Company Registration No. 09413107 (England and Wales)

FERA SCIENCE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

FERA SCIENCE LIMITED

COMPANY INFORMATION

Directors	A J Swift	
	R J McCarthy	
	E Ben-Yehuda	
	M G Henderson	(Appointed 15 October 2019)
	L K Bell	(Appointed 1 November 2019)
	P W Elliott	(Appointed 1 January 2020)
	I L Boyd	(Re-appointed 1 November 2019)
Secretary	Capita Group Secretary Limited	
Company number	09413107	
Registered office	65 Gresham Street London United Kingdom EC2V 7NQ	
Auditor	KPMG LLP 15 Canada Square London E14 5GL	

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FERA SCIENCE LIMITED

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

The Company is jointly owned by Capita Business Services Limited (75%) and The Secretary of State for Environment Food & Rural Affairs (25%). In 2019, the Company operated within the Specialist Services division of Capita plc, of which Capita Business Services Limited is a subsidiary. Capita plc and its subsidiaries are hereafter referred to as "the Group". In 2020, the Company moved to the Government Services division of the Group.

The principal activity of the Company is to be a leading supplier of scientific solutions, evidence and advice across the agri-food supply chain. During 2018, work commenced on an Aquatic Ecotoxicology facility. This work has been on-going throughout 2019 and will be completed and generate revenue from Q2 2020. Work was also undertaken in 2018 in partnership with CHAP to build a Mesocosm, this work continued into 2019 and will be revenue generating from 2020.

As shown in the Company's income statement on page 8, the Company's revenue has decreased from £39,960,869 for the year ended 31 December 2018 to £36,617,393 for the year ended 31 December 2019, while an operating profit has decreased from £2,697,296 to an operating profit of £1,658,794 over the same period. The fall in revenue has been driven by the Company benefiting from delivery in 2018 in relation to the build and development of assets as part of a long-term strategic partnership, coupled with short-term challenges in commercial markets particularly within the Regulatory sector. Profit has been impacted by lower margin earned on delivery in 2019 following the fall in commercial revenues.

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 5, 8, 15 and 21.

The balance sheet on page 9 of the financial statements shows the Company's financial position at the year end. Net assets have increased from £26,439,836 in 2018 to £27,489,955 in 2019 reflecting the profit made in the year. Details of amounts owed to/from its parent company and fellow subsidiary undertakings are shown in notes 10, 13 and 20 to the financial statements.

Key performance indicators used by the Group are operating margins, free cash flow, capital expenditure and return on capital employed. The Group manages its operations on a divisional basis and as a consequence, some of these indicators are monitored only at a divisional level. The performance of the Specialist Services division of the Group 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, political and market conditions.
- 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 which are discussed in the Group's annual report, which does not form part of this report.

Section 172 Statement

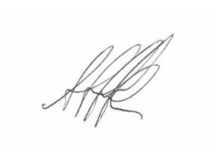
The Company forms part of the Specialist Services division of the Group and Capita plc's section 172 statement applies to both the Division and the Company to the extent it relates to the Company's activities. Common policies and practices are applied throughout the Group via divisional management teams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



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A J Swift
Director
65 Gresham Street, London, United Kingdom, EC2V 7NQ

Date: 28 September 2020

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 8.

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

Directors

The following Directors, have held office since 1 January 2019 to the date of signing the financial statements are as follows:

A J Swift	
R J McCarthy	
J D Vincent	(Resigned 1 January 2020)
N N Bedford	(Resigned 21 May 2020)
E Ben-Yehuda	
M G Henderson	(Appointed 15 October 2019)
L K Bell	(Appointed 1 November 2019)
P W Elliott	(Appointed 1 January 2020)
I L Boyd	(Resigned 29 August 2019 and Re-appointed 1 November 2019)

Environment

Capita plc recognises the importance of its environmental responsibilities, monitors its impact on the environment, and 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 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.

Employees

Details of number of employees and related costs can be found in note 18 of the financial statements.

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.

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.

Statement of disclosure to auditor

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

On behalf of the board

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A J Swift
Director
65 Gresham Street
London
United Kingdom
EC2V 7NQ

Date: 28 September 2020

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FERA SCIENCE LIMITED

Opinion

We have audited the financial statements of Fera Science Limited ("the company") for the year ended 31 December 2019 which comprise the Income Statement, the Balance Sheet, and the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS101 *Reduced Disclosure Framework;* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

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

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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.

RMartin

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

Date: 28 September 2020

FERA SCIENCE LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £	2018 £
Revenue	3	36,617,393	39,960,869
Cost of sales		(26,866,874)	(28,385,679)
Gross profit		**9,750,519**	**11,575,190**
Administrative expenses		(8,091,725)	(8,877,894)
Operating profit	**4**	**1,658,794**	**2,697,296**
Net finance cost	5	(328,891)	-
Profit before tax		**1,329,903**	**2,697,296**
Income tax charge	6	(279,784)	(508,128)
Total comprehensive income for the year		**1,050,119**	**2,189,168**

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 page 11 to 38 form an integral part of financial statements.

FERA SCIENCE LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019	2018
		£	£
Non-current assets			
Property, plant and equipment	**7**	4,528,688	2,485,028
Right of use asset	**8**	7,025,521	-
Intangible assets	**9**	23,498,850	23,489,438
Trade and other receivables	**10**	148,742	-
Deferred tax	**6**	539,745	287,745
		35,741,546	**26,262,211**
Current assets			
Trade and other receivables	**10**	5,713,377	6,864,547
Inventory	**11**	632,292	547,977
Income tax receivable		55,113	428,986
Cash	**12**	298,825	1,255,219
		6,699,607	**9,096,729**
Total assets		**42,441,153**	**35,358,940**
Current liabilities			
Trade and other payables	**13**	4,866,135	6,600,206
Deferred income	**14**	2,205,975	2,318,898
Lease liabilities	**15**	1,338,671	-
		8,410,781	**8,919,104**
Non-current liabilities			
Lease liabilities	**15**	6,540,417	-
Total liabilities		**14,951,198**	**8,919,104**
Net assets		**27,489,955**	**26,439,836**
Capital and reserves			
Issued share capital	**16**	1,000	1,000
Share premium		26,665,667	26,665,667
Retained earnings		823,288	(226,831)
Total equity		**27,489,955**	**26,439,836**

The notes on pages 11 to 38 form and integral part of financial statements.

Approved by Board and authorised for issue on 28 September 2020

A J Swift
Director

Company Registration No. 09413107

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
At 1 January 2018	1,000	26,665,667	(2,415,999)	24,250,668
Total comprehensive income for the year	-	-	2,189,168	2,189,168
At 31 December 2018	**1,000**	**26,665,667**	**(226,831)**	**26,439,836**
Total comprehensive income for the year	-	-	1,050,119	1,050,119
At 31 December 2019	**1,000**	**26,665,667**	**823,288**	**27,489,955**

Share capital
The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 1,000 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 earnings
Net profits kept to accumulate in the Company after dividends are paid and retained in the business as working capital.

The notes on pages 11 to 38 form an integral part of these financial statements.

1 Accounting policies

1.1 Basis of preparation

FERA Science Limited is a Company incorporated and domiciled in the United Kingdom.

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

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

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

The Directors considered the potential impact of the COVID-19 outbreak on the Company’s results assuming the COVID-19 outbreak continues for approximately six months with an extended impact due to continued social distancing measures throughout 2021 resulting in a slower upturn in revenues. The Company’s revenue has been moderately impacted by COVID-19, but the Directors have considered the benefits of the Government Job Retention Scheme, VAT payment deferral measures and other cost saving initiatives all of which mitigated the Company's loss.

Nevertheless, to enable a robust assessment of the medium term forecast financial performance the outlook to the end of 2021 has been reviewed 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 Group. The forecasts include overlays for additional financial benefits that are expected to be driven by the Group transformation programme. These include sales growth together with margin improvements and further cost out targets. The Group have approved the 2021 outlook which, on the assumption that the overlays are successfully delivered, supports the base case and time period assessed as part of the going concern review for these financial statements.

In addition to the base case, severe but plausible downside scenarios were considered, 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, available mitigations within the direct control of the Company have been considered, 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; and
- participation in the Group’s notional cash pooling arrangements, of which £1,056,986 was advanced by the Company as at 31 July 2020. In the event of a default by the Group, the Company may not be able to access this facility.

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

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

Material uncertainty

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

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

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

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

1 Accounting policies **(Continued)**

1.2 Compliance with accounting standards

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

The Company's ultimate parent undertaking, Capita plc, includes the Company in its consolidated statements. The consolidated financial statements are prepared in accordance 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;
- Disclosures in respect of the compensation of key management personnel; and
- Certain disclosures as required by IFRS 16.

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

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

1 Accounting policies **(Continued)**

1.3 Changes in accounting policies

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 asset 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 1.8.

On adoption of IFRS 16, the Company immediately recognised right of use asset representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Refer note 21 for reconciliation of opening balances at 1 January 2019 on adoption of IFRS 16.

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 Accounting policies **(Continued)**

1.4 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.

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

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

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

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

For contracts with multiple components to be delivered such as transformation, transitions and the delivery of outsourced services, management applies judgement to consider whether those promised goods and services are (i) distinct - to be accounted for as separate 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.

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

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

Once the total transaction price is determined, the Company allocates this to the identified performance obligations in proportion to their relative stand-alone selling prices and recognises revenue when (or as) those performance obligations are satisfied. The Company infrequently sells standard products with observable stand-alone prices due to the specialised services required by customers and therefore the Company applies judgement to determine an appropriate stand-alone 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 stand-alone selling price of each performance obligation.

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

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

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

When using the output method, the Company recognises revenue on the basis of direct measurements of the value to the customer of the goods and services transferred to date relative to the remaining goods and services under the contract. Where the output method is used, for long term service contracts where the series guidance is applied (see below for further details), the Company often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimation of number of users, level of service activity or fees collected.

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

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

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

Long term contractual - greater than two years

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

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

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

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

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

Short term contractual - less than 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.

Transactional (Point in time) contracts

The Company delivers a range of goods or services in all reportable segments that are transactional services for which revenue is recognised at the point in time when control of the goods or services has transferred to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

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

Contract modifications

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

The effect of a contract modification on the transaction price and the Company's measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:
a. prospectively as an additional separate contract;
b. prospectively as a termination of the existing contract and creation of a new contract;
c. as part of the original contract using a cumulative catch up; or
d. as a combination of (b) and (c).

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

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

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

Principal versus agent

The Company has arrangements with some of its customers whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods or service to the customer. The Company acts as a principal if it controls promised goods or service before transferring that goods 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 goods or service, whether the Company has inventory risk and whether the Company is primarily responsible for fulfilling the promise to deliver the service or goods.

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

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

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

Licences

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

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

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

Contract related assets and liabilities

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

- Property, plant and equipment*
- Intangible assets*
- Trade receivables*
- Accrued income^
- Deferred income^

* No change in the accounting policies for these assets as a result of the adoption of IFRS 15
^ Refer below for the accounting policy applied following the adoption of IFRS 15

1 Accounting policies **(Continued)**

1.4 Revenue recognition (continued)

Deferred and accrued income

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

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

1.5 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.

1.6 Other intangibles assets

Intangibles are 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.

1.7 Property, plant and 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:

Fixtures, fittings and equipment	3-15 years
Computer equipment	2-10 years

1 Accounting policies **(Continued)**

1.8 Leasing

The Company has taken land and buildings on lease.

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 ('ROUA') and a lease liability. Lease liability is measured at the present value of minimum lease payments determined at the inception of the lease. ROUA of equivalent value is also recognised. ROUA is 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 asset and lease liabilities

Right of use asset is 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 and less any onerous lease provisions (reclassified on the opening balance sheet). Depreciation is included within administrative expenses in the income statement. Right of use asset is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right of use asset exclude leases with a low value and term of 12 months or less. These leases are expensed to the income statement as incurred.

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

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

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

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

1.9 Inventory

Inventory is valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1 Accounting policies **(Continued)**

1.10 Taxation

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affectsneither 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)**

1.11 Pensions

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

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

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

1.12 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 income statement.

1 Accounting policies **(Continued)**

1.13 Financial Instruments

(i) Classification

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

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

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

(ii) Recognition and derecognition

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.

(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.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the income statement as applicable.

(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.

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables.

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.

Trade and other payables - Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

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 Accounting policies **(Continued)**

1.14 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, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

In accordance with IFRS 2, share option awards of the ultimate parent Company's equity instruments in respect of settling grants to employees of the Company are disclosed as a charge to the profit and loss account and a credit to equity. The Company's policy is to reimburse its ultimate parent Company through the 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.

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.

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 as follows:

- The measurement of revenue and resulting profit recognition - due to the size and complexity of some of the Company's contracts, requires judgements to be applied, including the measurement and timing of revenue recognition and the recognition of assets and liabilities, including an assessment of onerous contract, that result from the performance of the contract;
- The Company determines whether goodwill is impaired on an annual basis and thus requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate; and
- The Company has made judgements in adopting IFRS 16 such as; determining contracts in scope for IFRS 16, determining the interest rate used for discounting of future cash flows, and the lease term.

3 Revenue

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

4 Operating profit for the year

		2019	2018
		£	£
Operating profit for the year is stated after (crediting)/charging:			
Net foreign exchange (gains)/losses		(7,577)	6,423
Depreciation of property, plant and equipment	7	500,628	625,054
Depreciation of ROUA - property, plant and equipment	8	1,338,195	-
Amortisation of intangible assets	9	554	6,957
Operating lease rentals - plant and machinery		-	55,940
Operating lease rentals - other assets		-	1,513,784
Short-term lease rentals - plant and machinery		62,203	-

Audit fees are borne by the ultimate parent undertaking, Capita plc. The audit fee for the current period was £11,330 (2018: £11,300). 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
	£
Interest expense on lease liabilities (net finance cost)	328,891
Expenses relating to short-term leases (refer note 4)	62,203
Depreciation of ROUA - property, plant and equipment (refer note 8)	1,338,195

6 Income tax

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

	2019	2018
	£	£
Current tax		
UK corporation tax	359,008	467,905
Adjustments in respect of prior periods	172,776	(4,477)
	531,784	**463,428**
Deferred tax		
Origination and reversal of temporary differences	(88,610)	46,924
Adjustment in respect of prior periods	(163,390)	(2,224)
	(252,000)	**44,700**
Total tax charge reported in the income statement	**279,784**	**508,128**

6 Income tax **(Continued)**

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	**1,329,903**	**2,697,296**
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	252,682	512,486
Adjustments in respect of current income tax of prior periods	172,776	(4,477)
Adjustments in respect of deferred income tax of prior periods	(163,390)	(2,224)
Expenses not deductible for tax purposes	7,291	7,863
Impact of changes in statutory tax rates	10,425	(5,520)
Total tax adjustments	27,102	(4,358)
Total tax charge reported in the income statement	**279,784**	**508,128**

	Balance sheet		Income statement	
	2019 £	2018 £	2019 £	2018 £
Deferred tax assets				
Decelerated capital allowance	530,811	287,745	243,066	44,700
Other short term timing diffference	8,934	-	8,934	-
Net deferred tax asset	**539,745**	**287,745**		
Deferred tax charge			**252,000**	**44,700**

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 £63,499.

7 Property, plant and equipment

	Fixtures, fittings and equipment	Computer equipment	Total
	£	£	£
Cost			
At 1 January 2019	1,992,595	847,569	2,840,164
Additions	2,019,652	524,636	2,544,288
Asset retirement	-	(185,748)	(185,748)
At 31 December 2019	**4,012,247**	**1,186,457**	**5,198,704**
Depreciation			
At 1 January 2019	96,008	259,128	355,136
Charge for the year	323,583	177,045	500,628
Asset retirement	-	(185,748)	(185,748)
At 31 December 2019	**419,591**	**250,425**	**670,016**
Net book value			
At 31 December 2018	**1,896,587**	**588,441**	**2,485,028**
At 31 December 2019	**3,592,656**	**936,032**	**4,528,688**

8 Right of use asset

	Property 2019
Net book value	£
At 1 January	-
Adoption of IFRS 16	8,363,716
Depreciation for the year	(1,338,195)
At 31 December	**7,025,521**

9 Intangible assets

	Goodwill	Software	Total
	£	£	£
Cost			
At 1 January 2019	23,489,438	-	23,489,438
Additions	-	9,966	9,966
At 31 December 2019	**23,489,438**	**9,966**	**23,499,404**
Amortisation			
At 1 January 2019	-	-	-
Charge for the year	-	554	554
At 31 December 2019	**-**	**554**	**554**
Net book value			
At 31 December 2018	**23,489,438**	**-**	**23,489,438**
At 31 December 2019	**23,489,438**	**9,412**	**23,498,850**

The goodwill arose as a result of the purchase of the trade and assets of FERA business into FERA Science Limited in 2015.

Goodwill impairment testing is carried out annually and is reliant on the accuracy of management's forecast and the assumptions that underlie them, as well as the discount and growth rates applied.

Board continue to closely monitor performance and consider the impact of any changes to the key assumptions.

10 Trade and other receivables

Current	**2019**	**2018**
	£	£
Trade receivables	1,997,556	2,441,818
Accrued income	2,830,575	3,621,650
Prepayments	885,246	795,364
Amounts due from parent and fellow subsidiary undertaking	-	5,715
	5,713,377	**6,864,547**

Non-current	**2019**	**2018**
	£	£
Prepayments	148,742	-
	148,742	**-**

11 Inventory

	2019	2018
	£	£
Stores and spares	632,292	547,977
	632,292	**547,977**

12 Cash

	2019	2018
	£	£
Cash at bank and in hand	298,825	1,255,219
	298,825	**1,255,219**

13 Trade and other payables

	2019	2018
	£	£
Trade payables	1,217,399	1,532,213
Other payables	3,650	215
VAT payable	852,364	817,577
Accruals	1,134,024	2,294,036
Amounts due to parent and fellow subsidiary undertaking	1,658,698	1,956,165
	4,866,135	**6,600,206**

14 Deferred income

	2019	2018
	£	£
Deferred income	2,205,975	2,318,898
	2,205,975	**2,318,898**

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.

15 Lease liability

	2019	2018
	£	£
Current	1,338,671	-
Non-current	6,540,417	-
	7,879,088	-

In calculating the lease liability to be recognised on adoption, the Company used an incremental borrowing rate at 1 January 2019 of 3.94%.

	£
Operating lease commitments at 31 December 2018 disclosed under IAS 17	9,461,150
Operating lease commitments restated for 31 December 2018	725,800
Discounted using the incremental borrowing rate at 1 January 2019	(1,173,487)
Lease liabilities recognised as at 1 January 2019	**9,013,463**
out of which	
Current	1,134,375
Non-current	7,879,088

	2019	2018
Maturity analysis - contractual undiscounted cash flows	£	£
Less than one year	1,620,056	1,463,266
One to Two Years	1,671,442	1,620,056
More than Two Years	5,432,186	7,103,628
Total undiscounted lease liabilities at 31 December	**8,723,684**	**10,186,950**

16 Issued share capital

	2019	2018	2019	2018
	£	£	Numbers	Numbers
Allotted, called up and fully paid				
Ordinary shares of £1 each				
At 1 January	1,000	1,000	1,000	1,000
At 31 December	**1,000**	**1,000**	**1,000**	**1,000**

Share capital

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

17 Directors' remuneration

	2019	2018
	£	£
Remuneration for qualifying services	432,123	648,418
Company pension contributions to defined contribution schemes	12,875	40,378
	444,998	**688,796**

Only two Directors were paid by the Company during the year (2018: two). Other Directors have not provided qualifying services to the Company and were paid by another JV partner or by other companies within the Capita Group. Such remuneration has not been allocated to the Company.

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

	2019	2018
	£	£
Remuneration for qualifying services	334,812	505,850
Company pension contributions to defined contribution schemes	12,875	27,500
	347,687	**533,350**

In addition to the above, the Directors of the Company were reimbursed for the expenses incurred by them whilst performing business responsibilities.

18 Employees

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

	2019	2018
Sales	8	5
Operations	333	329
Administration	60	65
	401	**399**

Their aggregate remuneration comprised:

Employment costs	2019	2018
	£	£
Wages and salaries	12,146,469	11,918,489
Social security costs	1,262,145	1,229,362
Pension costs	2,220,609	1,878,053
Share based payments	24,418	32,426
	15,653,641	**15,058,330**

19 Pensions and other post-retirement benefit commitments

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 £333,240 (2018: £255,287)

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

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

The pension charge for these public sector defined benefit pension schemes for the year was £1,887,369 (2018: £1,622,166).

20 Related party

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

Purchase of goods/ services

Name of Company	Year	Ultimate Holding Company	Holding Company	Enterprises which have significant influence over the Company	Fellow Subsidiaries	£ Total
Capita Plc	December 31, 2019	288,275	-	-	-	288,275
	December 31, 2018	344,154	-	-	-	344,154
Capita Business Services Limited	December 31, 2019	-	11,365,574	-	-	11,365,574
	December 31, 2018	-	13,557,220	-	-	13,557,220
Capita Property and Infrastructure Limited	December 31, 2019	-	-	-	-	-
	December 31, 2018	-	-	-	61,465	61,465
Capita Resourcing Limited	December 31, 2019	-	-	-	353,919	353,919
	December 31, 2018	-	-	-	261,756	261,756
Capita Travel & Events Limited	December 31, 2019	-	-	-	340,726	340,726
	December 31, 2018	-	-	-	338,825	338,825
Capita IT Services Limited	December 31, 2019	-	-	-	142,011	142,011
	December 31, 2018	-	-	-	479,628	479,628
Fire Service College Limited	December 31, 2019	-	-	-	300	300
	December 31, 2018	-	-	-	-	-
The Write Research Company Limited	December 31, 2019	-	-	-	-	-
	December 31, 2018	-	-	-	22,440	22,440
Pervasive Networks Limited	December 31, 2019	-	-	-	8,776	8,776
	December 31, 2018	-	-	-	15,090	15,090
Right Document Solutions Limited	December 31, 2019	-	-	-	12,634	12,634
	December 31, 2018	-	-	-	-	-
Capita Translation and Interpreting Limited	December 31, 2019	-	-	-	712	712
	December 31, 2018	-	-	-	6,328	6,328
KnowledgePool Group Limited	December 31, 2019	-	-	-	18,740	18,740
	December 31, 2018	-	-	-	18,881	18,881
Trustmarque Solutions Limited	December 31, 2019	-	-	-	1,034,502	1,034,502
	December 31, 2018	-	-	-	-	-
Department for Environment Food	December 31, 2019	-	-	61,183	-	61,183
	December 31, 2018	-	-	401,818	-	401,818
Thirty Three LLP	December 31, 2019	-	-	-	2,849	2,849
	December 31, 2018	-	-	-	-	-
	December 31, 2019	**288,275**	**11,365,574**	**61,183**	**1,915,169**	**13,630,201**
	December 31, 2018	**344,154**	**13,557,220**	**401,818**	**1,204,413**	**15,507,605**

20 Related party **(Continued)**

Sales of goods / services

Name of Company	Year	Ultimate Holding Company	Holding Company	Enterprises which have significant influence over the Company	Fellow Subsidiaries	£ Total
Capita Plc	December 31,2019	33,299	-	-	-	33,299
	December 31,2018	97,944	-	-	-	97,944
Capita Business Services Limited	December 31,2019	-	860,804	-	-	860,804
	December 31,2018	-	4,068,973	-	-	4,068,973
Capita Property and Infrastructure Limited	December 31,2019	-	-	-	3,092	3,092
	December 31,2018	-	-	-	6,604	6,604
Capita Resourcing Limited	December 31,2019	-	-	-	5	5
	December 31,2018	-	-	-	532,267	532,267
Trustmarque Solutions Limited	December 31,2019	-	-	-	564,986	564,986
	December 31,2018	-	-	-	68,640	68,640
Capita Travel & Events Limited	December 31,2019	-	-	-	548	548
	December 31,2018	-	-	-	-	-
Capita Glamorgan Consultancy Limited	December 31,2019	-	-	-	1,452	1,452
	December 31,2018	-	-	-	-	-
Department for Environment Food	December 31,2019	-	-	16,486,600	-	16,486,600
	December 31,2018	-	-	13,996,691	-	13,996,691
Knowledgepool Group Limited	December 31,2019	-	-	-	2,227	2,227
	December 31,2018	-	-	-	-	-
Capita IT Services Limited	December 31,2019	-	-	-	-	-
	December 31,2018	-	-	-	23,988	23,988
	December 31,2019	**33,299**	**860,804**	**16,486,600**	**572,310**	**17,953,013**
	December 31,2018	**97,944**	**4,068,973**	**13,996,691**	**631,499**	**18,795,107**

20 Related party **(Continued)**

Closing net balances of related parties

Name of Company	Year	Ultimate Holding Company	Holding Company	Enterprises which have significant influence over the Company	Fellow Subsidiaries	£ Total
Capita Plc	December 31, 2019	(110,170)	-	-	-	(110,170)
	December 31, 2018	(28,612)	-	-	-	(28,612)
Capita Business Services Limited	December 31, 2019	-	(1,294,024)	-	-	(1,294,024)
	December 31, 2018	-	(1,852,354)	-	-	(1,852,354)
Capita Resourcing Limited	December 31, 2019	-	-	-	(69,550)	(69,550)
	December 31, 2018	-	-	-	(19,361)	(19,361)
Capita Travel & Events Limited	December 31, 2019	-	-	-	(777)	(777)
	December 31, 2018	-	-	-	(28,264)	(28,264)
Capita IT Services Limited	December 31, 2019	-	-	-	(5,725)	(5,725)
	December 31, 2018	-	-	-	(3,909)	(3,909)
Pervasive Networks Limited	December 31, 2019	-	-	-	-	-
	December 31, 2018	-	-	-	(15,090)	(15,090)
Capita Translation and Interpreting Limited	December 31, 2019	-	-	-	-	-
	December 31, 2018	-	-	-	(535)	(535)
KnowledgePool Group Limited	December 31, 2019	-	-	-	(1,101)	(1,101)
	December 31, 2018	-	-	-	(8,039)	(8,039)
Department for Environment Food	December 31, 2019	-	-	72,893	-	72,893
	December 31, 2018	-	-	82,085	-	82,085
Right Document Solutions Limited	December 31, 2019	-	-	-	(870)	(870)
	December 31, 2018	-	-	-	-	-
Fire Service College Limited	December 31, 2019	-	-	-	(150)	(150)
	December 31, 2018	-	-	-	-	-
Trustmarque Solutions Limited	December 31, 2019	-	-	-	(176,331)	(176,331)
	December 31, 2018	-	-	-	5,720	5,720
	December 31, 2019	**(110,170)**	**(1,294,024)**	**72,893**	**(254,504)**	**(1,585,805)**
	December 31, 2018	**(28,612)**	**(1,852,354)**	**82,085**	**(69,478)**	**(1,868,359)**

21 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:

	Footnotes	Carrying amount - 31 December 2018	Impact on Adoption of IFRS16	IFRS 16 carrying amount as at 1 January 2019
		£	£	£
Non-current assets				
Right of use asset	A	-	8,363,716	8,363,716
Current liabilities				
Lease liabilities	B	-	1,134,375	1,134,375
Trade and other payables	C	6,600,206	(649,747)	5,950,459
Non-current liabilities				
Lease liabilities	B	-	7,879,088	7,879,088

Footnotes for reconciliations for 2018

A) Right of use asset

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

B) Lease liabilities

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

C) Reclassification of balance sheet items

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

22 Controlling party

The Company's immediate parent undertaking is Capita Business Services Limited, a Company incorporated in England and Wales with a holding of 75%.

The ultimate parent undertaking of Capita Business Services Limited is Capita plc, a Company incorporated in England and Wales. The accounts of Capita plc are available from the registered office at 65 Gresham Street, London, United Kingdom, EC2V 7NQ.

23 Post balance sheet event

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

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