Company Registration No. 01336850 (England and Wales)

CAPITA CUSTOMER MANAGEMENT LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

CAPITA CUSTOMER MANAGEMENT LIMITED

COMPANY INFORMATION

Directors	A J Bowman	
	A M Vallance	
	A N Chapple	(Appointed 1 October 2019)
Secretary	Capita Group Secretary Limited	
Company number	01336850	
Registered office	30 Berners Street London England W1T 3LR	
Auditor	KPMG LLP 15 Canada Square London E14 5GL	

CAPITA CUSTOMER MANAGEMENT LIMITED

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STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Review of the business

Capita Customer Management Limited ("the Company") is a wholly owned subsidiary (indirectly held) of Capita plc. Capita plc, along with all its subsidiaries' is hereafter referred as "the Group". The Company operates within the Group's Customer Management division.

The principal activity of the Company continued to be that of the providing outsourcing services. There have not been any significant changes in the Company's principal activities in the year under review. 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.

As shown in the Company's income statement on page 8 the Company's revenue has decreased from £413,451,372 in 2018 to £385,001,534 in 2019, while operating profit has decreased from £19,902,428 to £12,668,938 over the same period. 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. 5,12,19 & 29. The impact of the adoption of IFRS 16 is explained in Note 29.

The balance sheet on pages 9 and 10 of the financial statements shows the Company's financial position at the year end. Net assets have increased from £118,757,792 in 2018 to £125,365,667 in 2019. Details of amounts owed by/to its parent Company and fellow subsidiary undertakings are shown in notes 14 and 16 to 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 its operations on a divisional basis and as a consequence, some of these indicators are monitored only at a divisional level. The performance of Customer management division is discussed in the Group's Annual Report which does not form part of this report.

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.

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 an 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 Customer Management 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)	
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

....
A J Bowman
Director

11 September 2020

CAPITA CUSTOMER MANAGEMENT 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 9.

During the year the Company paid dividend of £nil (2018: £nil).

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

M D Barnard	(Resigned 9 May 2019)
A J Bowman	
A M Vallance	
A N Chapple	(Appointed 1 October 2019)
K A Francis	(Appointed 21 October 2019 and resigned 15 November 2019)

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

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

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's 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.

Employee involvement
The Company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests.

Information of matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

There is no employee share scheme at present, but the Directors are considering the introduction of such a scheme as a means of further encouraging the involvement of employees in the Company's performance.

Post reporting date events

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. The Directors have disclosed the impacts and potential impacts of COVID-19 in the disclosure note 1.1 on page 12, and as at the date of the accounts trading continues in line with revised forecasts.

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.

Auditor

KPMG LLP, having indicated its willingness to continue in office, will be deemed to be reappointed as auditor under section 487(2) of the Companies Act 2006.

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Future developments

The Directors of the Company are not aware of any circumstance in which the principal activity of the Company would cease or change. The impacts and potential impacts of COVID 19 have been assessed by the Directors and disclosed in note 1.1 on page 12, and as at the date of accounts of trading continues in line with the revised forecast.

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 enquires of fellow Directors and the Company's auditor, each Director has taken all the steps that he might reasonably be expected to take as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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.

Corporate governance arrangements

The Company forms part of the Group. Capita plc shares have a premium listing on the main market of the London stock exchange and Capita plc is subject to the requirements of the UK Corporate Governance Code 2018 (the "Code") published by the Financial Reporting Council.

The Company did not apply a corporate governance code during the year as its governance arrangements form part of the wider Group's governance arrangements and are integrated into the management of the Group as a whole. The Company's board of Directors includes the executive officer of each division in the Group. These executive officers are also part of the Group's Executive Committee ("ExCo"), led by the Chief Executive Officer of Capita plc.

Information about ExCo members is provided in the Capita plc Annual Report & Accounts. Decisions made by the Capita plc board and its committees, or by the ExCo and its committees, are cascaded throughout the Group as applicable and the management of each division, led by its Executive Officer, is responsible for implementation among unregulated businesses in their division. Boards of directors of regulated entities within the Group have authority to make decisions autonomously, with risk committee oversight at a Group level. Monthly performance reviews are conducted by the ExCo with divisional management. These enable a two-way conversation to take place about business strategy, developments and performance. The Directors of the Company remain responsible for all decisions affecting the operation of the Company's affairs.

On behalf of the board

A J Bowman
Director

30 Berners Street
London
England
W1T 3LR

11 September 2020

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITA CUSTOMER MANAGEMENT LIMITED

Opinion

We have audited the financial statements of Capita Customer Management Limited (the 'Company') for the year ended 31 December 2019 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and related notes, including 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 Disclosures 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.

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 report have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITA CUSTOMER MANAGEMENT LIMITED

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 pages 4 and 5, the directors are responsible for: the preparation of the financial statement and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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.

Simon Weaver

Simon Weaver (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

11 September 2020

CAPITA CUSTOMER MANAGEMENT LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 £
Revenue	**3**	385,001,534	413,451,372
Cost of sales		(340,463,438)	(355,860,422)
Gross profit		**44,538,096**	**57,590,950**
Administrative expenses		(31,869,158)	(37,688,522)
Operating profit	**4**	**12,668,938**	**19,902,428**
Investment income	**6**	10,909	10,233
Other income		50,000	-
Net finance costs	**7**	(847,216)	(1,173)
Profit before tax		**11,882,631**	**19,911,488**
Income tax expense	**8**	(2,165,687)	(3,488,259)
Total comprehensive income for the year		**9,716,944**	**16,423,229**

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 12 to 40 form an integral part of financial statements.

CAPITA CUSTOMER MANAGEMENT LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £	2018 £
Non-current assets			
Property, plant and equipment	**9**	12,957,211	16,054,326
Intangible assets	**10**	25,856,815	20,029,105
Investments in subsidiaries	**11**	6,018	6,018
Right of use asset	**12**	10,956,371	-
Contract fulfilment assets	**13**	23,791,625	28,962,811
Trade and other receivables	**14**	4,580,448	7,284,611
Deferred tax	**8**	36,778,593	34,117,360
		114,927,081	**106,454,231**
Current assets			
Trade and other receivables	**14**	268,696,719	298,217,201
Cash	**15**	616	-
		268,697,335	**298,217,201**
Total assets		**383,624,416**	**404,671,432**
Current liabilities			
Trade and other payables	**16**	53,886,731	68,056,183
Deferred income	**17**	144,686,060	163,199,827
Financial liabilities	**18**	30,536,956	6,376,046
Lease liabilities	**19**	2,134,402	-
Provisions	**20**	-	2,280,902
Income tax payable		4,331,034	2,716,291
		235,575,183	**242,629,249**
Non-current liabilities			
Trade and other payables	**16**	-	9,172,391
Deferred income	**17**	1,968,322	34,112,000
Lease liabilities	**19**	20,703,914	-
Provisions	**20**	11,330	-
		22,683,566	**43,284,391**
Total liabilities		**258,258,749**	**285,913,640**
Net assets		**125,365,667**	**118,757,792**

CAPITA CUSTOMER MANAGEMENT LIMITED

BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2019

	Notes	2019 £	2018 £
Capital and reserves			
Issued share capital	**21**	180,320,001	180,320,001
Share premium		37,680,000	37,680,000
Retained deficit		(92,634,334)	(99,242,209)
Total equity		**125,365,667**	**118,757,792**

The notes on pages 12 to 40 form an integral part of financial statements.

Approved by Board and authorised for issue on 11 September 2020

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A J Bowman
Director

Company Registration No. 01336850

CAPITA CUSTOMER MANAGEMENT LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Retained deficit	Total equity
	£	£	£	£
At 1 January 2018	320,001	37,680,000	(115,665,438)	(77,665,437)
Issue of shares	180,000,000	-	-	180,000,000
Total comprehensive income for the year	-	-	16,423,229	16,423,229
Contribution in respect of share based payment charge	-	-	97,029	97,029
Settlement of share based payment charged by intercompany	-	-	(97,029)	(97,029)
At 31 December 2018	**180,320,001**	**37,680,000**	**(99,242,209)**	**118,757,792**
Impact of IFRS 16 (refer note29)	-	-	(3,109,069)	(3,109,069)
Total comprehensive income for the year	-	-	9,716,944	9,716,944
Contribution in respect of share based payment charge	-	-	6,566	6,566
Settlement of share based payment charged by intercompany	-	-	(6,566)	(6,566)
At 31 December 2019	**180,320,001**	**37,680,000**	**(92,634,334)**	**125,365,667**

Share capital
The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 180,320,001 ordinary shares.

Share premium
The amount paid to the Company by shareholders, in cash or other consideration, over and above the nominal value of the shares issued to them.

Retained deficit
Pertains to accumulated losses in the Company.

The notes on pages 12 to 40 form an integral part of financial statements.

1 Accounting policies

1.1 Basis of preparation

Capita Customer Management Limited is a company incorporated and domiciled in the UK.

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 Company has been moderately impacted by COVID-19. 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.. 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 operate
- participation in the Group's notional cash pooling arrangements, of which £10.1m was overdrawn as 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 £231.7m 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 operate;
- revenue from other Group entities or key contracts that may be terminated in the event of a default by the Group;
- additional funding that may be required if the Company suffers potential/continuing future losses; and
- The Company forms part of a group of subsidiary companies owned directly or indirectly by Capita plc each of which guarantee the obligations under certain funding arrangements of Capita plc and Capita Holdings Limited (refer to Note 1.2).

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.

1 Accounting policies **(Continued)**

1.1 Basis of preparation (continued)

Ultimate parent undertaking – Capital 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 its 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.

1.2 Guarantor group

The Company forms part of a group of subsidiary companies owned directly or indirectly by Capita plc each of which guarantee the obligations under certain funding arrangements of Capita plc and Capita Holdings Limited. These funding arrangements are: Capita plc's principal bank credit facilities, Euro fixed rate bearer bonds and a Schuldsche in loan issued by Capita plc, and US private placement loan notes issued by Capita Holdings Limited. These arrangements are subject to ongoing compliance with covenants that include the Group's maximum ratios of adjusted net debt to adjusted EBITDA and interest cover. The covenant threshold tests are required to be carried out twice a year.

1 Accounting policies **(Continued)**

1.2 Guarantor group (continued)

Under the Capita plc’s committed bank facilities and Euro fixed rate bearer notes covenants at 31 December 2019 the Group’s adjusted net debt to adjusted EBITDA ratio was 2.2x compared to a maximum permitted value of 3.5x and annualised interest cover at 10.8x compared to a minimum permitted level of 4.0x. Under the US private placement loan notes covenant calculations, at 31 December 2019 the Group’s adjusted net debt to adjusted EBITDA ratio was 1.7x compared to a maximum permitted value of 3.0x and annualised interest cover at 11.2x compared to a minimum permitted level of 4.0x.

Further details of the covenant calculations are provided in section 8.2 of Capita plc's Annual report.

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.

1.3 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;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy;
- Certain disclosures as required by IFRS 15 Revenue from Contracts with Customers;
- Disclosures in respect of the compensation of key management personnel; and
- Certain disclosures as required by IFRS 16 Leases.

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; and
- Disclosures required by IFRS 13 Fair values.

1 Accounting policies **(Continued)**

1.4 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. 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 updated policy on IFRS 16 is set out in note 1.9.

The adoption of the above changes has had no impact on the Financial Statements of the Company.

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 the 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

1.5 Revenue recognition

Revenue is earned within the United Kingdom.

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.

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.

1 Accounting policies (Continued)

1.5 Revenue recognition (continued)

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 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.

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.

1 Accounting policies **(Continued)**

1.5 Revenue recognition (continued)

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 when the service or good is delivered.

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.

Contract fulfilment costs

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.

Utilisation: The utilisation charge is included within cost of sales. The Company utilises contract fulfilment assets 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. Judgement is applied to determine this period.

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

Impairment: At each reporting date, the Company determines whether or not the contract fulfilment assets 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.

1 Accounting policies **(Continued)**

1.5 Revenue recognition (continued)

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 probably that no revenue reversal will occur.

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. This can 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.

Onerous contracts

The Company reviews its long-term contracts to ensure that the expected economic benefits to be received are in excess of the unavoidable costs of meeting the obligations under the contract. The unavoidable costs are the lower of the net costs of termination or the costs of fulfilment of the contractual obligations. The Company recognises the excess of the unavoidable costs over economic benefits due to be received as an onerous contract provision.

1 Accounting policies **(Continued)**

1.5 Revenue recognition (continued)

Contract types

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 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.

Long term contractual - greater than two years
The Company provides a range of services 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.

Majority of the long-term contractual contracts form part of a series of distinct goods and services as they are substantially the same service; and 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.

Short term contractual - less than two 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.

Principal versus agent

The Company has arrangements with some of its clients 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.

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.

1 Accounting policies **(Continued)**

1.5 Revenue recognition (continued)

Licences

Software licences delivered by the Company can either be right to access ('active') or right to use ('passive') licences, which determines the timing of revenue recognition. 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 continuing 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. 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. All other licences which have significant stand-alone functionality are treated as passive licences.

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 ('active') or at a point in time ('passive') from the go live date of the licence.

1.6 Goodwill

Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (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 year 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.

On adoption of FRS 101, the Company restated business combinations that took place between 1 January 2007 and 31 December 2014. The Company, therefore, restated its opening balances in 2014 to reflect the position had IFRS 3 'Business Combinations' been in effect since 1 January 2017.

1.7 Capitalised and purchased software

Software is valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life, which is typically 5 years. In the case of capitalised software development costs, research expenditure is written off to the statement of profit and loss in the period in which it is incurred. Development expenditure is written off in the same way unless and until the Company is satisfied as to the technical, commercial and financial viability of individual projects. In these cases, the development expenditure is capitalised and amortised over the period during which the Company is expected to benefit.

1.8 Property, plant & equipment

Property, plant and equipment are stated at cost less depreciation. 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 the period of the lease
Fixtures, fittings & equipment	4-5 years
Computer equipment	3-10 years

1 Accounting policies **(Continued)**

1.9 Leasing

The Company has taken land and building and equipment on leases.

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. Lease liability is measured 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-uses 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.

For a selection of material long-term leases, the Company has applied the modified retrospective method one approach, as if IFRS 16 had always been applied using the incremental borrowing rate at the date of initial application. Under this method, the difference between the right-of-use asset and lease liability was recorded in retained earnings.

1 Accounting policies **(Continued)**

1.10 Investments

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.

1.11 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.

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, a fellow subsidiary undertaking). The Company then recognises a cost equal to its contribution payable for 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 those sections containing 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 rates to the pensionable pay of its employees participating in the Capita DB Scheme.

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

1 Accounting policies **(Continued)**

1.12 Taxation

Tax on the profit or loss for 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.

1 Accounting policies **(Continued)**

1.13 Share-based payments

The Company participates in various share option and sharesave 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 as a result of not meeting performance or service conditions. Where all service and performance vesting conditions have been met, the awards are treated as vesting, irrespective of whether or not the market condition is satisfied, as market conditions have been reflected in the fair value of the equity instruments.

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 intercompany 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.

1.15 Financial instruments

Investments and other financial assets

<u>(i) Classification</u>

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.

<u>(ii) Recognition and derecognition</u>

Regular way purchases and sales of financial assets are recognised on trade date (that is, the date on which the Company 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.

1 Accounting policies **(Continued)**

1.15 Financial instruments (continued)

(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.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(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.

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 original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within current financial liabilities.

1.16 Impairment of non-financial assets

At each reporting end date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 Accounting policies **(Continued)**

1.18 Guarantees and financial commitments

The Company has provided a guarantee over private placements loan notes issued by its ultimate parent undertaking Capita Plc and its fellow subsidiary undertakings Capita Holdings Limited. It has further, provided a guarantee over borrowings of its fellow subsidiary undertakings under a cash pooling banking facility, in both cases the guarantee is made as a part of a guarantor of subsidiary undertaking of Capita plc.

1.19 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.

2 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the Directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported income and expense during the reported periods. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ from these estimates.

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. 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 intangibles assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate. The Company has also 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 wholly undertaken in the United Kingdom.

4 Operating profit

	2019	2018
	£	£
Operating profit for the year is stated after charging/(crediting):		
Net foreign exchange losses/(gains)	18,268	(152,722)
Depreciation of property, plant and equipment	5,426,880	5,061,723
Depreciation of ROUA	1,841,415	-
Amortisation of intangible assets	1,002,045	1,118,932
Contract fulfilment asset utilisation, impairment and derecognition	6,691,512	6,918,202
Operating lease rentals - land and building	-	3,465,761
Operating lease rentals - plant and machinery	-	5,412,226
Operating lease rentals - other assets	-	10,549,688
Impairment of ROUA	4,315,307	-
Intercompany write back	(32,790)	-

Audit fees are borne by the ultimate parent undertaking, Capita plc. The audit fee for the current period was £70,658 (2018: £70,400). 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.

5 Leases under IFRS 16

	2019
	£
The following are charged to income statement in relation to leases:	
Interest expense on lease liabilities	1,158,943
Expenses relating to short-term leases	1,196,002
Depreciation on ROUA	1,841,415
Impairment of ROUA	4,315,307

6 Investment income

	2019	2018
	£	£
Income from shares in group undertakings	10,909	10,233
	10,909	**10,233**

7 Net finance costs

	2019	2018
	£	£
Interest on bank deposits	-	(209)
Interest on leases	1,158,943	-
Other interest (income)/cost	(311,727)	1,382
	847,216	**1,173**

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		
Current income tax charge	4,362,418	-
Adjustments in respect of prior periods	(174,354)	(251,976)
	4,188,064	**(251,976)**
Deferred income tax		
Origination and reversal of temporary differences	(1,894,552)	3,532,559
Adjustment in respect of prior periods	(127,825)	207,676
	(2,022,377)	**3,740,235**
Total tax charge reported in the income statement	**2,165,687**	**3,488,259**

The reconciliation between tax charge 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	11,882,631	19,911,488
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	2,257,700	3,783,183
Adjustments in respect of current income tax of prior periods	(174,354)	(251,976)
Adjustments in respect of deferred tax of prior periods	(127,825)	207,676
Expenses not deductible for tax	84,768	166,916
Non taxable income	(97,490)	(1,945)
Impact of changes in statutory tax rates	222,888	(415,595)
Total adjustments	**(92,013)**	**(294,924)**
Total tax charge reported in the income statement	**2,165,687**	**3,488,259**

8 Income tax **(Continued)**

	Balance sheet		Income Statement	
	2019	2018	2019	2018
	£	£	£	£
Deferred tax assets				
Decelerated capital allowances	2,579,749	795,849	(1,781,835)	224,232
Tax losses	37,190,251	38,037,207	846,956	(38,037,207)
Other temporary differences	610,397	169,416	195,810	62,674
Deferred income liability	-	-		42,686,501
Contract fulfilment asset	(3,601,804)	(4,885,112)	(1,283,308)	(1,195,965)
Net deferred tax assets	**36,778,593**	**34,117,360**		
Deferred income tax expense			**(2,022,377)**	**3,740,235**
Impact on adoption of IFRS 16			(636,791)	-
Transfer from other group companies			(2,065)	-
Total deferred tax movement in the period			**(2,661,233)**	**3,740,235**

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/(liability) 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 £4,326,893.

9 Tangible fixed assets

	Land and buildings leasehold	Fixtures, fittings & equipment	Computer equipment	Total
	£	£	£	£
Cost				
At 1 January 2019	8,869,930	2,153,524	15,628,096	26,651,550
Additions	44,985	5,964	2,396,298	2,447,247
BTA In	-	8,988	2,765	11,753
Reclass from PPE to Intangible	-	-	(129,235)	(129,235)
Asset retirement	(1,118,756)	(137,088)	(1,921,885)	(3,177,729)
At 31 December 2019	**7,796,159**	**2,031,388**	**15,976,039**	**25,803,586**
Depreciation				
At 1 January 2019	3,811,142	869,705	5,916,377	10,597,224
Depreciation	1,636,314	449,743	3,340,823	5,426,880
Asset retirement	(1,118,756)	(137,088)	(1,921,885)	(3,177,729)
At 31 December 2019	**4,328,700**	**1,182,360**	**7,335,315**	**12,846,375**
Net book value				
At 31 December 2019	**3,467,459**	**849,028**	**8,640,724**	**12,957,211**
At 31 December 2018	**5,058,788**	**1,283,819**	**9,711,719**	**16,054,326**

10 Intangible assets

	Goodwill	Capitalised and purchased Software	Client lists and relationships	Total
	£	**£**	**£**	**£**
Cost				
At 1 January 2019	17,115,032	10,498,319	22,941,000	50,554,351
Additions	4,494,597	2,205,923	-	6,700,520
Reclass from PPE to Intangible	-	129,235	-	129,235
Asset retirements	-	(916,634)	-	(916,634)
31 December 2019	**21,609,629**	**11,916,843**	**22,941,000**	**56,467,472**
Amortisation				
At 1 January 2019	-	7,584,246	22,941,000	30,525,246
Amortisation	-	1,002,045	-	1,002,045
Asset retirements	-	(916,634)	-	(916,634)
31 December 2019	**-**	**7,669,657**	**22,941,000**	**30,610,657**
Net book value				
At 31 December 2019	**21,609,629**	**4,247,186**	**-**	**25,856,815**
At 31 December 2018	**17,115,032**	**2,914,073**	**-**	**20,029,105**

Goodwill opening balance of £17.1m arose as a result of the acquisition of Vertex Data Science Limited and Vertex Customer Management Limited by Capita Customer Management Limited in 2011.

The acquisition of Octal Business Solutions Limited on 1 May 2019 resulted in the recognition of a further £4.5m goodwill, which represented the excess of consideration paid over net assets acquired.

Capitalised and purchased softwares additions relates to various telephony platform improvements and network upgrades.

11 Investment in subsidiaries

	Shares in subsidiary undertakings
At 1 January 2019 & 31 December 2019	**6,018**
Provision for diminution in value	
At 1 January 2019 & 31 December 2019	-
Net book value	
At 31 December 2019 & as at 31 December 2018	**6,018**

Holdings of ordinary share capital

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
Ventura (UK) India Limited	England	100	Non trading
Ventura (India) Private Limited*	India	3	Customer management services

*Ventura (India) Private Limited is indirectly held by the Company.

12 Right of Use Assets

Net Book Value	Property	Equipment	Total
At 1 January 2019	-	-	-
Impact on adoption of IFRS 16 (refer note 29)	13,685,344	3,051,587	16,736,931
Additions during the year	376,162	-	376,162
Impairment during the year	(4,315,307)	-	(4,315,307)
Depreciation charged during the year	(1,211,080)	(630,335)	(1,841,415)
At 31 December 2019	**8,535,119**	**2,421,252**	**10,956,371**

13 Contract fulfilment assets

	£
Cost	
As at 1 January 2018	**35,771,041**
Additions	1,409,972
Utilised during the year	(8,218,202)
As at 31 December 2018	**28,962,811**
Additions	1,520,326
Utilised during the year	(6,691,512)
As at 31 December 2019	**23,791,625**
Net book value	
At 31 December 2019	**23,791,625**
At 31 December 2018	**28,962,811**

In preparing these financial statements, the Company undertook a review to identify indicators of impairment of contract fulfilment assets. The Company determined whether or not the contract fulfilment assets were impaired by comparing the carrying amount of the assets 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 1.5, 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 key performance indicators that could trigger variable consideration, or service credits.

14 Trade and other receivable

Current	2019 £	2018 £
Trade debtors	15,160,345	48,604,615
Other receivables	439,670	255,067
Prepayments and accrued income	21,185,844	22,792,562
Contract fulfilment assets	799,336	299,873
Amounts due from parent & fellow subsidiary undertaking	231,111,524	226,265,084
	268,696,719	**298,217,201**

Non-Current	2019 £	2018 £
Prepayments	4,580,448	7,284,611
	4,580,448	**7,284,611**

15 Cash

	2019 £	2018 £
Cash at bank and in hand	616	-
	616	**-**

16 Trade and other payables

Current	2019 £	2018 £
Trade payables	2,158,688	2,364,678
Other payables	154,629	268,250
Other taxes and social security	13,537,194	19,546,591
Accruals	9,763,044	10,675,485
Amounts due to parent and fellow subsidiary undertaking	28,273,176	35,201,179
	53,886,731	**68,056,183**

Non-current	2019 £	2018 £
Accruals	-	9,172,391
	-	**9,172,391**

17 Deferred income

	2019 £	2018 £
Current		
Deferred income	144,686,060	163,199,827
	144,686,060	**163,199,827**
Non-current		
Deferred income	1,968,322	34,112,000
	1,968,322	**34,112,000**

The deferred income balances solely relates to revenue from contracts with customers. Movements in the deferred income balances were driven by transactions entered into by the Company within the normal course of business in the year.

18 Financial liabilities

	2019 £	2018 £
Current		
Overdrafts	30,536,956	6,376,046
	30,536,956	**6,376,046**

19 Lease Liabilities

In calculating the lease liability to be recognised on adoption, the Group used a weighted average incremental borrowing rate at 1 January 2019 of 4.16%.

	2019
Lease liabilities	**£**
Operating lease commitments at 31 December 2018 disclosed under IAS 17*	34,834,268
Operating lease commitment restated for 31 December 2018	1,697,153
Discounted using the incremental borrowing rate at 1 January 2019	(12,002,887)
Lease liabilities recognised as at 1 January 2019	**24,528,534**
out of which	
Current	2,052,230
Non current	22,476,304

	2019
Maturity analysis - Contractual undiscounted cash flows	**£**
Less than one year	3,253,109
One to two years	2,860,883
More than two years	27,768,156
Total undiscounted lease liabilities at 31 December	**33,882,148**
Lease liabilities recognised as at 31 December 2019	**22,838,316**
out of which	
Current	2,134,402
Non current	20,703,914

20 Provisions

Current	**Property provision**	**Restructuring provision**	**Total**
	£	**£**	**£**
As at 1 January 2019	381,427	1,899,475	2,280,902
Additions	286,070	-	286,070
Released	(167,497)	(1,885,444)	(2,052,941)
Utilisation	(500,000)	(2,701)	(502,701)
At 31 December 2019	**-**	**11,330**	**11,330**

The restructuring provision represents the cost of reducing role count where there is a constructive obligation created through communication to affected employees which has crystallised a valid expectation that roles are at risk.

The property provision reflects the onerous nature of property lease provisions (net of any sub-letting opportunity) on a discounted basis, where due to the reduced requirement for space there is additional surplus capacity.

21 Issued share capital	**2019 Numbers**	**2018 Numbers**	**2019 £**	**2018 £**
Allotted, called up and fully paid				
Ordinary shares of £1 each				
At 1 January	180,320,001	180,320,001	180,320,001	180,320,001
At 31 December	**180,320,001**	**180,320,001**	**180,320,001**	**180,320,001**

22 Contingent liabilities

The Company forms part of a group of subsidiary companies to Capita plc which guarantee the obligations of certain funding arrangements for Capita group. These are: Capita plc's principal bank facilities, EUR fixed rate bearer bonds and a Schuldsche in loan issued by Capita plc, and US private placement loan notes issued by Capita Holdings Limited.

The Company also forms part of a cross-guarantee in respect of the overdrafts of its fellow subsidiary companies under a notional cash-pool bank arrangement. The total amount of the above guarantees undertaken for the benefit of its parent and fellow subsidiary undertakings is up to £990.7m (2018: £1,108m) in relation to the Group's core funding arrangements, up to £414m in relation to the Group's principal bank facility which was undrawn at 31 December 2019 (2018: up to £600m also undrawn).

23 Employees

The average monthly number of employees (including non-executive Directors) year were:

	2019 Number	**2018 Number**
Sales	5	9
Admin	275	635
Operations	8,692	9,901
	8,972	**10,545**

Their aggregate remuneration comprised:

Employee costs	**2019 £**	**2018 £**
Wages and salaries	207,227,692	212,531,609
Social security costs	13,983,120	13,535,152
Pension costs	9,219,163	7,789,990
Shared based payments (charged by intercompany)	6,566	97,029
	230,436,541	**233,953,780**

24 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 £9,178,329 (2018: £7,757,611).

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 £40,834 (2018: £32,379).

A full actuarial valuation of the Capita DB Scheme is carried out every three years by an independent actuary for the Trustee, with the last full valuation carried out at 31 March 2017. Amongst the main purposes of the valuation 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 valuation 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 valuation, the Principal Employer and the Trustee agreed the payment of additional contributions totalling £176m between November 2018 and 2021 with the intention of removing the deficit calculated as at 31 March 2017 by 2021.

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 scheme funding assessment will be 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 valuation to 31 December 2019 on the relevant accounting requirements.

The major assumptions for the valuations at 31 December 2019 were as follows: rate of price inflation RPI/CPI 3.0% pa/2.0% pa (2018: 3.2% pa/2.2% pa); rate of the 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.

25 Directors' remuneration

The Directors have not provided qualifying services to the Company and are paid by the other Companies within the Capita Group. Such remuneration has not been allocated to the Company. In addition to the above, the Directors of the Company were reimbursed for the expenses incurred by them whilst performing business responsibilities.

26 Controlling party

The Company's immediate parent is Capita Holdings Limited, a company incorporated in England & Wales. The Company's ultimate parent undertaking is Capita plc, a company incorporated in England & Wales. The financial statements of Capita plc are available from the registered office at 30 Berners street, London W1T 3LR.

27 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. The Directors have disclosed the impacts and potential impacts of COVID-19 in the disclosure note 1.1 on page 12, and as at the date of the accounts trading continues in line with revised forecasts.

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.

28 Related party transactions

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	Total
Sales of Goods				
	Axelos Limited	December 31, 2019	-	-
		December 31, 2018	14	14
	Total			
		December 31, 2019	-	-
		December 31, 2018	**14**	**14**

Terms and conditions of transactions with related parties

All transactions were undertaken at normal market prices.

29 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 at 31 December 2018	**Impact on Adoption of IFRS 16**	**Remeasured carrying amount as at 1 January 2019**
	£	**£**	**£**
Assets			
Right-of-use assets (a)	-	16,736,931	16,736,931
Trade and other receivables (e)	298,217,201	(742,257)	297,474,944
Deferred tax asset (c)	34,117,359	636,791	34,754,150
Liabilities			
Lease liabilities			
Current (b)	-	(2,052,230)	(2,052,230)
Non-current (b)	-	(22,476,304)	(22,476,304)
Trade and other payables (e)	(68,056,183)	4,788,000	(63,268,183)
Retained deficit (d)	(99,242,209)	(3,109,069)	(102,351,278)

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) Deferred tax asset: Under IFRS 16, a lease liability was recognised on the balance sheet from 1 January 2019, which will be recognised through the income statement in subsequent periods. Right-of-use assets were also recognised on the balance sheet from 1 January 2019, which will be charged to the income statement in subsequent periods. Under IAS 12, the tax base of the net liability is the amount that will be deductible for tax purposes. A temporary difference is therefore created in relation to the net liability. The impact of these changes is recognised for tax purposes via a tax adjustment which spreads over the weighted average lease period at 1 January 2019. Under the principles of IAS 12, a net movement of £0.6m is reflected as a transitional adjustment, arising from an increase in deferred tax assets as a result of the transition to IFRS 16.

d) Retained deficit: Retained deficit change represents the expected cumulative effect of applying the standard. This is due to applying the modified retrospective method one approach for a selection of properties, as explained in note 'd' above.

e) 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.