

Company registration number 02299747 (England and Wales)

CAPITA BUSINESS SERVICES LTD
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

AMENDING

TUESDAY



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COMPANIES HOUSE

CAPITA BUSINESS SERVICES LTD

COMPANY INFORMATION

Directors	M W Lansdown G Bate-Williams C Ripoché R Holroyd Capita Corporate Director Limited	(Appointed 28 March 2023) (Appointed 13 April 2023) (Appointed 9 November 2023) (Appointed 23 May 2023)
Secretary	Capita Group Secretary Limited	
Company number	02299747	
Registered office	65 Gresham Street London England EC2V 7NQ	
Auditor	KPMG LLP 15 Canada Square London E14 5GL	
Banker	Barclays Bank PLC 1 Churchill Place London United Kingdom E14 5HP	

CAPITA BUSINESS SERVICES LTD

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CAPITA BUSINESS SERVICES LTD

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

The Directors present their Strategic report and financial statements for the year ended 31 December 2023.

Capita Business Services Ltd ('the Company') is a wholly owned subsidiary (indirectly held) of Capita plc. Capita plc, along with all its subsidiaries is hereafter referred to as 'the Group'. The Company operates within the Capita Experience and Public Service divisions of the Group.

Principal activities

The principal activity of the Company continued to be that of the provision of outsourcing services. These services consist of:

- taking complete responsibility under long term contracts for a range of integrated activities comprising customer services, IT, business support and consultancy;
- providing administration and related services; and
- providing recruitment and training, career change and outplacement services to the public and private sectors.

Review of the business

As shown in the Company's income statement on page 14, revenue has increased from £1,347.7m in 2022 to £1,423.2m in 2023 and the Company's operating profit has decreased from £67.3m in 2022 to £20.6m in 2023. The increase in revenue was driven by indexation, scope increases and improved trading on a number of contracts including the Royal Navy Training contract and the Personal Independence Payments contract. These were offset by revenue reductions related to the Job Entry Targeted Support Scotland contract and various Local Public Services hand-backs. The decrease in operating profit was due to the beneficial impact of the aforementioned scope increases and improved trading on a number of contracts, being more than offset by the Local Public Service hand-backs, costs to deliver the cost reduction programme (see below for details) and an increase in the charges for the provision of shared services from another Group company.

Towards the end of 2022 the Group reorganised its technology software and solutions business and group support services business by transferring the underlying trade and assets from various Group companies in the UK into Capita Shared Services Limited ('CSSL'). Refer to note 28 for details on business transfers that took place in the current year.

CSSL's principal activity is the provision of certain head office and shared services, such as finance and HR support, payroll, IT and software services, to other companies within the Group. CSSL recovers the cost of providing these shared services by charging the Group companies that benefit from them, including the Company. Prior to the aforementioned reorganisation, the charges for the provision of these services were lower.

The Group announced the implementation of a major cost reduction programme in November 2023 which is expected to deliver annualised efficiencies of £60m from Q1 2024 across the Group. Following this announcement, employee consultation programmes commenced and the Group exited a number of leased properties. The organisational changes primarily impacted indirect support function and overhead roles. A charge of £29.8m has been recognised by the Company in 2023, comprising £5.7m of redundancy costs, and impairments of right-of-use assets and property, plant and equipment, and provisions for unavoidable running costs in respect of property exits totalling £24.1m. The Group continues to evaluate additional cost saving opportunities and expects to deliver annualised efficiencies of £100m by the middle of 2025.

During the year the Company acquired investments in Capita Property and Infrastructure Limited, Capita Secure Information Solutions Limited, Capita Managed IT Solutions Limited at an aggregate value of £174.7m as a part of Group restructuring. Refer to note 12 for details on investments in subsidiaries.

The balance sheet on pages 16 to 17 of the financial statements shows the financial position at the year end. Net assets have decreased from £803.8m in 2022 to £593.9m in 2023 primarily due to the payment of a £210m dividend to the Company's parent, Capita Holdings Limited. Details of the amounts owed by/to its parent company and fellow subsidiary companies are shown in notes 17, 20 and 30 to the financial statements.

CAPITA BUSINESS SERVICES LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

The key financial performance indicators used by the Group, on a consolidated basis, include adjusted revenue, adjusted profit before tax, adjusted basic/diluted earnings per share, free cash flow excluding business exits, and gearing ratios. The Group manages its operations on a divisional basis and consequently, some of these indicators are monitored at a divisional level. The performance of the Experience and Public Service divisions of the Group are discussed in the Group's Annual Report which does not form part of this report.

The Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis. Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate. Further details of the going concern assessment are provided in section 1.1, pages 19-21 of the financial statements.

Principal risks and uncertainties

The Company is exposed to a wide range of risks that, should they materialise, could have a detrimental impact on financial performance, reputation or operational resilience. The Company's risk management framework provides a consistent approach to the identification, assessment, monitoring and reporting of risks and opportunities. The risk management process is based on risk registers and risk reporting at the established risk governance committees. Key risks are documented in the risk registers and have assigned risk owners who review them regularly, and report on them at least quarterly, as part of the risk reporting process. The strength of existing controls is evaluated to determine whether any further mitigating actions are needed to manage the risk level to within the risk appetite set by the Board.

The principal risks for the Company are:

Profitable growth

Attract new clients and retain existing clients on appropriate commercial terms.

Contract performance

Deliver services to clients in line with contractual and legal obligations.

Innovation

Innovate and develop new customer value propositions with speed and agility.

People attraction and retention

Attract, develop, engage and retain the right talent.

Financial stability

Maintain financial stability and achieve financial targets.

Cyber security

Protect our systems, networks and programs from unauthorised use and access.

ESG

Comply with regulatory and contractual requirements to drive a purpose driven organisation with the right focus on governance.

Safety and health

Protect the safety, health and duty of care of all the Company's employees, the people we work with and those affected by our acts and omissions.

Data governance and data privacy

Manage our data effectively (both clients and the Company's) as a strategic asset across the organisation.

As a subsidiary of Capita plc, the Company is subject to controls and risk governance techniques applied across all the Group's businesses. Details of the specific risk assessments and mitigating actions are outlined on pages 57-63 of the Group's 2023 Annual Report.

CAPITA BUSINESS SERVICES LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

Section 172 statement

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

Further details of the Group's approach to each stakeholder are provided in Capita plc's section 172 statement on pages 45, 46 and 47 of Capita plc's 2023 Annual Report.

Our People

Why they are important

They deliver our business strategy; they support the organisation to build a values-based culture; and they deliver our products and services ensuring client satisfaction.

What matters to them

Flexible working; learning and development opportunities leading to career progression; fair pay and benefits as a reward for performance; and two-way communication and feedback.

How we engaged

- People surveys
- Regular all-employee communications
- Employee director on the Capita plc Board
- Employee focus groups and network groups
- Workforce engagement on remuneration
- Regular 'breakfast' sessions with the Executive Committee for our colleagues

Topics of engagement

- Creating an inclusive workplace
- Health and wellbeing
- Speak Up policy
- Directors' remuneration
- Acting on survey feedback
- The career path framework
- The redundancy consultation programme announced in November 2023

Outcomes and actions

The 2023 employee survey showed key indices had either improved or remained steady with a five-point increase in the eNPS compared with 2022. 63% of colleagues who responded felt proud to work at Capita. We are developing and delivering a range of action plans, including ensuring our leaders feel confidence in, and ownership of Capita's strategy, plans and successes, developing inclusive opportunities for internal career mobility.

In December 2023, the Board agreed that while the appointment of employee directors had been successful, it was appropriate for the Board to consider a wider level of engagement with colleagues, including site visits arranged for individual directors to meet with local management and colleagues at Capita's businesses. In addition, the Board has appointed Nneka Abulokwe as the designated non-executive director to engage with colleagues. Adolfo Hernandez, our new CEO, has also commenced a series of breakfast sessions to meet with colleagues of differing seniority and at different locations throughout the Group. Janine Goodchild stepped down from the Board as an employee director on 31 December 2023.

The UK real living wage increase was applied from 1 April 2023. At the end of 2023, we took the difficult decision to withdraw from the UK's real living wage. Since 2020, the Group has increased the salaries of our lowest earners by 22% and the 2024 real living wage increase of 10.1% was not something we could commit to given the need for Capita to remain cost competitive and reflecting the fact that this is not a cost we are able to pass on to clients.

CAPITA BUSINESS SERVICES LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

Section 172 statement (continued)

The global career path framework which defines career levels, career job content, and reward framework within Capita was launched during the year.

In October 2023, Capita was recognised by Forbes, as being one of the top companies for women, ranking at number 18 out of 400 global companies on their list.

We continued to promote our Speak Up policy throughout the organisation.

Risks to stakeholder relationship

- Our ability to recruit due to the national and global labour market demand for resources
- Our ability to retain and develop people, impacting our quality of service and our financial performance
- Our ability to evolve our culture and practices in line with our responsible business agenda

Key metrics

Voluntary attrition, employee NPS, employee engagement Index and people survey completion level.

Clients and customers

Why they are important

They are recipients of Capita's services; and Capita's reputation depends on consistent and timely delivery of the services they need from us.

What matters to them

High-quality service delivery; delivery of transformation projects within agreed timeframes; and responsible and sustainable business credentials.

How we engaged

- Client meetings and surveys
- Regular meetings with government stakeholders and annual review with the Cabinet Office
- Through our customer advisory boards
- Through our senior client partner programme giving an experienced single point of contact for key clients and customers
- Introductory meetings and correspondence with the new CEO and new interim CEO, Capita Public Service

Topics of engagement

- Current service delivery
- Transition and mobilisation of services
- Capita's digital transformation capabilities
- Possible future services
- Co-creation of client value propositions
- The cyber incident
- Ongoing benefits of hybrid working on client services

Outcomes and actions

Feedback provided to business units to address any issues raised; client value proposition teams supporting divisions with co-creation ideas; direct customer and sector feedback; and senior client partner programme undertaking client-focused growth sprints to build understanding of client issues and ideas to help address them.

Risks to stakeholder relationship

- Loss of business by not providing the services that our clients and customers want
- Damage to reputation by not delivering to the requirements of our clients and customers
- Loss of customers for our clients

Key metrics

Customer NPS; specific feedback on client engagements.

CAPITA BUSINESS SERVICES LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

Section 172 statement (continued)

Suppliers and Partners

Why they are important

They share our values and help us deliver our purpose; maintain high standards in our supply chain; and achieve social, economic and environmental benefits aligned to the Social Value Act. Our suppliers and partners provide additional expertise, skill and technology, elevating our offering.

What matters to them

Payments made within agreed payment terms; clear and fair procurement process; building lasting commercial relationships; and working inclusively with all types of business.

How we engaged

- Supplier meetings throughout source to procure process
- Regular reviews with suppliers
- Supplier questionnaires and risk assessments

Topics of engagement

- New Digital offerings for clients
- Supplier payments
- Sourcing requirements
- Supplier performance
- Responsible Business
- Science based targets (SBTs)
- The cyber incident

Outcomes and actions

Our supplier charter, which is available on our website, remains at the core of strengthening our commitments and sets out how we conduct business in an open, honest and transparent manner, and what we expect of our suppliers. This year, it was refreshed and relaunched.

To understand Capita's Scope 3 carbon footprint, a supplier engagement programme was also undertaken with suppliers accounting for £1bn annual spend (over 50% of the supply chain by spend) to ask them to disclose their carbon emissions to CDP.

During 2023, 99% of our suppliers were paid within 60 days.

Risks to stakeholder relationship

- Environmental issues
- Commitment to tackling SBTs
- Supply chain resilience

Key metrics

99% of supplier payments within agreed terms; SME spend allocation; and supplier diversity profile.

CAPITA BUSINESS SERVICES LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

Section 172 statement (continued)

Society

Why they are important

Capita is a provider of key services to government impacting a large proportion of the population.

What matters to them

Social mobility; youth skills and jobs; digital inclusion; diversity and inclusion; climate change; business ethics; accreditations and benchmarking; and cost of living crisis.

How we engaged

- Membership of non-governmental organisations
- Charitable and community partnerships
- External accreditations and benchmarking
- Working with clients, suppliers and the Cabinet Office

Topics of engagement

- Youth employment
- Workplace inequalities
- Diversity & inclusion
- Climate change

Outcomes and actions

Youth and employability programme such as Social Shifters; ranked 18 on the Forbes Global list of top employers for women; a 5% reduction in our gender pay gap (compared with 2022); awarded Employer's Network for Equality and Inclusion; achieved a silver Tidemark and an A CDP (Carbon Disclosure Project) score as well as a silver medal in EcoVadis for Capita plc.

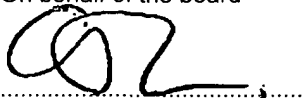
Risks to stakeholder relationship

- Lack of understanding of the issues important to them
- Insufficient communication or involvement in shaping and influencing strategies and plans

Key metrics

Community investment, workforce diversity and ethnicity data, including pay gaps.

On behalf of the board



G Bate-Williams

Director

10 May 2024

CAPITA BUSINESS SERVICES LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

The Directors present their Directors' Report and Financial statements for the year ended 31 December 2023.

Results and dividends

The results for the year are set out on page 14. On 11 August 2023, the Company declared a dividend of £210m (2022: £nil) to Capita Holdings Limited.

Directors

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

C Free	(Resigned 4 July 2023)
L Palmer	(Resigned 23 June 2023)
E H Brownell	(Resigned 31 March 2023)
M W Lansdown	
A D Murray	(Resigned 31 January 2024)
M Billingham	(Resigned 31 March 2023)
G Bate-Williams	(Appointed 28 March 2023)
C Ripoché	(Appointed 13 April 2023)
R Holroyd	(Appointed 9 November 2023)
Capita Corporate Director Limited	(Appointed 23 May 2023)

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. This qualifying third party indemnity remains in force as at the date of approving the directors' report.

Political donations

The Company made no political donations and incurred no political expenditure during the year (2022: £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 participates in the Group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings, newsletters, email notices and intranet communications. These communication initiatives enable employees to share information within and between business units and employees are encouraged, through an open-door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations of the Company. The Group's share incentive plan is designed to promote employee share ownership and to give employees the opportunity to participate in the future success of the Group.

Business relationships

Details regarding relationships with suppliers, clients and others, together with further cross references, are provided in the section 172 statement from pages 3 to 6.

Auditor

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

CAPITA BUSINESS SERVICES LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

Corporate governance

The Company forms part of the Capita plc 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 because 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 Team ('ExT'), led by the Chief Executive Officer of Capita plc.

Information about ExT members is available on the Capita plc's website www.capita.com/about-capita/executive-team. Decisions made by the Capita plc board and its committees, or by the ExT and its committees, are cascaded through the Group where applicable and the management of each division, led by its Executive Officer, is responsible for their 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. Quarterly performance reviews are conducted by the ExT 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 Company's operation.

Environment

The Company 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 its activities. The Company operates in accordance with Group policies, which are described in the Group's 2023 Annual Report that 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.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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.

Strategic report

In accordance with s414c(11) of the Companies Act 2006, the Company has set out certain information in its Strategic report that is otherwise required to be disclosed in the Directors' report. This includes information regarding results and activities and a description of the principle risks and uncertainties facing the Company.

CAPITA BUSINESS SERVICES LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

Statement of disclosure to auditor

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

On behalf of the board



G Bate-Williams

Director

10 May 2024

CAPITA BUSINESS SERVICES LTD

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITA BUSINESS SERVICES LTD

Opinion

We have audited the financial statements of Capita Business Services Ltd (the 'Company') for the year ended 31 December 2023 which comprise the income statement, the statement of comprehensive income, the balance sheet, 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 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern from the date of approval of the financial statements to 30 June 2025 ('the going concern period').

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

The risk that we considered most likely to adversely affect the Company's available financial resources over this period was the extent to which the Company is reliant on its ultimate parent undertaking, Capita plc ('the Group'), which is driven by the following factors:

- The Company's participation in the Group's notional cash pooling arrangements;
- The significant level of intercompany receivables from fellow Group undertakings;
- The level of administrative support services received from the Group;
- The Company receives revenue from other Group entities or key contracts that may be terminated in the event of default by the Group; 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.

We considered whether these risks could plausibly affect the liquidity in the going concern period.

Our procedures including assessing the financial position of Capita plc to determine there was a risk that it would not be able to provide support to the Company. The most recent Capita plc financial statements have concluded that it was appropriate to adopt the going concern basis with no material uncertainty identified. Therefore, although the Company has inter-dependencies with the Group as 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 continue in operation and discharge its liabilities as they fall due over the going concern period.

CAPITA BUSINESS SERVICES LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITA BUSINESS SERVICES LTD

We considered whether the going concern disclosure in note 1.1 to the financial statements gives a full and accurate description of the director's assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1.1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations - ability to detect

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board Meeting minutes.
- Considering the remuneration incentive schemes and performance targets for management and directors including the short-term incentive plan and long-term incentive plan for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet profit and revenue targets, we perform procedures to address the risk of management override of controls and risk of fraudulent revenue recognition. In particular, the risk that management may be in a position to make inappropriate accounting entries for long-term contracts, and the risk of bias in accounting estimates and judgements such as contract modifications and terminations.

We also identified a fraud risk related to inappropriate capitalisation, recognition or expensing of contract fulfilment costs in response to meet profit targets.

We performed procedures including:

- Identifying journal entries and other adjustments to test, based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.
- Selecting samples from additions to contract fulfilment assets during the year, which we agreed back to supporting calculations and source documentation to assess whether the capitalisation was appropriate.
- Reviewing management's contract profitability forecasts for contracts with significant contract fulfilment assets and challenging the key assumptions in order to assess whether any impairment should be recorded against the carrying value of the contract fulfilment assets.

CAPITA BUSINESS SERVICES LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITA BUSINESS SERVICES LTD

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: data protection laws, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 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.

CAPITA BUSINESS SERVICES LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITA BUSINESS SERVICES LTD

Directors' responsibilities

As explained more fully in their statement set out on page 8, 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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A 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.



Malcolm Footer (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

10 May 2024

CAPITA BUSINESS SERVICES LTD

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 £m	2022 £m
Revenue	3	1,423.2	1,347.7
Cost of sales		(1,162.2)	(1,078.4)
Gross profit		261.0	269.3
Administrative expenses		(240.4)	(202.0)
Operating profit	4	20.6	67.3
Investment income	5	82.8	80.6
Other (expenses)/income	6	(3.2)	18.3
Impairment	7	(39.0)	(145.6)
Net finance income/(cost)	8	17.2	(0.7)
Profit before tax		78.4	19.9
Income tax (charge)/credit	9	(29.8)	0.5
Profit for the year		48.6	20.4

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

The notes and information on pages 19 to 71 form an integral part of these financial statements.

CAPITA BUSINESS SERVICES LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

		2023 £m	2022 £m
Profit for the year		48.6	20.4
		<u> </u>	<u> </u>
Other comprehensive expense			
Items that will not be reclassified subsequently to the income statement:			
Actuarial loss on defined benefit pension schemes	27	(63.4)	(10.7)
Income tax effect	9	14.9	2.0
		<u> </u>	<u> </u>
Other comprehensive expense for the year, net of tax		(48.5)	(8.7)
		<u> </u>	<u> </u>
Total comprehensive income for the year		0.1	11.7
		<u> </u>	<u> </u>

The notes and information on pages 19 to 71 form an integral part of these financial statements.

CAPITA BUSINESS SERVICES LTD

BALANCE SHEET

AS AT 31 DECEMBER 2023

	Notes	2023 £m	2022 £m
Non-current assets			
Property, plant and equipment	10	22.1	31.8
Intangible assets	11	48.7	50.8
Right-of-use assets	10	159.9	187.9
Investments in subsidiaries	12	263.2	162.1
Contract fulfilment assets	14	226.6	226.0
Financial assets	15	63.9	72.3
Trade and other receivables	17	3.9	3.5
Deferred tax assets	9	52.0	69.2
Employee benefits	27	29.4	39.3
		869.7	842.9
Current assets			
Financial assets	15	8.2	7.2
Inventories	16	1.7	1.8
Trade and other receivables	17	633.5	979.1
Cash and cash equivalents	18	3.3	28.0
Assets held-for-sale	12	20.1	-
		666.8	1,016.1
Total assets		1,536.5	1,859.0
Current liabilities			
Trade and other payables	20	218.8	256.9
Deferred income	23	361.6	367.1
Lease liabilities	21	34.7	35.3
Financial liabilities	19	-	0.5
Provisions	22	17.6	20.5
Income tax payable		4.4	39.5
		637.1	719.8
Non-current liabilities			
Deferred income	23	33.4	51.0
Lease liabilities	21	262.7	284.4
Provisions	22	9.4	-
		305.5	335.4
Total liabilities		942.6	1,055.2
Net assets		593.9	803.8

CAPITA BUSINESS SERVICES LTD

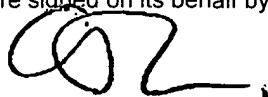
BALANCE SHEET (CONTINUED)

AS AT 31 DECEMBER 2023

	Notes	2023 £m	2022 £m
Capital and reserves			
Issued share capital	25	0.0	0.0
Share premium	26	60.0	60.0
Capital redemption reserve		0.7	0.7
Retained earnings		533.2	743.1
Total equity		593.9	803.8

The notes and information on pages 19 to 71 form an integral part of these financial statements.

These financial statements were approved by the board of directors and authorised for issue on 10 May 2024 and are signed on its behalf by:



G Bate-Williams
Director

Company registration number 02299747 (England and Wales)

CAPITA BUSINESS SERVICES LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m
At 1 January 2022	0.0	60.0	0.7	731.8	792.5
Impact of changes in accounting standards- Amendments to IAS 37	-	-	-	(0.4)	(0.4)
At 1 January 2022 on adoption of changes in accounting standards	0.0	60.0	0.7	731.4	792.1
Profit for the year	-	-	-	20.4	20.4
Other comprehensive expense for the year	-	-	-	(8.7)	(8.7)
Total comprehensive income	-	-	-	11.7	11.7
Transactions with owners:					
Contribution in respect of share based payment charge	-	-	-	1.1	1.1
Settlement of share based payment charged by intercompany	-	-	-	(1.1)	(1.1)
At 31 December 2022	0.0	60.0	0.7	743.1	803.8
Profit for the year	-	-	-	48.6	48.6
Other comprehensive expense for the year	-	-	-	(48.5)	(48.5)
Total comprehensive income	-	-	-	0.1	0.1
Transactions with owners:					
Dividends paid	-	-	-	(210.0)	(210.0)
Contribution in respect of share based payment charge	-	-	-	0.9	0.9
Settlement of share based payment charged by intercompany	-	-	-	(0.9)	(0.9)
At 31 December 2023	0.0	60.0	0.7	533.2	593.9

Share capital

The balance classified as share capital is the nominal proceeds on issue of the Company's equity share capital, comprising 13,269 ordinary shares of £1.00 each.

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 less issuance costs.

Capital redemption reserve

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

Retained earnings

Net profits accumulated in the Company after dividends are paid. On 11 August 2023, the Company declared a dividend of £210m (2022: £nil) to Capita Holdings Limited.

The notes and information on pages 19 to 71 form an integral part of these financial statements.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

1.1 Basis of preparation

Capita Business Services Ltd is a private company limited by shares incorporated in England and Wales.

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

The financial statements are prepared in British pounds sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest million pounds (£m), except wherein stated otherwise.

In determining the appropriate basis of preparation for the annual report and financial statements for the year ended 31 December 2023, the Company's Directors ('the Directors') are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of at least 12 months following the approval of these financial statements. 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, sensitivities, and mitigations as set out below.

Accounting standards require that 'the foreseeable future' for going concern assessment covers a period of at least twelve months from the date of approval of these financial statements, although those standards do not specify how far beyond twelve months the Directors should consider. In its going concern assessment, the Directors have considered the period from the date of approval of these financial statements to 30 June 2025 ('the going concern period') and which aligns to the period considered by the Directors of the ultimate parent company, Capita plc.

Board assessment

The financial forecasts used for the going concern assessment are derived from financial projections for 2024-2025 for the Company which have been subject to review and challenge by management and the Directors. The Directors have approved the projections.

Inter-dependency with Capita plc ('the Group')

The Director's assessment of going concern has considered the extent to which the Company's ability to remain a going concern is inter-dependent with that of the Group. The Company has dependency with the Group in respect of the following:

- provision of certain services, such as administrative support services and should the Group be unable to deliver these services, the Company would have difficulty in continuing to trade;
- participation in the Group's notional cash pooling arrangements, of which £79.5m was advanced at 31 March 2024. In the event of the cash being required elsewhere in the Group, the Company may not be able to access its cash balance within the pooling arrangement;
- recovery of receivables of £493.3m from fellow Group companies as of 31 March 2024. If these receivables are not able to be recovered when forecast by the Company, then the Company may have difficulty in continuing to trade;
- additional funding that may be required if the Company suffers potential future losses;
- revenue from other Group entities and key contracts that may be terminated in the event of a default by the Group;
- revenue earned by its subsidiaries from other Group entities and key contracts that may be terminated in the event of a default by the Group; 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 inter-dependency the Company has with the Group, the Directors have considered the financial position of the ultimate parent undertaking as disclosed in its most recent consolidated financial statements, being for the year ended 31 December 2023.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

Ultimate parent undertaking – Capita plc

The Capita plc Board ('the Board') concluded that it was appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts, key uncertainties, sensitivities, and mitigations when preparing the Group's consolidated financial statements at 31 December 2023. These consolidated financial statements were approved by the Board on 5 March 2024 and are available on the Group's website (www.capita.com/investors). Below is a summary of the position at 5 March 2024:

Accounting standards require that 'the foreseeable future' for going concern assessment covers a period of at least twelve months from the date of approval of these consolidated financial statements, although those standards do not specify how far beyond twelve months a Board should consider. In its going concern assessment, the Board has considered the period from the date of approval of these consolidated financial statements to 30 June 2025, which aligns with a period end and covenant test date for the Group, and has also allowed the Board to assess the liquidity impact of the borrowings that mature in January 2025 and April 2025. There are no other debt maturities in the period to 30 June 2025.

The base case financial forecasts used in the going concern assessment are derived from financial projections for 2024-2025 as approved by the Board in December 2023.

Under the base case scenario, the Group's transformation programme and completion of the Portfolio non-core business disposal programme in January 2024 has simplified and strengthened the business and facilitates further efficiency savings enabling sustainable growth in revenue, profit and cash flow over the medium term.

The base case projections used for going concern assessment purposes reflect business disposals completed up to the date of approval of these financial statements. The liquidity headroom assessment in the base case projections reflects the Group's existing committed financing facilities and debt redemptions and does not reflect any potential future refinancing. The base case financial forecasts demonstrate liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 30 June 2025.

In considering severe but plausible downside scenarios, the Board has taken account of the potential adverse financial impacts resulting from the following risks:

- *revenue growth falling materially short of plan;*
- *operating profit margin expansion not being achieved;*
- *targeted cost savings delayed or not delivered;*
- *additional inflationary cost impacts which cannot be passed on to customers;*
- *unforeseen operational issues leading to contract losses and cash outflows;*
- *volatility in interest rates;*
- *non-availability of the Group's non-recourse receivables financing facility; and*
- *unexpected financial costs linked to incidents such as data breaches and/or cyber-attacks.*

The likelihood of simultaneous crystallisation of the above risks is considered by the directors to be low. Nevertheless, in the event that simultaneous crystallisation were to occur, the Group would need to take action to mitigate the risk of insufficient liquidity and covenant headroom. In its assessment of going concern, the Board has considered the mitigations, under the direct control of the Group, that could be implemented including reductions or delays in capital investment, substantially reducing (or removing in full) bonus and incentive payments. Taking these mitigations into account, the Group's financial forecasts, in a severe but plausible downside scenario, demonstrate sufficient liquidity headroom and compliance with all debt covenant measures throughout the going concern period to 30 June 2025.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

Adoption of going concern basis by the Group:

Reflecting the continued benefits from the transformation programme delivered over the last few years and the Portfolio non-core business disposal programme completed in January 2024, coupled with the Board's ability to implement appropriate mitigations should the severe but plausible downside materialise, the Group continues to adopt the going concern basis in preparing these consolidated financial statements. The Board has concluded that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 30 June 2025.

Conclusion

Although the Company has a reliance on the Group as 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 continue in operation and discharge its liabilities as they fall due over the period to 30 June 2025 (the 'going concern period'). Consequently, the annual report and financial statements have been prepared on the going concern basis.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

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, and private placement loan notes issued by both Capita plc and Capita Holdings Limited. These arrangements are subject to ongoing compliance with covenants that include the Group's maximum ratio of adjusted net debt to adjusted Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) and minimum interest cover. The covenant threshold tests are required to be carried out twice a year and the Group was in compliance with all debt covenants.

1.3 Compliance with accounting standards

The Company has applied FRS101 *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 International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006 .

The Company's ultimate parent company, Capita plc, includes the Company in its consolidated financial statements. The consolidated financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and with UK-adopted International Financial Reporting Standards and the Disclosure and Transparency Rules of the UK's Financial Conduct Authority. These are available to the public and may be obtained from Capita plc's website on <https://www.capita.com/investors> .

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;
- Certain disclosures as required by IFRS 15 *Revenue from Contracts with Customers*;
- Disclosures in respect of the compensation of key management personnel; and
- Disclosures as required by IFRS 16 *Leases*.

Since 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-Payment* in respect of Group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of Assets* in respect of the impairment of goodwill, indefinite life intangible assets and investment in subsidiaries;
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company, including a comparative period reconciliation of goodwill; and
- Certain disclosures required by IFRS 7 *Financial Instrument Disclosures* and certain disclosure exemptions as permitted by IFRS 13 *Fair value measurement*.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies **(Continued)**

1.4 Change in accounting policies

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 interpretations	Effective date
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023
International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)	1 January 2023

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

1.5 Revenue

The Company operates a diverse range of businesses and accordingly applies a variety of methods for revenue recognition, based on the principles set out in IFRS 15.

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' when 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 ('MSAs') or frameworks 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, for example transformation; transitions and the delivery of outsourced services; management applies judgement to consider whether those promised goods and services are:

- distinct – to be accounted for as separate performance obligations;
- not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or
- 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 a contract's inception the total transaction price is estimated, being the amount to which the Company expects to be entitled and has rights to under the 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 Key Performance Indicators ('KPIs'). Such amounts are only included based on the expected value or the most likely outcome, 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 already agreed.

After the total transaction price is determined, the Company allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or while) those performance obligations are satisfied.

The Company infrequently sells standard products with observable standalone prices due to the specialised services required by customers, consequently the Company applies judgement to determine an appropriate standalone selling price. More frequently, the Company sells customers bespoke solutions, 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.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

Revenue (continued)

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 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, in particular for long-term service contracts where the series guidance is applied, the Company often uses a method of time elapsed which requires minimal estimation. Certain long-term contracts use output methods based upon estimations of: user numbers; service activity levels; or fees collected.

When transfer of control is most closely aligned to the Company's efforts in delivering the service, the input method is used to measure progress, and revenue is recognised in direct proportion to costs incurred. This is a faithful depiction of the transfer of services because costs (or other inputs) most accurately reflect the incremental benefits received by the customer from efforts to date.

If performance obligations in a contract do not meet the over-time criteria, the Company recognises revenue at a point-in-time when the service or good is delivered.

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 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).

In respect of 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 because 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. In these cases 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 through an agreed formal process.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

Revenue (continued)

For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management uses its 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. For example, if pricing is subject to indexation based on an external metric (such as the Consumer Price Index ('CPI') or such as the Retail Price Index ('RPI')) then revenue related to the indexation will only be recognised after the relevant indexation is confirmed. Future indexation will not be recognised because it is not highly probable that a significant reversal of an indexation adjustment will not occur.

Contract fulfilment costs

Contract fulfilment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed when 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 of costs that: (i) directly relate to a contract or to a specifically identifiable anticipated contract; (ii) generate or enhance resources that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) are expected to be recovered.

The Company has determined that, where the relevant specific criteria are met, the costs for (i) process mapping and design; (ii) system development; and (iii) project management; are likely to qualify to be capitalised as contract fulfilment assets.

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

The Company has determined that the following costs may be capitalised as contract fulfilment assets: (i) legal fees to draft a contract after the Company has been selected as preferred supplier; and (ii) sales commissions directly related to winning a specific contract.

Costs incurred prior to selection as preferred supplier are not capitalised but expensed when incurred

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 goods and service to the customer.

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 with 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 are removed for the impairment test.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

Revenue (continued)

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 because more than one party is involved in providing the goods and services to the customer. The Company is 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 or not 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 on a net basis, recognising only the commission or fee earned as revenue.

Licenses

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 an active license is whether or not 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. Where the Company is responsible for any maintenance, continuing support, updates and upgrade, the sale of the initial software is not distinct. All other licences which have significant standalone functionality are treated as passive licences.

When software upgrades are sold as part of the software licence agreement (ie. software upgrades are promised to the customer), the Company applies judgement to assess whether the software upgrade is distinct from the licence (ie. a separate performance obligation). If the upgrades are 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.

For each contract that includes a separate licence performance obligation, the Company considers 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.

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/or services being provided. This can include performance-based payments or progress payments and 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. The long-term service contracts tend to have higher cash flows early in the contract to cover transformational activities.

Where payments received are greater than the revenue recognised up to the reporting date, the Company recognises a deferred income contract liability for this difference. Where payments received are less than the revenue recognised up to the reporting date, the Company recognises an accrued contract income asset for this difference

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

Revenue (continued)

At each reporting date, the Company assesses whether there is any indication that accrued contract income assets may be impaired by considering whether or not any revenue reversal could 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.

Contract types

The Company disaggregates revenue from contracts with customers by contract type, because 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; short-term contractual – less than two years; and transactional. The years being measured from the service commencement date.

Long-term contractual - greater than two years

The Company provides a range of services under contracts with a duration of more than two years. The nature of contracts or performance obligations within this revenue type includes:

- (i) long-term outsourced service arrangements in the public and private sectors; and
- (ii) active software license arrangements.

The majority of long-term contractual contracts form part of a series of distinct goods and services because they are substantially the same service; and have the same pattern of transfer since the series constitutes services provided in distinct time increments (eg. daily, monthly, quarterly or annually services) and therefore treats the series as one performance obligation.

Short-term contractual - less than two years

The nature of contracts or performance obligations within this revenue type 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 (ie. 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 because 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 distinct from each subsequent 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 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 or services and acceptance by the customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria.

The nature of contracts or performance obligations within this revenue type includes:

- (i) provision of computing hardware goods;
- (ii) passive software license agreements;
- (iii) commission received as agent from the sale of third-party software; and
- (iv) fees received in relation to delivery of professional services.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

1.6 Goodwill

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

At the acquisition date, any goodwill acquired is allocated to the cash-generating units ('CGU') which are expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

1.7 Intangible assets other than goodwill

Intangible assets are valued at cost less accumulated amortisation and impairment. Amortisation is calculated to write-off the cost in equal annual instalments over asset's estimated useful life, which is typically 1.5 to 20 years. In the case of capitalised software development costs, research expenditure is written-off to the income statement in the period in which it is incurred.

Development expenditure is written-off in the same way unless and until the Company is satisfied with 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 and equipment

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

Freehold buildings and long leasehold property	upto 50 years
Leasehold improvements	period of the lease
Furniture, fittings and equipment	3 - 10 years
Computer equipment	3 - 10 years

1.9 Investments

The Company has investments in subsidiaries.

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

At each balance sheet date, the Company assesses whether there are indicators to reverse the previously recognised impairment loss. The reversals of impairment are only recognised where there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

1.10 Impairment of tangible and intangible assets

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

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value.

1.12 Business disposal and assets held for sale

Gains or losses arising from disposal of assets or liabilities are measured as the difference between the net disposal proceeds and the carrying amount of the asset or liabilities and are recognised in the income statement.

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and the sale is either immediate or considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

1.13 Financial instruments

Trade and other receivables

Trade receivables are initially recognised at cost (being the same as fair value) and subsequently at amortised cost less any provision for impairment, to ensure the amounts recognised represent their recoverable amount.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9 *Financial instruments*, resulting in trade receivables recognised and carried at original invoice amount less an allowance for any uncollectible amounts based on expected credit losses. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Non-recourse trade receivable financing

Trade receivables that are sold without recourse are derecognised at the point of sale when the risks and rewards of the receivables have been fully transferred.

Trade and other payables

Trade and other payables are recognised initially at cost (being same as 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 in to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts are shown within current financial liabilities.

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.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

Financial instruments (continued)

Interest-bearing loans and borrowings

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

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

1.14 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 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 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 tax asset to be utilised.

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

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

1.15 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation arising from past events, it is probable that cash will be paid to settle it, and the amount can be estimated reliably.

If the effect of the time value of money is material, provisions are discounted using the yield on government bonds which have a similar timing and currency of cash flows to the provision being discounted. Where required adjustments are made to the yields to reflect the risks specific to the cash flows being discounted. The unwinding of the discount is recognised as a financing cost in the income statement.

The value of the provision is determined based on assumptions and estimates in relation to the amount, timing and likelihood of actual cash flows, which are dependent on future events. Where no reliable basis of estimation can be made, no provision is recorded. However, contingent liabilities disclosures are given when there is a greater than remote probability of outflow of economic benefits.

On an ongoing basis, management monitor provisions and their accurate estimation when compared to final outcomes.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

1.16 Pensions

Defined contribution pension schemes

The Company participates in a number of defined contribution pension schemes and for these schemes the Company has no further payment obligations after the contributions have been paid. The contributions are recognised as an employee benefit expense in the income statement when the related service is provided and as they fall due.

Defined benefit pension schemes

The Company also operates a defined benefit pension scheme and participates in other defined benefit pension schemes, all of which require contributions to be made to separate trustee-administered funds. Where the Company participates in funded and unfunded public sector defined benefit pension schemes there are contractual protections in place allowing actuarial and investment risk to be passed on to the end customer through recoveries for contributions paid (as explained further in note 27). The costs of these schemes are reported on a defined contribution basis recognising a cost equal to the contributions payable during the period. No amounts are recognised in the Company's balance sheet.

For the defined benefit pension scheme that the Company operates ('HPS', formerly known as the Capita Pension & Life Assurance Scheme), the cost of providing benefits under the scheme is determined separately using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of the defined benefit obligation) and is based on actuarial advice. Past service costs are recognised immediately in the income statement.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss is recognised in the income statement during the period in which the settlement or curtailment occurs.

Re-measurements of the net defined benefit asset/liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income and will not be reclassified to the income statement. The Company generally determines the net interest expense/income on the net defined benefit asset/liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the then net defined benefit asset/liability, taking into account any changes in the net defined benefit asset/liability during the period as a result of contributions and benefit payments. However, due consideration is made to events which require the net interest expense/income on the net defined benefit asset / liability to be re-measured during the period.

Current and past service costs are charged to operating profit while the net interest cost is included within net finance costs. The net defined benefit asset/ liability in the balance sheet comprises the total present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled. The policy to determine fair value of plan assets is described in note 27. Please refer to note 27 for the Company's assessment of the impact of IFRIC 14 in relation to either recognising a surplus or allowing for the impact of any funding commitments made.

The defined benefit pension scheme numbers in note 27 for HPS relate to the assets/liabilities of the entire (Capita plc group) scheme and not solely to the assets/liabilities connected with the employees of the Company.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

1.17 Share-based payments

The fair value of the equity instrument granted is measured at grant date 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, only taking into account vesting conditions linked to the price of the shares (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 are met, the awards are treated as vesting, irrespective of whether or not the market condition is satisfied, since 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 since the previous balance sheet date is recognised in the income statement, with a corresponding adjustment to equity.

Where the terms of an award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period adjusted for the incremental fair value of any modification i.e. the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over the fair value being treated as an expense in the income statement.

1.18 Leases

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

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. At the inception of the lease, the Company recognises a right-of-use asset at cost, which comprises the present value of minimum lease payments determined at the inception of the lease. 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 administrative expenses in the income statement. Amendment to lease terms resulting in a change in payments or the length of the lease results in an adjustment to the right-of-use asset and liability. Right-of-use assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable. Right-of-use assets exclude leases with low values and terms of twelve months or less.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

Leases (continued)

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

The Company recognises lease liabilities where a lease contract exists and right-of-use assets representing the right to use the underlying leased assets. At lease commencement date, the Company recognises lease liabilities measured at the present value of the lease payments to be made over the lease term.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to acquire an asset of a similar value to the right-of-use asset in a similar economic environment. Incremental borrowing rates are determined monthly and depend on the term, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk-free rate based on swap market data; a credit risk adjustment; and an entity-specific adjustment. 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.

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 net finance costs in the income statement. 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 it is anticipated that the Company will exercise that option.

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 an option to terminate are included if it is reasonably certain that this will not be exercised.

The Company has elected to apply the practical expedient in IFRS 16 paragraph 15 not to separate non-lease components such as service charges from lease rental charges.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

Leases (continued)

The Company as a lessor

When the Company acts as a lessor, it determines at the lease commencement whether the lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee all of the risks and rewards of ownership in relation to the underlying asset. If this is the case, then the lease is a finance lease. If not, then it is an operating lease.

The Company acts as an intermediate lessor of property assets and equipment. When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses whether the sub-lease is a finance or operating lease in the context of the right-of-use asset arising from the head lease, not with reference to the underlying asset.

In instances where the Company is the intermediate lessor and the sub-lease is classified as a finance lease, the Company recognises a net investment in sub-leases for amounts recoverable from the sub-lessees while derecognising the respective portion of the right-of-use asset. The lease liability is retained in the balance sheet. The net investment in sub-leases is classified as current or non-current finance assets in the balance sheet according to whether or not the amounts will be recovered within twelve months of the balance sheet date.

Finance income recognised in respect of net investment in sub-leases is presented within net finance costs in the income statement. The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term. The Company accounts for finance lease receivables, using incremental borrowing rate where the interest rate implicit in sub-lease is not easily determinable.

1.19 Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into British pounds sterling at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. All foreign exchange gains/losses are recognised in the income statement.

1.20 Group accounts

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

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

1 Accounting policies

(Continued)

1.21 Guarantee

Where the Company enters into financial guarantee contracts, the Company recognises the financial guarantee as an asset or liability at fair value. The fair value is the present value of the quantified benefit of the financial guarantee contract over the term of the financial guarantee contract plus or minus transaction costs directly attributable to the issue of the financial guarantee contract. The amount initially recognised is amortised to profit and loss in line with the underlying asset or liability, resulting in the fair value of the financial guarantee contract being zero at the point the underlying exposure is zero. In the event of a renewal or extension of the financial guarantee contract, the fair value at the point of renewal or extension is determined as at initial recognition and the resulting asset or liability is amortised to the profit and loss in line with the renewed or extended underlying asset or liability. Where the Company enters into financial guarantee contract in respect of a subsidiary, the Company recognises a corresponding increase or decrease in its investment in the subsidiary

1.22 Current vs Non-current classification

The Company presents assets and liabilities in the balance sheet based on whether they are current or non-current.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the balance sheet date; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the balance sheet date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the balance sheet date.

The Company classifies all other liabilities as non-current.

1.23 Common control transactions

Where a business is transferred from one legal entity to another legal entity within the Capita Group under a Business Transfer Agreement ('BTA'), this is treated as a business combination under common control, and would therefore fall outside of the scope of IFRS 3. As such, an accounting policy choice has been made for how common control transactions are dealt with across the Group, as follows:

- Where a BTA is undertaken at net book value (with consideration paid equal to the net book value of the assets and liabilities transferred on the BTA date), the relevant assets and liabilities of the transferring business are recognised in the transferee at their previous carrying values as in the transferor's standalone entity accounts;
- Where the consideration paid is greater than the net book value of the assets and liabilities transferred, this excess is recognised as a gain on disposal for the transferor, and by the recognition of entity level goodwill in the transferee, which would be linked to the acquired business.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

2 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance 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 presented 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 judgements and 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 :

- **Revenue:** Due to the size and complexity of some of the Company's contracts, there are significant judgements to be applied, specifically in assessing: (i) the recoverability of contract fulfilment assets; and (ii) the completeness of the customer and onerous contract provisions. These judgements are dependent on assessing the contract's future profitability. It is possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions. It should be noted that while management must make judgements in relation to applying the revenue recognition policy and recognition of related balance sheet items (trade receivables; deferred income; and accrued income) these are not considered significant judgements. Significant judgement is exercised by management as to when to recognise revenue from variations or scope changes on long-term contracts. There is a risk that revenue may be recognised even though it is not probable that consideration will be collected, which could be due to uncertainties over contractual terms and ongoing negotiations with clients. Judgement is also required when customers request scope changes to determine if there is a contract modification or a contract termination followed by a new contract. Contract terminations can lead to the immediate recognition of any deferred income being held for recognition in future periods.
- **Capitalisation of contract fulfilment assets:** Judgement is applied by the Company when determining what costs qualify to be capitalised in particular when considering whether these costs are incremental and when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.
- **Impairment of investment in subsidiaries:** The Company determines whether investments in subsidiaries are impaired based on impairment indicators. If an indicator is identified, an impairment test is performed. This involves estimation of the enterprise value of the investee which is determined based on the greater of discounted future cash flows at a suitable discount rate or through the recoverable value of the investments held by the investee company.
- **Deferred taxation:** In determining the recognition of deferred tax (refer note 9), management assesses the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are recognised to the extent that taxable temporary differences exist, and it is considered probable that future taxable profits will be available against which the assets can be utilised before their expiry. The availability of future profits must be assessed against forecasts and other supporting evidence. This determination of future forecasts is based on management's judgement. It requires judgement regarding whether future profit forecasts are considered 'more likely than not' as supporting evidence for deferred tax asset recognition.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

2 Significant accounting judgements, estimates and assumptions

(Continued)

- **The measurement of defined benefit obligations:** The accounting cost of these benefits and the present value of pension liabilities involve judgements about uncertain events including such factors as the life expectancy of members, the salary progression of current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. The Company uses estimates for all these factors in determining the pension costs and liabilities incorporated in the financial statements. The assumptions reflect historical experience and judgement regarding future expectations.

The discount rate is derived from the yields available on high quality corporate bonds of appropriate term and currency as at the balance sheet date. Over the year these yields have decreased, resulting in the discount rate at 31 December 2023 of 4.55% pa (31 December 2022: 4.75% pa).

The Company continued to set Retail Price Inflation (RPI) in accordance with the market break-even expectations less an inflation risk premium. The inflation risk premium has remained at 0.25% pa. For Consumer Price Inflation (CPI), the Company reduced the assumed difference between RPI and CPI to an average of 0.60% pa.

Short-term inflation expectations continued to remain high due to the global economic recovery from the initial phase of Covid-19, combined with supply constraints in certain sectors such as energy. Current inflation levels continue to be higher than recent norms. This will have an impact on pension increases that are linked to inflation and this impact, where applicable, has been reflected in the disclosures. It should be noted that a material proportion of pension increases are capped (at different levels, but the main cap is 5.0% pa) with some caps applying annually and others applying over a period of years.

The impact of Covid-19 on the effects of future life expectancy continues to be uncertain. The pandemic is likely to have an impact on the setting of appropriate life expectancy assumptions and models for future improvements will need to consider whether the experiences since 2020 are a short-term phenomenon, and if the pandemic will influence future mortality in other ways. For example, the pressure on health services may mean that progress against other causes of death such as cancer is slower than previously expected, meaning an assumption of a lower rate of mortality improvements might be appropriate. Alternatively, the surviving population may be in better health than those dying from Covid-19, meaning that it might be expected that the remaining members live slightly longer. In June 2023, the Continuous Mortality Investigation (CMI) published a new model (CMI 2022) that includes population experience up to 2022. This latest version of the model could be heavily impacted by Covid-19 with the core version of the model placing a 25% weighting on 2022 experienced data and a 0% weighting on both 2020 and 2021 experienced data. The core version of the model reflects the fact that 2022 excess deaths remain higher than pre-Covid levels.

The Company is aware of the 2023 high court case that considered the validity of deeds where no Section 37 certificate (confirming that the minimum level of benefits had not been breached) was attached to the deed. The Company further understands that the case is being appealed with judgement expected in 2024. The HPS Trustee Board has received legal advice, which is to await the outcome of the appeal and any Government intervention prior to assessing what, if any, impact there might be on the scheme. The Company considers this approach reasonable and appropriate.

3 Revenue

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

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

4 Operating profit

	Notes	2023 £m	2022 £m
Operating profit for the year is stated after charging/(crediting):			
Income from foreign exchange differences		(0.5)	(1.2)
Depreciation of property, plant and equipment	10	8.1	14.3
Depreciation of right-of-use assets	10	28.9	34.1
Loss on disposal of property, plant and equipment		-	1.5
Amortisation of intangible assets	11	6.2	8.4
Loss on disposal of intangible assets		0.3	0.1
Contract fulfillment assets - impairment, derecognition and utilisation	14	68.8	66.7

Audit fees are borne by the ultimate parent company, Capita plc. The audit fee for the current period was £0.2m (2022: £0.2m). 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 because this information is required to be given in the consolidated financial statements of the ultimate parent company, which it is required to prepare in accordance with the Companies Act 2006.

5 Investment income

	2023 £m	2022 £m
Dividend income from shares in subsidiary companies	82.8	80.6
	<u>82.8</u>	<u>80.6</u>

The Company has received dividends from Capita Birmingham Limited (£46.2m), Capita Gas Registration & Ancillary Services Limited (£15.5m), Capita Learning Limited (£14.2m), FirstAssist Services Limited (£4.5m) and other subsidiaries (£2.4m).

6 Other (expenses)/income

	2023 £m	2022 £m
Rental income	12.9	14.6
Net loss on business disposal	(16.1)	-
Revaluation gain on investments measured at FVPL	-	3.7
	<u>(3.2)</u>	<u>18.3</u>

Refer to note 12 for details on loss on business disposal.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

7 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised

	2023	2022
	£m	£m
Impairment of goodwill (refer to note 11)	0.3	17.6
Impairment of intangible assets (refer to note 11)	-	0.5
Impairment of property, plant and equipment (refer to note 10)	7.1	1.4
Impairment of investments in subsidiaries (refer to note 12)	31.6	128.6
Reversal of impairment of investments in subsidiaries (refer to note 12)	-	(2.5)
	<u>39.0</u>	<u>145.6</u>

8 Net finance income/(cost)

	2023	2022
	£m	£m
Interest income		
Interest receivable from Group companies	30.3	9.7
Interest income on finance lease assets	4.1	4.3
Net interest income on the net defined pension schemes	2.6	3.6
	<u>37.0</u>	<u>17.6</u>
Interest expense		
Interest expense on bank overdrafts and loans	(0.2)	(0.4)
Interest expense on lease liabilities	(17.8)	(17.9)
Interest expense on non-recourse trade receivables facility	(1.8)	-
	<u>(19.8)</u>	<u>(18.3)</u>
Total net finance income/(cost)	<u>17.2</u>	<u>(0.7)</u>

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

9 Income tax

The major components of income tax charge/(credit) are:

	2023 £m	2022 £m
Current tax		
UK corporation tax	15.4	12.6
Adjustments in respect of prior periods	1.4	0.9
	<u>16.8</u>	<u>13.5</u>
Deferred tax		
Origination and reversal of temporary differences	15.9	(14.5)
Adjustment in respect of prior periods	(2.9)	0.5
	<u>13.0</u>	<u>(14.0)</u>
Total tax charge/(credit)	<u>29.8</u>	<u>(0.5)</u>
Statement of comprehensive income	2023 £m	2022 £m
Tax movements in relation to actuarial loss on defined benefit plans		
Current income tax		
Current income tax credit	(19.0)	(7.2)
Deferred income tax		
Origination and reversal of temporary differences	4.1	5.2
Total tax credit reported in other comprehensive income statement	<u>(14.9)</u>	<u>(2.0)</u>

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

9 Income tax

(Continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2023 £m	2022 £m
Profit before taxation	78.4	19.9
Expected tax charge based on a corporation tax rate of 23.50% (2022: 19.00%)	18.4	3.8
Expenses not deductible for tax purpose	13.5	28.8
Non-taxable income	(19.5)	(16.1)
Change in unrecognised deferred tax assets	19.0	(22.2)
Adjustment in respect of current income tax of prior periods	1.4	0.9
Impact of changes in statutory tax rates	(0.1)	3.8
Adjustment in respect of deferred tax of prior periods	(2.9)	0.5
Total adjustments	11.4	(4.3)
Total tax charge/(credit) reported in the income statement	29.8	(0.5)

	Balance sheet		Income statement	
	2023 £m	2022 £m	2023 £m	2022 £m
Deferred tax assets				
Decelerated capital allowances	41.8	40.0	(1.8)	(7.0)
Tax losses	5.2	18.5	13.3	(17.9)
Pension schemes' asset	1.5	3.5	(2.0)	8.0
Contract fulfilment assets	(0.1)	(0.4)	(0.3)	(0.4)
Other timing differences	3.7	7.6	3.9	3.3
Deferred tax assets	52.0	69.2		
Deferred tax charge/(credit) to income statement			13.1	(14.0)
Actuarial differences recognised as other comprehensive income			4.1	5.2
Total deferred tax movement in the period			17.2	(8.8)

A change to the main UK corporation tax rate was substantively enacted on 24 May 2021. The rate applicable from 1 April 2023 increased from 19% to 25%. The deferred tax asset at 31 December 2023 has been calculated based on this rate.

As at 31 December 2023, the Company has gross timing differences in relation to fixed assets of £58.7m (2022: £46.5m), trading losses of £143.0m (2022: £77.2m), capital losses of £6.9m (2022: £6.9m) and other timing differences of £7.8m (2022: £9.8m) in respect of which no deferred tax asset has been recognised in these financial statements due to the uncertainty of future use.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

10 Property, plant and equipment

	Freehold buildings and long leasehold property	Leasehold improvements	Furniture, fittings and equipment	Computer equipment	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2023	9.2	31.1	3.7	16.5	60.5
Additions	-	5.0	-	0.5	5.5
Reclassification	-	-	0.5	(0.5)	-
Asset retirement	-	(10.5)	(1.0)	(5.2)	(16.7)
At 31 December 2023	9.2	25.6	3.2	11.3	49.3
Accumulated depreciation and impairment					
At 1 January 2023	6.0	11.3	2.6	8.8	28.7
Charge for the year	0.3	4.1	0.7	3.0	8.1
Impairment	-	7.1	-	-	7.1
Asset retirement	-	(10.5)	(1.0)	(5.2)	(16.7)
At 31 December 2023	6.3	12.0	2.3	6.6	27.2
Net book value					
At 31 December 2023	2.9	13.6	0.9	4.7	22.1
At 31 December 2022	3.2	19.8	1.1	7.7	31.8

On 17 January 2024, the Company's investment in Fera Science Limited was sold to a fund managed by Bridgepoint Development Capital. The investment has been presented as an asset held-for-sale at 31 December 2023. Following the classification of this investment as held-for-sale, a property leased by the Company is no longer used by the Group. Following an impairment test, the property's leasehold improvements were impaired by £7.1m.

Right-of-use assets	Land and buildings	Equipment	Motor vehicles	Total
	£m	£m	£m	£m
Net book value at 1 January 2023	176.4	1.0	10.5	187.9
Additions	4.6	2.5	1.8	8.9
Depreciation charge	(21.7)	(1.3)	(5.9)	(28.9)
Impairment	(13.7)	-	-	(13.7)
Other movements	6.7	(0.5)	(0.5)	5.7
Net book value at 31 December 2023	152.3	1.7	5.9	159.9

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

10 Property, plant and equipment

(Continued)

Other movements include amendments to existing leases and terminations. During the year, to deliver the cost reduction programme announced by Group (refer to the Strategic Report on page 1), the Company exited a number of leased properties and recognised an impairment charge of £11.8m in respect of its right-of-use assets. Additionally, the Company impaired its right-of-use assets by £1.9m (including £0.2m in respect of a property no longer used by the Group mentioned below).

Following the disposal of investments in Fera Science Limited in January 2024, the part of the leased property used by, and sub-leased to, Fera Science Limited (£29.3m) has remained a right-of-use asset. The right of-use asset leased to Fera Science Limited will be transferred to lease receivables on completion of the disposal of investment and sub-lease extension agreement.

11 Intangible assets

	Goodwill	Software and licenses	Total
	£m	£m	£m
Cost			
At 1 January 2023	29.7	41.0	70.7
Additions	-	4.7	4.7
Disposals	-	(0.6)	(0.6)
Asset retirement	(0.3)	(6.6)	(6.9)
	<u>29.4</u>	<u>38.5</u>	<u>67.9</u>
At 31 December 2023	29.4	38.5	67.9
Amortisation and impairment			
At 1 January 2023	2.6	17.3	19.9
Charge for the year	-	6.2	6.2
Impairment	0.3	-	0.3
Disposals	-	(0.3)	(0.3)
Asset retirement	(0.3)	(6.6)	(6.9)
	<u>2.6</u>	<u>16.6</u>	<u>19.2</u>
At 31 December 2023	2.6	16.6	19.2
Net book value			
	<u><u>26.8</u></u>	<u><u>21.9</u></u>	<u><u>48.7</u></u>
At 31 December 2023	26.8	21.9	48.7
	<u><u>27.1</u></u>	<u><u>23.7</u></u>	<u><u>50.8</u></u>
At 31 December 2022	27.1	23.7	50.8

The amortisation of intangible assets is recognised in cost of sales (£6.1m) and administrative expenses (£0.1m) in the income statement.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

12 Investments

	Subsidiaries £m
Cost	
At 1 January 2023	480.5
Additions ▼	174.7
Derecognition ■	(113.1)
Transfer to held for sale ♦	(20.1)
Disposals ◀	(126.4)
	<hr/>
At 31 December 2023	395.6
	<hr/>
Impairment	
At 1 January 2023	318.4
Impairment charges ☐	31.6
Derecognition ■	(113.1)
Disposals ◀	(104.5)
	<hr/>
At 31 December 2023	132.4
	<hr/>
Net book value	
At 31 December 2023	263.2
	<hr/> <hr/>
At 31 December 2022	162.1
	<hr/> <hr/>

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

12 Investments

(Continued)

▼ During the year, the Company acquired investments in Capita Property and Infrastructure Limited, Capita Secure Information Solutions Limited, Capita Managed IT Solutions Limited at an aggregate value of £174.7m as a part of Group restructuring.

■ The Company has derecognised its investments of £94.7m in Capita Scotland (Pension) Limited Partnership Scotland, £18.1m in Capita (04472243) Limited and £0.3m in CCSD Services Limited following their dissolution in accordance with the wider Group restructuring plan. There is no impact on profit and loss in the current year or the net book value of the investments as a result of these liquidations.

◀ During the year, the Company has sold its investments in Capita Resourcing Limited to Inspirit Capital, Security Watchdog Limited to Matrix Scm Group Ltd and Synaptic Software Limited to AdvancedAdvT Limited. These investments were sold on a cash free, debt free basis and the resulting loss has been recognised in the income statement.

In preparing these financial statements, management identified that the consideration expected to be received on disposal of an investment in a subsidiary in 2023, and used to assess this investment for impairment at 31 December 2022, was incorrectly determined. This resulted in an understatement of the investment in subsidiaries impairment charge recognised in the income statement (£15.1m), and consequently an overstatement of investment in subsidiaries at 31 December 2022.

Management has considered IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and concluded that the impact of this error is not deemed material since it would not influence the economic decisions of primary users of the financial statements, not least because the business has been disposed of in the current period, and therefore, the correction of the impairment has been recognised in the current period within the loss on business disposal (refer to note 6).

▣ In advance of their liquidation, the Company impaired its investments in Capita Learning Limited by £14.5m and Capita Birmingham Limited by £11.1m. The impairment charge is offset by dividends received from these subsidiaries.

The Company considered whether there was an indicator of impairment in investments in subsidiaries at 31 December 2023. At 31 December 2023 the Company's ultimate parent company, Capita plc, identified an indicator of impairment existed due to the market capitalisation of the Group being below the carrying value of Capita plc's net assets. As a key trading and holding company for the Group, this indicator of impairment is also considered to be relevant for the Company, and so an impairment test was carried out for the Company, comparing the carrying value of each subsidiary investment held by the Company with its recoverable amount. The recoverable amount of an investment is the higher of fair value less cost of disposal, and its value in use, where value in use would typically be the expected cash flows to be generated from operating the businesses into perpetuity.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

12 Investments

(Continued)

The cash flow projections used for the impairment test are derived from the 2024-2026 business projections approved by the Board. The enterprise value is then calculated based on the present value of estimated future cash flows discounted at the current market rate of return. The enterprise value of each investment has then been adjusted for cash and other debt like items, including working capital and long-term intercompany balances. The long-term growth rate is based on economic growth forecasts by recognised bodies and this has been applied to the forecast cash flows for the terminal period. The 2023 long-term growth rate is 1.7% (2022: 2.2%). For deriving value in use, management estimates discount rates using pre-tax rates that reflect the latest market assumptions for the risk-free rate, the equity risk premium and the net cost of debt, which are all based on publicly available external sources. The average pre-tax discount rate used for the impairment test is 11.0% (2022: 11.8%). No further risk adjustment has been made to discount rates applied to outer years for the purpose of the impairment test.

At 31 December 2023, as a result of the Company's impairment test, investments in subsidiaries were impaired by £6.0m (2022: £127.4m).

Sensitivity analysis

The impairment testing as described is reliant on the accuracy of management's forecasts and the assumptions that underlie them; and on the selection of the discount and growth rates to be applied. To gauge the sensitivity of the result to a change in any one, or combination of the assumptions that underlie the model, a number of scenarios were developed to identify the range of reasonably possible alternatives and measure which investments are the most susceptible to an impairment should the assumptions used be varied. This sensitivity analysis is only applicable to those investments which have not already been fully impaired.

The sensitivity scenarios applied estimate the additional impairment required (with all other variables being equal) by: an increase in discount rate of 1%, or a decrease of 1% in the long-term growth rate (for the terminal period) for each of the investments; or by the severe but plausible downsides applied to the base-case projections for assessing going concern and viability, without mitigations; and from all scenarios together. The below table discloses the investment that triggers impairment in any of the sensitivity scenarios.

Subsidiary	1% increase in discount rate	1% decrease in long-term growth rate	Severe but plausible downside	Combination sensitivity
	£m	£m	£m	£m
Tascor Services Limited	0.8	0.6	-	1.2
Capita Property and Infrastructure Limited	-	-	-	-

As at 31 December 2023, the estimated recoverable amount of Company's investment in Capita Property and Infrastructure Limited exceeded its carrying value under all sensitivity scenarios in the table above but economic uncertainties continue to lead to increased judgement being applied, particularly in forecasting future financial performance. The impairment testing as described is reliant on the accuracy of management's forecasts and if the plan fails to deliver the anticipated efficiencies and growth in Company's investment in Capita Property and Infrastructure Limited, then this could give rise to an impairment of investment in future periods.

♦ At 31 December 2023, the sale of the Company's investment in Fera Science Limited to a fund managed by Bridgepoint Development Capital was deemed to be highly probable and expected to complete within the following twelve months. As a result, the investment was presented as an asset held-for-sale at 31 December 2023. The sale subsequently completed on 17 January 2024 (refer to note 35).

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

13 List of subsidiaries

Details of the company's subsidiaries at 31 December 2023 are:

Name of company	Address	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Capita HCH Limited	1	Active	Ordinary	100.00	-
Capita Justice & Secure Services Holdings Limited	1	Active	Ordinary	100.00	-
Capita Southampton Limited*	1	Active	Ordinary	100.00	-
Capita Birmingham Limited*	6	Active	Ordinary	100.00	-
Capita ESS Holdings Limited	6	In liquidation	Ordinary	100.00	-
Capita Learning Limited	6	In liquidation	Ordinary	100.00	-
Fera Science Limited**	1	Active	Ordinary	75.00	-
Fire Service College Limited	1	Active	Ordinary	100.00	-
Daisy Udata Communications Limited	2	Active	Ordinary	50.00	-
Electra-Net (UK) Limited	1	Active	Ordinary	100.00	-
RE (Regional Enterprise) Limited	1	Active	Ordinary	100.00	-
Urban Vision Partnership Limited	1	Active	Ordinary	50.10	-
Smart DCC Limited	1	Active	Ordinary	100.00	-
Tascor E&D Services Limited	1	Active	Ordinary	100.00	-
Tascor Services Limited	1	Active	Ordinary	100.00	-
Entrust Support Services Limited	3	Active	Ordinary	51.00	-
Capita Business Support Services Ireland Limited	4	Active	Ordinary	100.00	-
Capita Scotland General Partner (Pension) Limited	8	In liquidation	Ordinary	100.00	-
Capita Corporate Director Limited	1	Dormant	Ordinary	100.00	-
Capita GMPS Trustees Limited	1	Dormant	Ordinary	100.00	-
Capita Group Secretary Limited	1	Dormant	Ordinary	100.00	-
CPLAS Trustees Limited	1	Dormant	Ordinary	100.00	-
Grosvenor Career Services Limited	1	Dormant	Ordinary	100.00	-
SDP Regeneration Services 2 Limited	6	In liquidation	Ordinary	100.00	-
FirstAssist Services Limited	6	In liquidation	Ordinary	100.00	-
Capita Gas Registration and Ancillary Services Limited	6	In liquidation	Ordinary	100.00	-
Capita Insurance Services Group Limited	6	In liquidation	Ordinary	100.00	-
Capita Secure Information Solutions Limited	1	Active	Ordinary	100.00	-
Capita Property and Infrastructure Limited	1	Active	Ordinary	100.00	-
Capita Managed IT Solutions Limited	5	Active	Ordinary	100.00	-
Capita One Limited	1	Active	Ordinary	100.00	-
Capita IB Solutions (HK) Limited***	7	Active	Ordinary	-	100.00
Retain International (Holdings) Limited	1	Dormant	Ordinary	-	100.00
Retain International Limited	1	Dormant	Ordinary	-	100.00
Capita McLaren Limited	8	In liquidation	Ordinary	-	100.00
The G2G3 Group Ltd.	8	In liquidation	Ordinary	-	100.00
Liberty Printers (AR and RF Reddin) Limited	6	In liquidation	Ordinary	-	100.00
Capita Property and Infrastructure International Holdings Limited	1	Dormant	Ordinary	-	100.00
Capita Property and Infrastructure International Limited	1	Dormant	Ordinary	-	100.00
Woolf Limited	1	Active	Ordinary	-	100.00
Capita Symonds (Asia) Limited*	6	Dormant	Ordinary	-	100.00
Symonds Travers Morgan (Malaysia) SDN. BHD-Philippine Branch	9	Dormant	Ordinary	-	100.00

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

13 List of subsidiaries

(Continued)

Name of company	Address	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Capita Property and Infrastructure Consultants LLC	10	In liquidation	Ordinary	-	49.00
Capita Property and Infrastructure (Structures) Limited	1	Active	Ordinary	-	100.00
Capita Norman + Dawbarn Limited	11	In liquidation	Ordinary	-	97.30
Capita Symonds Limited (Libya Branch)	12	Dormant	Ordinary	-	100.00
Capita Symonds Saudi Arabia Limited	13	Dormant	Ordinary	-	50.00

Registered office addresses (all UK unless otherwise indicated):

- 1 65 Gresham Street, London, England, EC2V 7NQ
- 2 Lindred House, 20 Lindred Road, Brierfield, Nelson, BB9 5SR
- 3 The Riverway Centre, Riverway, Stafford, ST16 3TH
- 4 Unit B, West Cork Business & Technology Park, Clonakilty, Co. Cork, P85 YH98, Ireland
- 5 Hillview House, 61 Church Road, Newtownabbey, Co Antrim, BT36 7LQ
- 6 1 More London Place, London, SE1 2AF
- 7 803 Manning House, 48 Queen's Road Central, Hong Kong
- 8 Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
- 9 Suite 712 PS Bank Tower, Sen.Gil Puyat Avenue, Metro Manila, Makati City 1203, Philippines
- 10 1004 Bin Hamoodah Building, Khalifa St., PO Box 113 740, Abu Dhabi, United Arab Emirates
- 11 10th Floor, UBA House, No 57, Marina Street, Lagos Island, Lagos
- 12 Sough Thalal Buildings 5, Apartment 2, Tripoli, Libya
- 13 King Abdul Aziz Street, PO Box 7052, Dammam, Saudi Arabia

* placed into liquidation in 2024

** sold on 17 January 2024

*** deregistered on 8 December 2023

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

14 Contract fulfilment assets

	£m
At 1 January 2022	239.3
Additions	45.5
Intragroup transfer	7.9
Utilised during the year	(64.6)
Impairment	(2.1)
	<hr/>
At 31 December 2022	226.0
Additions	69.4
Utilised during the year	(60.4)
Derecognition	(8.4)
	<hr/>
At 31 December 2023	226.6
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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 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 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 accordance with the accounting policy 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 the contract were sufficient to recover its related fulfilment 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.

Following this review, management has taken the decision not to impair costs capitalised as contract fulfilment assets during the year (2022: £2.1m).

In 2023, £8.4m was derecognised, primarily in relation to the termination of a customer contract and the Company having no further use for the assets (£8.2m).

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

15 Financial assets

Non-current	2023	2022
	£m	£m
Finance lease receivable	63.9	72.3
	<u>63.9</u>	<u>72.3</u>
	<u><u>63.9</u></u>	<u><u>72.3</u></u>
Current	2023	2022
	£m	£m
Finance lease receivable	8.2	7.2
	<u>8.2</u>	<u>7.2</u>
	<u><u>8.2</u></u>	<u><u>7.2</u></u>
	2023	2022
	£m	£m
Maturity analysis - Contractual undiscounted cash flows		
Less than one year	11.5	11.3
One to two years	16.3	11.3
More than two years	73.4	89.9
	<u>101.2</u>	<u>112.5</u>
Total undiscounted lease payments receivable	101.2	112.5
Unearned finance income	(29.1)	(33.0)
	<u>72.1</u>	<u>79.5</u>
Net investment	72.1	79.5
	<u><u>72.1</u></u>	<u><u>79.5</u></u>

During 2020, the Company sublet a leased property. The sublease includes an option for the lessee to terminate the lease earlier than the Company's lease with its landlord. Management assessed it was reasonably certain that the break clause will not be exercised and accordingly, determined that the sublease is a finance lease. This has resulted in the recognition of a finance lease receivable. This judgement was based on a number of factors as prescribed within IFRS 16 'Leases' such as incentive to lessee, importance of the location to the lessee's operations, shorter non-cancellable period of lease and the lessee's planned modifications to and customisation of the property.

16 Inventories

	2023	2022
	£m	£m
Stores and spares	1.7	1.8
	<u>1.7</u>	<u>1.8</u>
	<u><u>1.7</u></u>	<u><u>1.8</u></u>

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

17 Trade and other receivables

Current	2023	2022
	£m	£m
Trade receivables	27.6	32.0
Contract fulfilment assets	8.5	7.0
Amounts due from Group companies	508.1	837.3
Other receivables	1.4	6.9
Accrued income	70.9	74.0
Prepayments	17.0	21.9
	<u>633.5</u>	<u>979.1</u>
	<u><u>633.5</u></u>	<u><u>979.1</u></u>
Non-current	2023	2022
	£m	£m
Other receivables	0.1	-
Prepayments	3.8	3.5
	<u>3.9</u>	<u>3.5</u>
	<u><u>3.9</u></u>	<u><u>3.5</u></u>

Amounts due from Group companies are repayable on demand. These are not chargeable to interest except for the amounts due from Capita plc, on which interest is charged as per the prevailing Bank of England rates.

Non-recourse trade receivable facility

The value of the outstanding invoices sold under a non-recourse trade receivable facility was £19.9m at 31 December 2023 (2022: £21.0m).

18 Cash and cash equivalents

	2023	2022
	£m	£m
Cash at bank and in hand	3.3	28.0
	<u>3.3</u>	<u>28.0</u>
	<u><u>3.3</u></u>	<u><u>28.0</u></u>

19 Financial liabilities

Current	2023	2022
	£m	£m
Other loans	-	0.5
	<u>-</u>	<u>0.5</u>
	<u><u>-</u></u>	<u><u>0.5</u></u>

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

20 Trade and other payables

Current	2023 £m	2022 £m
Trade payables	82.2	53.8
Amount due to Group companies	22.6	50.0
Accruals	57.5	95.4
Other taxes and social security	42.6	39.6
Other payables	13.9	18.1
	<u>218.8</u>	<u>256.9</u>

Amounts due to Group companies are repayable on demand.

21 Lease liabilities

Lease liabilities are classified based on the amounts that are expected to be settled within the next twelve months and after more than twelve months from the reporting date, as follows:

	2023 £m	2022 £m
Current liabilities	34.7	35.3
Non-current liabilities	262.7	284.4
	<u>297.4</u>	<u>319.7</u>

Amounts recognised in the income statement include the following:	2023 £m	2022 £m
Interest on lease liabilities	17.8	17.9

The total cash outflow for leases was £55.4m (2022: £57.9m) consisting of interest paid of £17.8m (2022: £17.9m) and capital element of £37.6m (2022: £40m).

Maturity analysis - contractual undiscounted cash flows	2023 £m	2022 £m
Less than one year	51.4	52.2
One to two years	40.7	47.0
More than two years	337.4	366.4
Total undiscounted liabilities at 31 December	<u>429.5</u>	<u>465.6</u>

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

22 Provisions

	2023 £m	2022 £m
Current	17.6	20.5
Non-current	9.4	-
	<u>27.0</u>	<u>20.5</u>

	Property provision £m	Claims & litigation provision £m	Business exit provision £m	Customer contract provision £m	Other provisions £m	Cost reduction provision £m	Total £m
At 1 January 2023	11.7	-	3.0	4.4	1.4	-	20.5
Additions made during the year	2.7	1.9	6.3	0.4	0.7	18.0	30.0
Released during the year	(5.0)	-	(0.9)	(0.7)	(0.9)	-	(7.5)
Utilised during the year	(5.4)	-	(5.8)	(0.8)	(0.1)	(3.9)	(16.0)
At 31 December 2023	4.0	1.9	2.6	3.3	1.1	14.1	27.0

The property provision relates to unavoidable running costs, such as insurance and security, of leasehold property where the space is vacant or currently not planned to be used, and for dilapidation costs, for ongoing operations, and not the cost reduction programme (where such costs are included in the cost reduction provision). The expectation is that this expenditure will be incurred over the remaining periods of the leases which vary up to twenty three years.

The Company is exposed to claims and litigation proceedings arising in the ordinary course of business. These matters are reassessed regularly and where obligations are probable and estimable, provisions are made based on the Company's best estimate of the expenditure to be incurred. Due to the nature of these claims, the Company cannot give an estimate of the period over which this provision will unwind.

The business exit provision relates to the cost of exiting businesses through disposal or closure including professional fees related to business exits and the costs of separating the businesses being disposed. These are likely to unwind over a period of one to four years.

The customer contract provision includes onerous contract provisions in respect of customer contracts where the costs of fulfilling a contract (both incremental and costs directly related to contract activities) exceeds the economic benefits expected to be received under them, claims/obligations associated with missed milestones in contractual obligations, and other potential exposures related to contracts with customers. These provisions are forecast to unwind over periods up to six years.

Other provisions relates to provisions in respect of other potential exposures arising as a result of the nature of some of the operations that the Company provides. These are likely to unwind over periods of up to five years.

The cost reduction provision represents the cost of reducing headcount where communication to affected employees has crystallised a valid expectation that roles are at risk and it is likely to unwind over the next twelve months. Additionally, it relates to unavoidable running costs of leasehold properties, such as insurance and security, and dilapidation provisions, where properties are exited as a result of the cost reduction programme. The property related provisions are likely to unwind over periods of up to four years.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

23 Deferred income

	2023 £m	2022 £m
Current		
Deferred income	361.6	367.1
	<u>361.6</u>	<u>367.1</u>
Non-current		
Deferred income	33.4	51.0
	<u>33.4</u>	<u>51.0</u>

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 in the normal course of business during the year. Revenue recognised in the reporting period that was included in the deferred income balance at the beginning of the period was £322.6m (2022: £366.7m).

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

24 Share-based payments

The Company participates in various share option schemes operated by Capita plc, the ultimate parent company. Full details of these schemes are contained in Capita plc's Annual Report. Details of the schemes are as follows:

Deferred annual bonus plan

This scheme is applicable to executive directors. Under this scheme, awards are made annually consisting of only deferred shares, which are linked to the payout under the annual bonus scheme (details of which are contained in the directors' remuneration report on pages 96 to 118 of Capita plc's Annual Report).

The value of deferred shares is determined by the pay-out under the annual bonus scheme: half of the annual bonus is paid in cash and the remainder is deferred into shares under the deferred annual bonus plan or the Capita executive plan. Directors have the option to defer up to 100% of their annual bonus into deferred shares or net bonus into a restricted share award. The deferred/restricted shares are held for a period of three years from the date of award, during which they are not forfeitable, except in the case of dismissal for gross misconduct.

The weighted average share price of options at the date of exercise in 2023 was £0.33 (2022: £0.22). The weighted average share price during the year was £0.26 (2022: £0.26).

The total cash value of the deferred shares awarded during the year was £0.7m (2022: £0.2m).

Long-term incentive plans (LTIPs)

The structure of the Group's LTIP schemes was approved at the Capita plc Annual General Meeting in 2017. From 2021, no new awards will be granted under the LTIP, with the final awards under the scheme (the 2020 grant) having vested in April 2023.

The 2020 award was split into three equal tranches that vested on the first, second and third anniversary of the grant date. The first tranche in 2020 was subject to a retention element which would vest in full on each annual vesting date, with the remaining 50% subject to a performance condition of net debt. Threshold vesting (25%) was dependent on net debt falling to £872m, target vesting (50%) was dependent on net debt falling to £822m and maximum vesting (100%) was dependent on net debt being below £772m. Tranches 2 and 3 were subject to the retention element only apart from the CEO's award which was subject to relative Total Shareholder Return (TSR) and responsible business scorecard measures.

Details of the 2020 LTIP award outturn and vesting levels for executive directors are set out in the 2022 directors' remuneration report, on page 115 of Capita plc's 2022 Annual Report.

All of the above awards are subject to a performance underpin assessment of the underlying financial and operational performance of Capita over the performance period.

Capita Executive Plan 2021

The Capita Executive Plan was approved by shareholders at the 2021 Capita plc AGM. Under this plan, restricted share awards (RSAs) are granted to executives.

With the exception of the executive directors, RSAs granted in 2021, 2022 and 2023 are split into three equal tranches that vest on the first, second and third anniversary of the grant date. The awards are not subject to specific performance conditions, however there is a general underpin regarding Remuneration Committee satisfaction with underlying financial and operational performance of Capita over the performance period.

Details of the Capita Executive Plan RSAs made to executive directors and the associated underpins are set out in the directors' remuneration report, on page 111 of Capita plc's 2023 annual report.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

25 Share capital

	2023 Number	2022 Number	2023 £	2022 £
Allotted, called up and fully paid				
Ordinary shares of £1 each				
At 1 January and 31 December	13,269	13,269	13,269	13,269

26 Share premium account

	2023 £m	2022 £m
Ordinary shares of £1 each		
At 1 January and At 31 December	60.0	60.0

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

27 Retirement benefit schemes

The Company operates both defined benefit and defined contribution pension schemes. The pension charge for the defined contribution pension schemes for the year is £23.1m (2022: £25.3m). The pension charge excludes pension contributions paid by the Company on behalf of employees via a salary sacrifice arrangement.

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

Approximately £6m of employer contributions were paid to these schemes during 2023 (2022: £6m) which is included in the above defined contribution scheme pension charge.

Retirement obligations are disclosed in relation to one (2022: one) defined benefit pension scheme. This is the HPS (formerly known as the Capita Pension & Life Assurance Scheme) for which the Company is the Principal Employer.

Company's main defined benefit pension (HPS)

HPS closed to future accrual for most members in 2017 with around 175 members (across all Capita companies) continuing to accrue benefits out of a total membership of around 16,500 members.

Responsibility for the operation and governance of the HPS lies with a corporate Trustee which is independent of the Company. The Trustee Board is required by law to act in the interest of the HPS's beneficiaries in accordance with the rules of the HPS and relevant legislation (which includes the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004). The nature of the relationship between the Company and the Trustee Board is also governed by the rules of the HPS and relevant legislation. The Trustee Board is chaired by an independent Trustee.

The assets of the HPS are held in a separate fund (administered by the Trustee Board) to pay long-term pension liabilities to the beneficiaries. The Trustee Board invests the assets in accordance with its Statement of Investment Principles, which is regularly reviewed. The Trustee Board delegated investment strategy decisions to a fiduciary manager, however, the Trustee Board maintains overall oversight of the investment strategy.

A full actuarial valuation of the HPS is carried out every three years by an independent actuary for the Trustee Board, with the last full valuation carried out at 31 March 2023. The purpose of that valuation is to design a funding plan to ensure that the pension scheme has sufficient assets available to meet future benefit payments, based on assumptions agreed between the Trustee Board and the Company. The 31 March 2023 valuation showed a funding surplus of £51.4m (31 March 2020: funding deficit of £182.2m). This equates to a funding level of 105% (31 March 2020: 89%).

Given the funding position of the HPS, the Company and the Trustee Board agreed that no further deficit recovery contributions from the Company are required other than those already committed¹ as part of the 31 March 2020 actuarial valuation. In accordance with the schedule of contributions put in place following the 31 March 2020 actuarial valuation, the Company has paid £30m of regular deficit contributions during 2023 and £16.3m of accelerated deficit funding contributions and other contributions triggered by the Group's disposal of certain businesses in the second half of 2022 and during 2023. The Company will pay a further £21m of contributions in 2024, with no further deficit contributions in 2025 and beyond.

1. These include additional, non-statutory, contributions to meet a secondary funding target with the objective of having sufficient assets to invest in a portfolio of low-risk assets with a low dependency covenant that will generate income to pay members' benefits as they fall due.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

27 Retirement benefit schemes

(Continued)

Finally, the Company agreed an average employer contribution rate of 23.6% towards the expected cost of benefits accruing.

The next full actuarial valuation is due to be carried out with an effective date of 31 March 2026 and as part of that valuation the contribution requirements will be reviewed, and if necessary, amended. For the purpose of these financial statements, an independent qualified actuary projected the results of the 31 March 2023 actuarial valuation to 31 December 2023 taking into consideration the relevant accounting requirements.

Approximate funding updates are produced at each scheme anniversary when a full actuarial valuation is not being undertaken. The next funding update is scheduled to be at 31 March 2024.

The valuation of liabilities for funding purposes (the actuarial valuation) differs to the valuation for accounting purposes (which is shown in these financial statements) mainly due to different assumptions being used and different market conditions at the different valuation dates. The assumptions used for funding purposes are agreed between the Trustee Board and the Company and allow for an appropriate amount of prudence, with the discount rate being based on the actual assets of the HPS. While for accounting purposes the assumptions are determined on a best estimate basis in accordance with IAS 19 *Employee Benefits*, with the discount rate being based on the yields available on high quality corporate bonds of appropriate currency and term. The Company estimates that at 31 December 2023 the net assets of the HPS were approximately £50m higher on a funding basis (ie the funding assumption principles adopted for the full actuarial valuation at 31 March 2023) than on an accounting basis.

The Company expects to contribute approximately £27m to the HPS during 2024. This includes the ongoing cost of benefit accrual, contributions towards running the pension scheme, deficit contributions and other contributions arising from the Group's disposal activities.

Risks associated with HPS

The HPS exposes the Company to various risks, with the key risks set out below:

- **Investment risk:** the scheme invests in a wide range of assets with a view to provide long-term investment returns at particular levels. There is a risk that investment returns are lower than expected which, in isolation, could result in a worsening of the funding position of the scheme.
- **Interest rate risk:** the discount rate is derived from the yields available on good quality corporate bonds of suitable duration. If these yields decrease, then in isolation, this would increase the value placed on the defined benefit obligation and result in a worsening of the funding position of the scheme.
- **Inflation risk:** the liabilities of the scheme are linked to future levels of inflation. If future inflation is higher than expected then this would result in the cost of providing the benefits increasing and thereby worsening the funding position of the scheme.
- **Longevity risk:** if members live longer than expected, then pensions will be paid for a longer time which will increase the value placed on the liabilities and therefore worsen the funding position of the scheme.

To manage these risks, the Company and the Trustee Board carry out regular assessments of these risks. The following actions have been taken:

- The Trustee Board has entered into two bulk annuity contracts with an insurer in respect of a small number of high individual liability pensioner members (one in 2015 and the second in late 2017) with total value included in the assets at 31 December 2023 of £47.0m (2022: £50.1m).
- The Trustee Board has entered into a Liability Driven Investment programme. The level of risk that is managed by this is set by various market-related and funding trigger points.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

27 Retirement benefit schemes

(Continued)

Together, these actions have led to the Trustee Board hedging (interest rate and inflation) a high proportion of the HPS's liabilities. At 31 December 2023 HPS's liabilities measured on the Trustee Board's long-term funding basis were broadly fully hedged.

The objective of the hedging is to match the value of the assets to the movement in liabilities (on a funding basis) arising from changes in market expectations of future inflation rates and future gilt yields. This is to help protect and reduce volatility in funding valuations which are used to determine the cash contribution requirements to the scheme. Since the accounting disclosures use the yields available on corporate bonds to determine the accounting liabilities, the hedging may not have the same impact against changes as they do on a funding valuation. Credit spreads (the difference between the yields available on long-dated corporate bonds and long-dated government bonds) narrowed during the year meaning that the hedge had a different impact on the funding position of the scheme and the accounting disclosures at the year-ends (the funding position on the accounting basis worsened slightly while the funding position on the funding basis improved slightly).

To illustrate how sensitive the value of the defined benefit obligation is to different market conditions, the below table shows what the resulting defined benefit obligation would be if the assumptions were changed as shown (assuming all other assumptions remain constant):

Change in assumptions compared with 31 December 2023 actuarial assumptions	£m
Base defined benefit obligation	1,125.0
0.5% pa decrease in discount rate	1,211.3
0.5% pa increase in salary inflation	1,126.0
0.5% pa increase in inflation (and related assumptions, eg, salary and pension increases)	1,171.3
1 year increase in life expectancy	1,158.7

Assets and liabilities

Under IAS 19, plan assets must be valued at fair value at the balance sheet date. The plan assets are made up of quoted and unquoted investments, and asset valuations have been sourced from the scheme's investment managers and custodians, based on their pricing sources and methodologies. Unquoted investments require more judgement because their values are not directly observable. The assumptions used in valuing unquoted investments are affected by current market conditions which could result in changes in fair value after the measurement date.

For the main asset categories:

- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit and market risks and market yield curves.
- Properties are valued on the basis of an open market value or are valued using models based on discounted cash flow techniques.
- Assets in investment funds are valued at fair value which is typically the Net Asset Value provided by the investment manager.
- Certain unlisted investments are valued using a model-based valuation such as discounted cash flow.
- The value of bulk annuity contracts were assessed by discounting the projected cash flows payable under the contracts (projected by an actuary, consistent with the terms of the contract) and is equal to the corresponding liability calculated by reference to the IAS19 assumptions.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

27 Retirement benefit schemes

(Continued)

The assets and liabilities of the HPS (excluding additional voluntary contributions) at 31 December are:

	Quoted 2023 £m	Unquoted* 2023 £m	Total 2023 £m	Quoted 2022 £m	Unquoted* 2022 £m	Total 2022 £m
Scheme assets at fair value						
Equities:						
- UK	-	3.1	3.1	-	2.5	2.5
- Overseas	-	34.3	34.3	-	24.8	24.8
	-	37.4	37.4	-	27.3	27.3
Debt securities						
- UK Government	521.4	1.2	522.6	469.7	-	469.7
- UK Corporate	-	45.7	45.7	-	11.6	11.6
- Overseas Government	8.2	11.9	20.1	8.4	11.4	19.8
- Overseas Corporate	-	211.7	211.7	-	101.0	101.0
- Emerging markets	-	2.7	2.7	-	27.3	27.3
- Private Debt	-	109.9	109.9	-	133.7	133.7
- Secured loans	-	-	-	-	39.8	39.8
	529.6	383.1	912.7	478.1	324.8	802.9
Property	-	45.8	45.8	-	88.2	88.2
Hedge funds	-	0.8	0.8	-	1.7	1.7
Insurance contracts	-	47.0	47.0	-	50.1	50.1
Cash and cash equivalents	80.9	20.4	101.3	33.4	133.2	166.6
Other	4.4	5.0	9.4	(8.6)	(1.9)	(10.5)
	85.3	119.0	204.3	24.8	271.3	296.1
Total	614.9	539.5	1,154.4	502.9	623.4	1,126.3
Present value of scheme liabilities	-	-	(1,125.0)	-	-	(1,087.0)
Net assets			29.4			39.3

*Some investments are in funds which are in themselves not traded in active markets.

The HPS Trustee Board invests in Liability Driven Investments (LDIs) as part of a risk hedging strategy. The aim of the strategy is to match the value of the assets to the movement in liabilities (on a funding basis) arising from changes in market expectations of future inflation rates and future gilt yields. To achieve this, LDIs invest in a variety of instruments including gilts, synthetic gilts (combination of repurchase agreement, reverse repurchase agreements and total return swaps) and cash. In the table above, the LDI at 31 December 2023 (approximately £546.3m) has been mapped as 95.4% Quoted UK government bonds, 1.5% Quoted Overseas Government Bonds, 2.3% Quoted Cash and 0.8% Quoted Other.

These amounts do not include any directly owned financial instruments issued by the Company.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

27 Retirement benefit schemes

(Continued)

Within the Private Debt allocation at 31 December 2023, approximately £79.0m relates to adjusted lagged valuations. In arriving at this figure, allowance has been made for broad market movements and distributions between 30 September 2023 (the most recent valuation of these assets) and 31 December 2023.

In accordance with the HPS Trustee Board's focus on financially material considerations, it is acknowledged that Environment, Social and Governance (ESG) factors can impact security prices. The HPS Trustee Board has discussed their views on ESG factors, and considered the Company's perspective, and developed responsible investment beliefs. These can be found in the HPS's Statement of Investment Principles (which can be found at <https://www.horizonpensionscheme.com/library>).

IFRIC 14

The Company has considered the impact of IFRIC14 IAS19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* on the HPS (in relation to either recognising a surplus or allowing for the impact of any funding commitments made) and has concluded, based on the interpretation of the rules for the HPS, that IFRIC 14 would not limit the surplus or increase the deficit shown at the balance sheet date because the Company has an unconditional right to a refund assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme.

The following tables show a reconciliation from the opening balances to the closing balances for the HPS.

	Defined benefit obligations		Fair value of plan assets		Net defined benefit liability/(asset)	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
At 1 January	1,087.0	1,725.3	(1,126.3)	(1,732.5)	(39.3)	(7.2)
Recognised in the income statement:						
Current service cost	1.5	2.9	-	-	1.5	2.9
Administration costs	4.2	3.7	-	-	4.2	3.7
Past service costs including curtailments	0.7	0.6	-	-	0.7	0.6
Settlements	-	(0.1)	-	0.2	-	0.1
Termination benefits	0.2	-	-	-	0.2	-
Interest cost/(income)	51.7	43.1	(54.3)	(46.7)	(2.6)	(3.6)
Sub-total	58.3	50.2	(54.3)	(46.5)	4.0	3.7

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

27 Retirement benefit schemes

(Continued)

	Defined benefit obligations		Fair value of plan assets		Net defined benefit liability/(asset)	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Recognised in other comprehensive income:						
Remeasurements loss/(gain):						
Actuarial loss/(gain) arising from:						
-demographic assumptions	(6.6)	(6.5)	-	-	(6.6)	(6.5)
-financial assumptions	26.1	(685.8)	-	-	26.1	(685.8)
-experience adjustments	5.3	47.2	-	-	5.3	47.2
Return on plan assets excluding interest	-	-	38.6	655.8	38.6	655.8
Sub-total	24.8	(645.1)	38.6	655.8	63.4	10.7
Employer contributions	-	-	(57.5)	(46.5)	(57.5)	(46.5)
Employee contributions	0.2	-	(0.2)	-	-	-
Benefits paid	(45.3)	(43.4)	45.3	43.4	-	-
At 31 December	1,125.0	1,087.0	(1,154.4)	(1,126.3)	(29.4)	(39.3)

The main reasons for the movement in the net defined benefit pension position are (i) the decrease in the yields available on corporate bonds (used to value the pension obligation); (ii) assets returning less than expected over the period; and (iii) these were partially offset by the deficit funding contributions (£46.3m) paid into the HPS. The scheme is highly sensitive to the change in discount rates (with a 0.5% pa change resulting in an approximate £86.3m impact) and in future inflation expectations (with a 0.5% pa change resulting in an approximate £46.3m impact).

The defined benefit obligation comprises £1,125.0m (2022: £1,087.0m) that is wholly or partly funded.

Of the total pension cost of £4.0m (2022: £3.7m); £6.6m (2022: £7.3m) was included in cost of sales and administrative expenses, and the balance of £2.6m net interest income (2022: £3.6m) was included in finance income.

Events occurred in the HPS that led to the income statement being remeasured during the year.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

27 Retirement benefit schemes

(Continued)

Information about the defined benefit obligation for HPS

	Proportion of overall liability %	Duration (years)	Proportion of overall liability %	Duration (years)
	2023	2023	2022	2022
Active members	5.0	17.1	6.0	16.9
Deferred members	54.0	18.3	59.0	18.0
Pensioners	41.0	10.8	35.0	10.6
Total	100.0	15.1	100.0	15.5

Duration is a weighted average of when benefits are expected to be paid from a pension scheme. It is sensitive to the interest rate used to calculate it. The increase in yields has acted to reduce the duration of the HPS (because less weight is placed on the pension cash flows stretching far out into the future).

	HPS	
	2023	2022
	%	%
Main assumptions:		
Rate of price inflation (RPI/ CPI)	3.05/2.45	3.15/2.5
Rate of salary increase	3.05	3.15
Rate of increase of pensions in payment*:		
- RPI inflation capped at 5% per annum	3.00	3.05
- RPI inflation capped at 2.5% per annum	2.15	2.15
- CPI inflation capped at 5% per annum	2.45	2.50
Discount rate	4.55	4.75
Expected take up maximum available tax free cash	85.0	85.0

The average future life expectancy from age 65 (in years) for mortality tables used to determine scheme liabilities at 31 December 2023 and 31 December 2022 are as follows:

	Member currently aged 65 (current life expectancy)			
	Male		Female	
	2023	2022	2023	2022
HPS**	21.9	22.4	23.9	24.3

	Member currently aged 45 (life expectancy at 65)			
	Male		Female	
	2023	2022	2023	2022
HPS**	22.6	22.3	25.2	25.2

* There are other levels of pension increases which apply to particular periods of membership.

** The assumptions used for the HPS are tailored for each member. The assumptions adopted make allowance for an increase in longevity in future (CMI 2022 core model Sk=7.0) with a long-term rate of improvement of 1.25% pa, an 'A' parameter of 0.25% for both males and females, no weighting applied to 2020 and 2021 data and 25% weighting on 2022 data). The rate for members currently aged 65 is derived from the pensioner membership and the rate for members reaching age 65 in 20 years' time is derived from non-pensioner membership.

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

28 Common control transactions

As a part of a legal entity reorganisation programme, the trade and assets related to technology software and solutions business and group support services business were transferred out of the Company by way of a Business Transfer Agreements ('BTAs'). As both transferor and transferee companies for these BTAs were ultimately controlled by Capita plc, these are deemed to be business combinations under common control, with an accounting policy choice made as detailed in note 1.23. The following table shows the gross assets transferred and gross liabilities transferred as part of each BTA; and the consideration received by the Company in each case:

Name of Company	Date of transfer	Assets	Liabilities	Consideration*
Capita Shared Services Limited	1-Jul-23	(2.0)	-	2.0
Capita Customer Management Limited	1-Jul-23	(0.0)	-	0.0
Total		(2.0)	-	2.0

*Consideration was settled by way of intercompany loan.

29 Employees

The average monthly number of employees (including directors) year was:

	2023 Number	2022 Number
Operations	11,048	11,124
Sales and administration	499	603
Total	11,547	11,727

Their aggregate remuneration comprised:

	2023 £m	2022 £m
Wages and salaries	507.4	515.5
Social security costs	50.3	55.2
Pension costs	23.1	25.3
Share based payments	0.9	1.1
	581.7	597.1

The above includes payroll costs for temporary staff as well as recharges from other Group companies in respect of various services received by the Company throughout the year.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

30 Related party disclosures

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	Year	Enterprises over which Company exercises significant influence
		£m
Purchase of goods/services		
Entrust Support Services Limited	2023	4.9
	2022	5.0
Fera Science Limited	2023	0.9
	2022	0.7
Total	2023	<u>5.8</u>
	2022	<u>5.7</u>
Sale of goods/services		
Entrust Support Services Limited	2023	5.9
	2022	6.9
Fera Science Limited	2023	16.2
	2022	13.4
Total	2023	<u>22.1</u>
	2022	<u>20.3</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

30 Related party disclosures (Continued)

Nature of Transaction	Year	Enterprises over which Company exercises significant influence
		£m
Closing balance of related parties		
Trade payables		
Entrust Support Services Limited	2023	-
	2022	1.3
Total	2023	-
	2022	1.3
Trade receivables		
RE (Regional Enterprise) Limited	2023	-
	2022	1.7
Fera Science Limited	2023	1.1
	2022	2.8
Total	2023	1.1
	2022	4.5

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

31 Directors' remuneration

	2023 £m	2022 £m
Remuneration for qualifying services	1.2	1.5
	<u>1.2</u>	<u>1.5</u>

Four Directors are paid by the Company (2022: five) for the qualifying services provided by them. The other Directors have not provided qualifying services to the Company and are paid by other Companies within the Group.

The number of Directors for whom retirement benefits are accruing under defined contribution schemes amounted to four (2022: two).

The number of Directors who exercised share options during the year was three (2022: three).

The number of Directors who are entitled to receive shares under long term incentive schemes during the year was four (2022: five).

Remuneration disclosed above includes the following amounts paid to the highest paid director:

	2023 £m	2022 £m
Remuneration for qualifying services	0.6	0.4
	<u>0.6</u>	<u>0.4</u>

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

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

32 Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably.

At 31 December 2023, the Company has indemnities provided through the normal course of its business, performance bonds and bank guarantees of £2.8m (2022: £2.8m).

At 31 December 2023, the RCF commitment was £260.7m (31 December 2022: £288.4m). The RCF expires on 31 December 2026 and was not drawn upon at 31 December 2023 (31 December 2022: undrawn). The commitment was subsequently reduced to £250m on 23 January 2024 following receipt of proceeds from the Fera disposal.

At 31 December 2023, the total exposure under guarantees undertaken for the benefit Capita plc and other Group companies was £262.5m (2022: £285.4m).

The Company also forms part of a cross-guarantee in respect of the overdrafts of its fellow group companies under a notional cash-pool bank arrangement.

The Company is a party to legal actions and claims which arise in the normal course of business. The Company throughout the year needs to apply judgement in determining the merit of litigation against it and the chances of a claim being successfully made. It needs to determine the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision might be required due to the probability assessment.

At any time, there are a number of claims or notifications that need to be assessed across the Company. The disparate nature of the Company heightens the risk that not all potential claims are known at any point in time.

33 Capital commitments

At 31 December 2023, the Company had amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounting to £1.1m, relating to building improvement on a leased property (2022: £0.2m).

34 Controlling party

The Company's immediate parent company is Capita Holdings Limited, a company incorporated in England and Wales.

The Company's ultimate parent company is Capita plc, a company incorporated in England and Wales. The annual report and consolidated financial statements of Capita plc are available from its registered office at 65 Gresham Street, London, EC2V 7NQ, and on its website www.capita.com/investors

CAPITA BUSINESS SERVICES LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

35 Post balance sheet date events

Following events occurred after 31 December 2023, and before the approval of these financial statements, but has not resulted in adjustment to the 2023 financial results:

- On 17 January 2024, the Company sold its investment in Fera Science Limited to a fund managed by Bridgepoint Development Capital. Cash proceeds of £61.8m were received by the Company on completion. Total costs of disposal are estimated to be £8.8m, of which £3.5m were recognised in 2022 and 2023. The Company's investment carrying value in Fera Science Limited at the point of disposal was £20.1m. Consequently, we expect the Company to record a total gain on disposal of approximately £36.4m in 2024.
- On 1 May 2024, as part of a reorganisation of the Group's Public Service business, the Company transferred the trade and associated assets and liabilities of the Capita One business to Capita One Limited, a wholly owned subsidiary of the Company. The business's assets and liabilities were transferred at their estimated carrying values (£38.6m and £53.3m respectively). Consideration was received by the Company equal to the net book value of the assets and liabilities transferred. Consideration for the transfer was left outstanding on intercompany loan.