees of the company are disclosed as a charge to the profit and loss account and a credit to equity. The Company's policy is to reimburse its ultimate parent company through the inter company account for charges that are made to it. Hence the credit to equity has been eliminated, rather reflecting a credit to inter-company which better describes the underlying nature of the transaction.

1.14 Group accounts

The financial statements present information about the Company as an individual undertaking and not about its Group. The Company has not prepared Group accounts as it is fully exempt from the requirement to do so by section 400 of the Companies Act 2006 as it is a subsidiary undertaking of Capita plc, a Company incorporated in England and Wales, and is included in the consolidated accounts of that Company.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.15 Financial instruments

Investments and other financial assets

(i) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date (that is, the date on which the group commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.15 Financial instruments (continued)

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as a separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

Trade and other receivables

The Company assesses on a forward-looking basis the expected credit losses associated with its receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of 3 months or less. Bank overdrafts are shown within current financial liabilities.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.15 Financial instruments (continued)

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at their fair value less any directly attributable transaction costs.

After initial recognition, loans and borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

1.16 Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.17 Provisions

Provisions 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 recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. The Company provides, on a discounted basis, for the future rent expense and related cost of leasehold property (net of estimated sub-lease income) where the space is vacant or currently not planned to be used for ongoing operations.

1.18 Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Significant accounting judgements, estimates and assumptions

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of goodwill and investments, the measurement of provisions, revenue and profit recognition on certain contractual arrangements. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Company determines whether goodwill is impaired on an annual basis and thus requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate.

The Company determines whether investments are impaired based on any impairment indicators. This involves estimation of the enterprise value of the investee which is determined based on the greater of discounted future cash flows at a suitable discount rate or through the recoverable value of investments held by the investee Company.

The measurement of revenue and resulting profit recognition - due to the size and complexity of some of the Company's contracts, requires judgements to be applied, including the measurement and timing of revenue recognition and the recognition of assets and liabilities, including an assessment of onerous contract, that result from the performance of the contract.

The Company has made judgements in adopting IFRS 16 such as, determining contracts in scope for IFRS 16, determining the interest rate used for discounting of future cash flows, and the lease term.

3 Revenue

The total Revenue of the Company for the year has been derived from its principal activity primarily undertaken in the United Kingdom.

4 Operating profit

	Notes	2019 £	2018 £
Operating profit for the year is stated after (crediting)/charging:			
Net foreign exchange losses/ (gains)		123,476	(58,819)
Depreciation of property, plant and equipment	9	2,177,564	1,024,393
(Profit)/loss on disposal of property, plant and equipment and intangible assets		-	379,476
Amortisation of intangible assets	11	2,134,186	2,587,930
Impairment of contract fulfilment assets	13	1,062,683	-
Operating lease rentals - plant and machinery		-	2,357,570
Short term leases- other assets		1,264,370	614,280
Short term leases - land and buildings		22,848	1,020,973
Depreciation of right-of-use assets	10	1,878,885	-

Audit fees are borne by the ultimate parent undertaking, Capita plc. audit fee for the current period was £59,483 (2018: £57,750). The Company has taken advantage of the exemption provided by regulations 6(2)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 not to provide information in respect of fees for Other (non-audit) services as this information is required to be given in the company accounts of the ultimate parent undertaking, which it is required to prepare in accordance with the Companies Act 2006.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

5 Investment income

	2019	2018
	£	£
Income from shares in group undertakings	16,734,962	-
	<u>16,734,962</u>	<u>-</u>

6 Net finance costs

	2019	2018
	£	£
Interest income	(26,727)	(4,813)
Interest on lease liabilities	71,321	-
Other interest expense	2,978,614	105,734
	<u>3,023,208</u>	<u>100,921</u>

7 Leases under IFRS 16

	2019	2018
	£	£
Interest expense on lease liabilities	71,321	-
Expenses related to short- term leases	1,287,218	-
Depreciation of right-of-use assets	1,878,885	-

8 Income tax

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019	2018
	£	£
Current income tax		
UK corporation tax	2,341,776	668,650
Adjustments in respect of prior periods	1,102,887	770,475
	<u>3,444,663</u>	<u>1,439,125</u>
Deferred income tax		
Origination and reversal of temporary differences	(1,492,333)	(2,460,770)
Adjustment in respect of prior periods	(1,325,101)	14,225
	<u>(2,817,434)</u>	<u>(2,446,545)</u>
Total tax charge/(credit) reported in the income statement	<u>627,229</u>	<u>(1,007,420)</u>

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

8 Income tax

(Continued)

The reconciliation between tax charge / (credit) and the accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2019 and 2018 is as follows:

	2019 £	2018 £
Profit before tax	428,207	3,933,175
Profit/(loss) before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	81,359	747,303
Adjustments in respect of current income tax of prior periods	1,102,887	770,475
Adjustments in respect of deferred income tax of prior periods	(1,325,101)	14,225
Expenses not deductible for tax purposes	3,801,821	65,920
Non taxable income	(3,209,306)	-
Recognition of brought forward losses previously unrecognised	-	(2,894,845)
Impact of changes in statutory tax rates	175,569	289,502
Total tax adjustments	545,870	(1,754,723)
Total tax charge/(credit) reported in the income statement	627,229	(1,007,420)

	Balance sheet		Income statement	
	2019 £	2018 £	2019 £	2018 £
Deferred Tax (Asset)/Liability				
Decelerated capital allowances	(2,813,012)	(1,758,712)	(1,054,300)	(517,454)
Contract fulfilment asset	3,564,899	4,456,665	(891,766)	(955,039)
Tax losses	(5,917,176)	(5,098,339)	(818,837)	(1,059,739)
Other timing difference	(101,325)	(48,794)	(52,531)	85,687
Deferred tax liabilities/(assets)	(5,266,614)	(2,449,180)		
Deferred income tax expense/(credit)			(2,817,434)	(2,446,545)

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

8 Income tax

(Continued)

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate. On the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020.

This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £619,602.

A deferred tax asset of £30,420(2018: £192,548) has been unrecognised in the statutory accounts due to the uncertainty of future use.

9 Property, plant and equipment

	Leasehold improvements	Fixtures, fittings & equipment	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2019	1,453,690	501,587	5,377,488	7,332,765
Additions	-	-	1,383,721	1,383,721
Reclass to intangibles	-	-	(277,075)	(277,075)
Asset retirement	(337,265)	(464,157)	(871,017)	(1,672,439)
At 31 December 2019	1,116,425	37,430	5,613,117	6,766,972
Depreciation and impairment				
At 1 January 2019	745,643	482,455	1,944,813	3,172,911
Depreciation	220,942	7,297	1,949,325	2,177,564
Asset retirement	(337,265)	(464,157)	(871,017)	(1,672,439)
At 31 December 2019	629,320	25,595	3,023,121	3,678,036
Net book value				
At 31 December 2018	708,047	19,132	3,432,675	4,159,854
At 31 December 2019	487,105	11,835	2,589,996	3,088,936

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

10 Right-of-use assets

	Property £	Equipment £	Total £
Balance at 1 January 2019	-	-	-
Adjustment on transition to IFRS 16 (refer note 28)	2,643,782	954,295	3,598,077
Additions	53,285	-	53,285
Depreciation charge for the year	(925,967)	(952,918)	(1,878,885)
Termination	-	(1,377)	(1,377)
Balance at 31 December 2019	1,771,100	-	1,771,100

11 Intangible fixed assets

	Goodwill £	Software £	Total £
Cost			
At 1 January 2019	8,230,958	20,942,134	29,173,092
Additions	-	4,667,327	4,667,327
Re-class from property, plant and equipment	-	277,075	277,075
Asset retirement	-	(2,229,388)	(2,229,388)
At 31 December 2019	8,230,958	23,657,148	31,888,106
Amortisation and impairment			
At 1 January 2019	-	8,761,623	8,761,623
Amortisation	-	2,134,186	2,134,186
Asset retirement	-	(2,229,388)	(2,229,388)
At 31 December 2019	-	8,666,421	8,666,421
Net book value			
At 31 December 2019	8,230,958	14,990,727	23,221,685
At 31 December 2018	8,230,958	12,180,511	20,411,469

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

12 Investment in subsidiaries	Shares in subsidiary undertakings £
Cost	
At 1 January 2019	21,703,428
Addition	100
Impairment for the current year (Note a)	(16,801,247)
At 31 December 2019	4,902,281
Net book value	
At 31 December 2019	4,902,281
At 31 December 2018	21,703,428

Details of the Company's direct subsidiaries at 31 December 2019 are as follows:

Company	Country of registration or incorporation	Ordinary shares held (%)	Nature of business
Capita Secure Mobile Solutions Limited*** (L)	England	100	Dormant
Capita Secure Resource Solutions Limited** (#)	England	100	Dormant
Fortek Computers Limited** (#)	England	100	Dormant
STL Technologies Limited** (L)	England	100	Dormant
Capita IB Solutions (UK) Limited**	England	100	Dormant
Retain International Limited*	England	100	Dormant
Security Watchdog Limited(previously known as Capita Workforce Management Solutions Limited)	England	100	Dormant
**			
Tempus Finance Limited**	England	100	Dormant
Retain International (Holdings) Limited**	England	100	Dormant
Call Vision Technologies Limited**	England	100	Dormant
Emercom Limited**	England	100	Dormant

* Subsidiaries indirectly held

Registered Offices

**30 Berners Street, London, England, W1T 3LR

*** Pavillion Building, Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW, United Kingdom

(L) - in Liquidation

(#)- Dissolved

Note a) As at 31 December 2019, the Directors tested the impairment of investments by comparing the recoverable value against the carrying value. Accordingly, there is an impairment of £7,280,130 in Capita IB Solutions (UK) Limited, £698,430 in Capita Secure Mobile Solutions Limited, £758,659 in Capita Secure Resource Solutions Limited, £1,377,455 in Fortek Computers Limited, £6,533,761 STL Technologies Limited and £152,812 in Security Watchdog Limited.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13 Contract fulfilment assets

	£
As at 1 January 2018	38,658,488
Additions	14,913,103
Release	(15,079,964)
As at 31 December 2018	38,491,627
Additions	17,271,079
Release	(16,293,812)
Impairment	(1,062,683)
As at 31 December 2019	38,406,211
Net book value	
At 31 December 2019	38,406,211
At 31 December 2018	38,491,627

In preparing these financial statements, the entity undertook a review to identify indicators of impairment of contract fulfilment assets. The entity determined whether or not the contract fulfilment assets were impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the entity expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the entity used the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price were removed for the impairment test.

In line with our accounting policy, as set out in note 1, if a contract or specific performance obligation exhibited marginal profitability or other indicators of impairment, judgement was applied to ascertain whether or not the future economic benefits from these contracts were sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific KPIs that could trigger variable consideration, or service credits. Contract fulfilment asset impairments of £1,062,683 were identified as at 31 December 2019 (31 December 2018: £nil).

14 Trade and other receivables

Current	2019	2018
	£	£
Trade receivables	22,282,210	10,619,374
Accrued income	3,842,825	5,119,116
Prepayments	4,390,754	4,942,897
Amounts due from parent & fellow subsidiary undertaking	9,744,278	31,403,515
Other receivables	1,621,541	1,687,617
	41,881,608	53,772,519

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

14 Trade and other receivables		(Continued)	
Non-current	2019	2018	
	£	£	
Prepayments	946,962	329,087	
	<u>946,962</u>	<u>329,087</u>	
	<u><u>946,962</u></u>	<u><u>329,087</u></u>	
15 Cash		2019	2018
		£	£
Cash at bank and in hand		6,710,014	1,714,518
		<u>6,710,014</u>	<u>1,714,518</u>
		<u><u>6,710,014</u></u>	<u><u>1,714,518</u></u>
16 Trade and other payables		2019	2018
Current		£	£
Trade payables		4,637,059	1,663,940
Other taxes and social security		3,745,841	3,050,062
Accruals		2,772,489	5,590,187
Amounts due to parent and fellow subsidiary undertaking		19,285,264	48,804,376
		<u>30,440,653</u>	<u>59,108,565</u>
		<u><u>30,440,653</u></u>	<u><u>59,108,565</u></u>
17 Deferred income		2019	2018
		£	£
Current			
Deferred income		34,082,068	32,941,287
		<u>34,082,068</u>	<u>32,941,287</u>
		<u><u>34,082,068</u></u>	<u><u>32,941,287</u></u>
Non-current			
Deferred income		42,986,752	37,709,069
		<u>42,986,752</u>	<u>37,709,069</u>
		<u><u>42,986,752</u></u>	<u><u>37,709,069</u></u>

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

18 Financial liabilities

	2019 £	2018 £
Current		
Overdrafts	4,065,358	5,716,468
	<u>4,065,358</u>	<u>5,716,468</u>

19 Lease liabilities

	2019 £	2018 £
Current		
Lease liabilities	668,536	-
	<u>668,536</u>	<u>-</u>
Non-current		
Lease liabilities	958,728	-
	<u>958,728</u>	<u>-</u>

In calculating the lease liability to be recognised on adoption, the Group used a weighted average incremental borrowing rate at 1 January 2019 ranging from 2.3% to 3.31%.

	2019 £
Lease liabilities	
Operating lease commitments at 31 December 2018 disclosed under IAS 17*	3,607,047
Operating lease commitment restated for 31 December 2018	(87,443)
Discounted using the incremental borrowing rate at 1 January 2019	(149,381)
Recognition Exemption for leases of low value assets and short term leases	(22,848)
	<u>3,347,375</u>
Lease liabilities recognised as at 1 January 2019	
out of which	
Current	1,738,945
Non Current	1,608,430

	2019 £	2018 £
Maturity analysis - Contractual undiscounted cash flows		
Less than one year	788,881	1,834,064
Two to 5 years	769,297	1,685,540
	<u>1,558,178</u>	<u>3,519,604</u>
Total undiscounted lease liabilities at 31 December		

*Before the adoption of IFRS 16, the Company was recognising the lease commitments for certain properties which were not registered in the name of the Company.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

20 Provisions

Current	Dilapidations	Restructuring provision	Other	Total
	£	£	£	£
As at 1 January 2019	211,743	209,901	-	421,644
Additions	271,255	-	441,000	712,255
Reclass between classes	209,901	(209,901)		-
Release	(310,264)	-	-	(310,264)
Utilisation	(132,753)	-	-	(132,753)
At 31 December 2019	249,882	-	441,000	690,882

The Company is required to perform repairs on leased properties prior to the properties being vacated at the end of their lease term. Dilapidation provisions for such costs are made where a legal obligation is identified and the liability can be reasonably quantified.

The restructuring provision is in respect of the cost of the major restructuring activities undertaken by the Company that commenced from the last quarter of 2016. It represents the cost of reducing role count where there is a constructive obligation created through communication to affected employees which has created a valid expectation that roles are at risk. The provisions are expected to be utilised over a year.

Onerous contract provision for Essex Councils to allow for future forecast losses on the account. This is due to higher cost base to maintain the service for Castle Point Borough Council, the only remaining one of the 4 Essex Councils. The other 3 councils (Colchester, Braintree and Rochford) have now exited resulting in contractual revenue decline. This contract ends in March 2021.

21 Issued share capital	2019	2018	2019	2018
	Numbers	Numbers	£	£
Allotted, called up and fully paid				
of £1 each				
At 1 January	3,036,847	3,036,847	3,036,847	3,036,847
At 31 December	3,036,847	3,036,847	3,036,847	3,036,847

Share capital

The nominal proceeds on issue of the Company's equity share capital, comprising £1 ordinary shares.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

22 Employee benefits

The Company participates in both defined benefit and defined contribution pension schemes.

Contributions in respect of the defined contribution schemes payable by the Company during the year amounted to £4,652,873. (2018: £4,154,359).

The Company has current and former employees who are members of public sector defined benefit pension schemes.

Where the Company participates in public sector defined benefit pension schemes, this is for a finite period and there are contractual protections in place allowing actuarial and investment risk to be passed on to the end customer via recoveries for contributions paid. The nature of these arrangements vary from contract to contract but typically allows for the majority of contributions payable to the schemes in excess of an initial rate agreed at the inception to be recovered from the end customer, as well as exit payments payable to the schemes at the cessation of the contract (where applicable), such that the Company's net exposure to actuarial and investment risk is immaterial.

Judgement is required in determining the appropriate accounting treatment for the participation in these schemes, in particular as to whether actuarial and investment risk fall in substance on the Company. It is considered that the net risk to the Company from these defined benefit arrangements is immaterial and therefore the costs in relation to all of the above schemes are reported on a defined contribution basis recognising a cost equal to its contribution payable during the period. No amounts are recognised on the Company's balance sheet.

The pension charge for these public sector defined benefit pension schemes is included in the above pension charge for the defined contribution pension schemes

The Capita Pension and Life Assurance Scheme (the "Capita DB Scheme")

The Company has current and former employees who are members of the Capita Pension and Life Assurance Scheme (the "Capita DB Scheme"), a defined benefit scheme.

The Capita DB Scheme is a non-segregated scheme but there are around 200 different sections in the scheme where each section provides benefits on a particular basis (some based on final salary, some based on career average earnings) to particular groups of employees.

The Capita DB Scheme closed to future accrual of benefit on 30 November 2017 for the majority of active members – where these members were subsequently offered membership of the group's principal defined contribution scheme. However, there remain a number of employees of the Company accruing benefits on a defined benefit basis in the Capita DB Scheme.

The pension charge for the Company in relation to the Capita DB Scheme for the year was £395,102 (2018: £249,569).

A full funding assessment of the Capita DB Scheme is carried out every three years by an independent actuary for the Trustee, with the last full assessment carried out at 31 March 2017. Amongst the main purposes of the assessment is to agree a contribution plan such that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee and the Principal Employer (Capita Business Services Limited, a fellow subsidiary undertaking). The 31 March 2017 assessment showed a funding deficit of £185m (31 March 2014: £1.4m). This equates to a funding level of 86.1% (31 March 2014: 99.8%).

As a result of the funding assessment, the Principal Employer and the Trustee agreed the payment of additional contributions totaling £176m between November 2018 and 2021 with the intention of removing the deficit calculated as at 31 March 2017 by 2021.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

(Continued)

22 Employee benefits

In addition, the Principal Employer agreed an average employer contribution rate of 28.1% (excluding employee contributions made as part of a salary sacrifice arrangement) towards the expected cost of benefits accruing.

The next full funding assessment is being carried out with an effective date of 31 March 2020. For the purpose of the consolidated accounts of Capita Plc, an independent qualified actuary projected the results of the 31 March 2017 funding assessment to 31 December 2019 taking account of the relevant accounting requirements.

The principal assumptions for the valuations at 31 December 2019 were as follows: rate of increase in the RPI/CPI price inflation – 3.0% pa/2.0% pa (2018: 3.2% pa/2.2% pa); rate of salary increase – 3.0% pa (2018: 3.2% pa); rate of increase for pensions in payment (where RPI inflation capped at 5% pa applies) – 2.95% pa (2018: 3.1% pa); discount rate – 2.05% pa (2018: 2.85% pa).

The Capita DB Scheme assets at fair value at 31 December 2019 totalled £1,353.1m(2018: £1,136.0m).The actuarially assessed value of Capita DB Scheme liabilities at 31 December 2019 was £1,585.9m (2018: £1,342.7m) indicating that the Capita DB Scheme had a net liability of £232.8m (2018: net liability of £206.7m). These figures are quoted gross of deferred tax. The full disclosure is available in the consolidated accounts of Capita plc.

For the purpose of these accounts, this Company's interest in the Capita DB Scheme is reported on a defined contribution basis recognising a cost equal to its contributions paid over the period.

23 Employees

The average monthly number of employees (including Directors) were:

	2019 Number	2018 Number
Sales	83	74
Operational	1,029	917
Administration	84	76
	<u>1,196</u>	<u>1,067</u>

Their aggregate remuneration comprised:

Employee costs	2019 £	2018 £
Wages and salaries	52,119,135	49,602,215
Social security costs	6,308,826	6,127,184
Pension costs	5,047,974	4,403,928
Shared based payments (charged by intercompany)	83,923	161,509
	<u>63,559,858</u>	<u>60,294,836</u>

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

24 Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

Nature of Transaction	Name of Company	Year	Fellow Subsidiary
Sales of Goods			
	Capita Glamorgan Consultancy Limited	December 31, 2019	843
		December 31, 2018	-
	Urban Vision Partnership Limited	December 31, 2019	2,379
		December 31, 2018	-
	Entrust Support Services Limited	December 31, 2019	131,362
		December 31, 2018	-
	Axelos Limited	December 31, 2019	7,831
		December 31, 2018	-
Total		December 31, 2019	142,415
		December 31, 2018	-

Terms and conditions of transactions with related parties.

All transactions were undertaken at normal market prices.

25 Directors' remuneration

	2019	2018
	£	£
Remuneration for qualifying services	780,465	994,496
Company pension contributions to defined contribution schemes	34,360	30,375
	814,825	1,024,871

Three Directors were paid by Capita Secure Information Solutions Limited (2018 : 3). The remaining Directors were paid by another company within the Software division. As no significant amount of time was spent by these Directors on Company's affairs, their Directors remuneration has not been allocated to this company. In addition to above, the Directors of the Company were reimbursed for the expenses incurred by them whilst performing business responsibilities.

The number of Directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2018 : 2).

The number of Directors who exercised share options during the year was 0 (2018 - 0).

Remuneration disclosed above include the following amounts paid to the highest paid Director:

	2019	2018
	£	£
Remuneration for qualifying services	382,454	542,827
	382,454	542,827

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

26 Controlling party

The Company's immediate parent undertaking is Capita Justice & Secure Services Holdings Limited, a Company incorporated in England and Wales.

The Company's ultimate parent undertaking is Capita plc, a Company incorporated in England and Wales. The accounts of Capita plc are available from the registered office at 30 Berners Street, London, England, W1T 3LR.

27 Reconciliation of opening balance as at 1 January 2019

The following is a reconciliation of the extract of the balance sheet line items from IAS 17 to IFRS 16 at 1 January 2019:

	Carrying amount - 31 December 2018	Impact on Adoption of IFRS 16	Remeasured carrying amount as at 1 January 2019
Assets			
Right-of-use assets (a)	-	3,598,077	3,598,077
Trade and other receivables (c)	53,772,519	(250,702)	53,521,817
Liabilities			
Lease liabilities			
Current (b)	-	(1,738,945)	(1,738,945)
Non-current (b)	-	(1,608,430)	(1,608,430)

a) Right-of-use assets: Non-current assets have been impacted due to recognition of right-of-use assets on 1 January 2019. The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the adoption date less any lease incentives received at or before the adoption date (reclassified on the opening balance sheet).

b) Lease liabilities: Financial liabilities have been impacted due to the recognition of lease liabilities. This liability is initially measured at the present value of the lease payments that are not paid at the adoption date, discounted using the Group's incremental borrowing rate. The lease payments comprise fixed payments, including in-substance fixed payments such as service charges and variable lease payments that depend on an index or a rate, initially measured using the minimum index or rate at commencement date. The lease liabilities have been classified between current and non-current.

c) Reclassification of balance sheet items: As noted above in a, the right-of-use asset is initially measured at cost plus lease payments made at or before the adoption date (prepayments), less any lease incentives received (rent free accruals) and less onerous provisions existing at the adoption date. These balances have been reclassified to right-of-use asset on adoption.

CAPITA SECURE INFORMATION SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

28 Post balance sheet event

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which the Directors have assessed in considering the going concern assumption.

For the Company's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. The Directors have assessed that there is no impact on the recognition and measurement of assets and liabilities as a result of this subsequent event.