

**Company Registration No. 04616229 (England and Wales)**

**CIPHR LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

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# **CIPHR LIMITED**

## **COMPANY INFORMATION**

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<b>Directors</b>	C G Berry A J Oehlers G N Scott
<b>Company number</b>	04616229
<b>Registered office</b>	Abbey House 28-30 Chapel Street Marlow Buckinghamshire SL7 1DD
<b>Auditor</b>	RSM UK Audit LLP Chartered Accountants Davidson House Forbury Square Reading Berkshire RG1 3EU

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# CIPHR LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2020

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The directors present the strategic report for the year ended 31 December 2020.

#### Principal activities

The principal activity of the Company is the design, sale and provision of business critical Human Capital Management (HCM) software and technology platforms and related services for organisations with over 100 employees. The Company's software is predominantly delivered as Software-as-a-Service (SaaS).

CIPHR Limited is a member of the CIPHR Group (the "Group") which is headed by CIPHR Group Limited. The Group is managed on a consolidated basis and the Strategic Review pertains to the whole Group.

#### Business review

Revenue for the year ended 31 December 2020 was up 37% to £15.6m and Trading EBITDA (as defined in note 1 below) was up 75% to £5.8m.

Annualised recurring revenue was £15m at the end of 2020.

The Group operates in the UK HCM market which is estimated to be worth £750m pa with expected growth rate of 6%pa.

The Group's strategy is to deliver highly configurable software with best in class professional support to enable organisations to better manage their employees through the employee life cycle from talent attraction to exit and beyond. The Group focuses on prospective customers based in the UK with over 100 employees and has c. 600 customers across all sectors, including major brands.

The Group continues to invest heavily in all aspects of the business to ensure future growth.

#### Acquisitions and corporate activity

On 11 September 2020, the Group acquired the entire issued share capital of Tauro Investments Limited, which is the holding company of Digits Industries Limited, a provider of Learning Management Systems.

On 18 December 2020, the Group was acquired by a subsidiary of Bletchley Topco Limited, which is controlled by ECI Partners LLP acting in its capacity as adviser of ECI 11 LP.

#### Key performance indicators

The key performance indicators are monitored at Group level and during the period were as follows:

Year ended 31 December	2017	2018	2019	2020
Total revenue	£7.5m	£9.3m	£11.4m	£15.6m
Revenue growth	15%	25%	23%	37%
Organic SaaS subscription growth	25%	24%	25%	17%
Recurring revenue as % of total revenue	84%	81%	82%	84%
SaaS & Services as % of total revenue	93%	96%	97%	96%
Trading EBITDA (note 1)	£1.5m	£2.3m	£3.3m	£5.8m
Trading EBITDA margin	20%	25%	29%	37%
Cash generated from operations	£1.6m	£2.8m	£4.1m	£7.2m
OCF as % of unadjusted EBITDA	144%	137%	148%	147%
FCF	£0.4m	£1.4m	£3.0m	£5.8m

Note 1: Trading EBITDA is defined as Earnings Before Interest, Tax, Depreciation and Amortisation excluding holding company costs and exceptional items. This measure reflects the underlying operating profitability.

# **CIPHR LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2020**

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#### **Principal risks and uncertainties**

The Company's business does not expose it to any risks other than those associated with normal commercial trading. The list below does not contain all risks that the Company faces and it does not list the risks in any order of priority.

#### **Competition**

The market is highly competitive. The Company specialises only in HCM software and services, providing "best of breed" business critical solutions for managing people, whereas many competitors do not have the same focus as they are part of a wider group with multiple product offerings.

#### **IT and data security**

The service to CIPHR's customers is heavily dependent upon the group's IT systems. The Company has appropriate controls in place to mitigate the risk of systems failure including back up procedures, disaster recovery plans, software virus protection and network security controls. The Company has ISO27001, ISO9001 and ISO14001 accreditations across the Group and its' providers of data centre infrastructure.

Upon the announcement of the UK Government COVID-19 mitigation measures the Company deployed its Business Continuity Plan and successfully transitioned the entire company business to home and remote working. This has been very successful and allows the business to deliver all its products, services, customer support and on going software development as business as usual albeit without the use of the Company's office premises.

#### **Credit risk**

The Company's credit risk is primarily attributable to its trade receivables. The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. Most cash is collected annually in advance with the team of credit controllers chasing delinquent payments promptly.

The nature of the software functionality and services provided to Company customers is of an essential nature in that it manages the critical elements of people information management and payroll processing without which customers cannot perform essential functions hence the risk around non payment by customers is significantly reduced.

#### **Interest rate risk**

The Company mitigates interest rate risk ensuring the majority of debt has fixed interest rates.

#### **Liquidity risk**

The Company maintains sufficient cash for ongoing operations and future developments. The business is highly cash generative and has an undrawn RCF facility of £1.0m at the date of this report.

#### **Covid-19 risk**

COVID-19 represents a risk to the business and its employees, however the Company is mitigating this risk. The Company has followed government guidance implemented its Business Continuity Plans in March 2020.

The Company is delivering all products and services remotely and the business functioning very effectively. The impact on employees and customers is being monitored regularly and the Company will continue to follow relevant government guidance.

# CIPHR LIMITED

## STRATEGIC REPORT (CONTINUED)

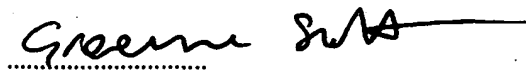
FOR THE YEAR ENDED 31 DECEMBER 2020

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### Future outlook

In spite of Covid-19, the group performed well in 2020 and into the start of 2021. The directors are confident that the impact of greater remote working will continue to lead to increased demand for the Group's software and services. The Group plans to continue making acquisitions that will scale the business and provide its customers with deeper functionality.

On behalf of the board



.....  
G N Scott  
Director

Date: ..6 MAY 2021

# CIPHR LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2020

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The directors present their annual report and financial statements for the year ended 31 December 2020.

#### Principal activities

The principal activity of the company is that of developing and delivery of Human Resource management software and consultancy involving the design, development, implementation, integration, customisation and training in the use of human resource orientated computer systems both delivered as a service over the internet (Saas/Cloud) and for on premise use.

#### Results and dividends

The results for the year are set out on page 9.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

#### Directors

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

C G Berry  
A J Oehlers  
G N Scott

#### Qualifying third party indemnity provisions

The company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

#### Research and development

During the year the group incurred £464,000 (2019: £411,000) of costs relating to research and development.

#### Auditor

The auditor, RSM UK Audit LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

#### Strategic report

The directors have chosen in accordance with section 414C(11) of the Companies Act 2006 to include in the Strategic Report matters otherwise required to be disclosed in the Directors' Report as the directors consider these are of strategic importance to the group.

#### 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 of which the company's auditor is unaware. Additionally, each director has taken all the necessary steps that they ought to have taken as a director in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



.....  
G N Scott  
Director

Date: 6 Mar 2021

# **CIPHR LIMITED**

## **DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CIPHR LIMITED**

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### **Opinion**

We have audited the financial statements of CIPHR Limited (the 'company') for the year ended 31 December 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CIPHR LIMITED (CONTINUED)**

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### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

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

### **The extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the company operates in and how the company is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CIPHR LIMITED (CONTINUED)

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As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102, the Companies Act 2006 and tax compliance regulations. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures, inspecting correspondence with local tax authorities and evaluating advice received from tax advisors.

The audit engagement team identified the risk of management override of controls and revenue recognition, specifically in terms of cut-off, as the areas where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business, and reviewing a sample of transactions either side of the year end to ensure that income had been recognised in the correct accounting period.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities> This description forms part of our auditor's report.

### Use of our report

This report is made solely to the company's member 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 member 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 member for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

Neil Mellor (Senior Statutory Auditor)  
For and on behalf of RSM UK Audit LLP, Statutory Auditor  
Chartered Accountants  
Davidson House  
Forbury Square  
Reading  
Berkshire, RG1 3EU  
7 May 2021

# CIPHR LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020


	Notes	2020 £'000	2019 £'000
Turnover	3	12,773	11,220
Cost of sales		(483)	(505)
<b>Gross profit</b>		<b>12,290</b>	<b>10,715</b>
Administrative expenses		(11,363)	(10,169)
Other operating income		790	549
<b>EBITDA*</b>		<b>3,235</b>	<b>2,484</b>
Amortisation		(1,328)	(1,217)
Depreciation		(190)	(172)
<b>Operating profit</b>	<b>6</b>	<b>1,717</b>	<b>1,095</b>
Interest receivable and similar income	8	2	8
Interest payable and similar expenses	9	(237)	(190)
<b>Profit before taxation</b>		<b>1,482</b>	<b>913</b>
Tax on profit	10	113	(69)
<b>Profit for the financial year</b>		<b>1,595</b>	<b>844</b>

\*Earnings before interest, tax, depreciation and amortisation

**CIPHR LIMITED****STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2020**

	Notes	2020		2019	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Goodwill	11		1,287		1,495
Other intangible assets	11		1,925		2,017
			<u>3,212</u>		<u>3,512</u>
Total intangible assets			3,212		3,512
Tangible assets	12		319		368
			<u>3,531</u>		<u>3,880</u>
<b>Current assets</b>					
Debtors	15	12,951		9,515	
Cash at bank and in hand		3,615		1,070	
		<u>16,566</u>		<u>10,585</u>	
<b>Creditors: amounts falling due within one year</b>	16	(14,779)		(8,163)	
		<u>1,787</u>		<u>2,422</u>	
<b>Net current assets</b>			1,787		2,422
<b>Total assets less current liabilities</b>			<u>5,318</u>		<u>6,302</u>
<b>Creditors: amounts falling due after more than one year</b>	17		(1,120)		(4,007)
<b>Provisions for liabilities</b>	18		(383)		(75)
			<u>3,815</u>		<u>2,220</u>
<b>Net assets</b>			<u>3,815</u>		<u>2,220</u>
<b>Capital and reserves</b>					
Called up share capital	21		618		618
Profit and loss reserves	22		3,197		1,602
			<u>3,815</u>		<u>2,220</u>
<b>Total equity</b>			<u>3,815</u>		<u>2,220</u>

The financial statements were approved by the board of directors and authorised for issue on 6 MAY 2021 and are signed on its behalf by:

  
 .....  
 G N Scott  
 Director

# CIPHR LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

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	Share capital	Profit and loss reserves	Total
	£'000	£'000	£'000
Balance at 1 January 2019	618	758	1,376
Year ended 31 December 2019: Profit and total comprehensive income for the year	-	844	844
Balance at 31 December 2019	618	1,602	2,220
Year ended 31 December 2020: Profit and total comprehensive income for the year	-	1,595	1,595
Balance at 31 December 2020	618	3,197	3,815

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies

#### Company information

CIPHR Limited is a private company limited by shares and is registered and incorporated in England and Wales. The registered office is Abbey House, 28-30 Chapel Street, Marlow, Buckinghamshire, SL7 1DD.

The company's principal activities and nature of its operations are disclosed in the Directors' Report.

#### Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £1,000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the company as an individual entity and not about its group.

CIPHR Limited is a wholly owned subsidiary of CIPHR Group Limited and the results of CIPHR Limited are included in the consolidated financial statements of CIPHR Group Limited which are available from Abbey House 28-30 Chapel Street, Marlow, Buckinghamshire, SL7 1DD.

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies (Continued)

##### Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

The Company's software and services are mission critical to its customers and the Company has a robust business model with a high level of contracted recurring revenue from a well-diversified customer base. Customers typically contract for an initial term of 3-5 years that automatically renew unless terminated. Customers typically pay annually in advance. The largest customer is less than 5% of recurring revenue.

The directors have taken measures to counter the impact of COVID-19 on the Company's operations and the resultant impact on its financial position. Whilst the risks cannot be completely mitigated and therefore some level of future uncertainty remains, the directors have reviewed detailed forecasts and consider the Company is able to continue meeting its liabilities as they fall due in the foreseeable future.

##### Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes.

Revenue from the sale of SaaS and Services contracts is in two components: (i) subscriptions, which are recognised on a straight line basis over the period of the subscription and (ii) the provision of professional services, which are recognised by reference to the stage of completion. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs.

Revenue from the sale of Support contracts is recognised on a straight line basis over the period of the support contract.

Other revenues are recognised either over the period of the subscription or in the month in which the service is provided.

##### Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

##### Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition of a business over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a straight line basis over its expected life, which is ten years.

Goodwill is tested for impairment at least annually, or more frequently when there is an indication of impairment.

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies (Continued)

#### **Intangible fixed assets other than goodwill**

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

All intangible assets are considered to have a finite useful life. Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software development costs	33% straight line from the product release date
Customer relationships	10% straight line from acquisition

#### **Tangible fixed assets**

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Fixtures and fittings	20-25% straight line or over the life of the lease if shorter
Computer equipment	33% straight line
Motor vehicles	25% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

#### **Fixed asset investments**

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

#### **Cash and cash equivalents**

Cash and cash equivalents are basic financial instruments and include cash in hand.

#### **Financial instruments**

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies (Continued)

#### ***Basic financial assets***

Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

#### ***Other financial assets***

Other financial assets, including trade investments, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

#### ***Impairment of financial assets***

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

#### ***Derecognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

#### ***Classification of financial liabilities***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

#### ***Basic financial liabilities***

Basic financial liabilities, including trade and other creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies (Continued)

#### ***Other financial liabilities***

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments where the contractual returns, repayment of the principal, or other terms (such as prepayment provisions or term extensions) do not meet the conditions to be measured at amortised cost, are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

#### ***Derecognition of financial liabilities***

Financial liabilities are derecognised when, and only when, the company's contractual obligations are discharged, cancelled, or they expire.

#### ***Equity instruments***

Equity instruments issued by the company are recorded at the fair value of proceeds received, net of direct issue costs.

#### ***Taxation***

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on differences between the value of assets (other than goodwill) and liabilities recognised in a business combination and the amounts that can be deducted or assessed for tax. The deferred tax recognised is adjusted against goodwill.

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

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### 1 Accounting policies (Continued)

#### **Provisions**

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

#### **Onerous Leases**

Provisions are made against operating leases where the unavoidable cost of meeting the lease obligations exceed the economic benefits received.

#### **Dilapidations provision**

The dilapidations provision is based on management's estimate of the costs to return leased properties back to the state required by the relevant lease agreement.

#### **Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

#### **Retirement benefits**

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

#### **Leases**

Rentals payable under operating leases, including any lease incentives received, are charged as an expense on a straight line basis over the term of the relevant lease.

#### **Government grants**

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

A grant that specifies performance conditions is recognised in income when the performance conditions are met. Where a grant does not specify performance conditions it is recognised in income when the proceeds are received or receivable. A grant received before the recognition criteria are satisfied is recognised as a liability.

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

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#### 1 Accounting policies (Continued)

The company received a discretionary cash grant of £155,000 from the government as part of the Coronavirus Job Retention Scheme (CJRS) which compensates employers for part of the wages, associated national insurance contributions (NICs) and employer pension contributions of employees who have been placed on furlough (i.e. placed on a temporary leave of absence from working for the employer). The grant is conditional upon the employees being employed and on the company PAYE payroll and the employee cannot do any work for their employer that makes money or provides services for their employer or any organisation linked or associated with their employer. There are no unfulfilled conditions or contingencies attached to the grant.

#### 2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

##### **Critical judgements**

The items in the financial statements where significant judgements and estimates have been made include:

##### **Goodwill**

Goodwill and intangible assets on business combinations. The company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses. Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable value, which represents the higher of fair value and the value in use, of the relevant cash generating unit. Management has not identified any indicators of impairment to goodwill and intangible assets.

##### **Other intangible assets**

Carrying value of software development intangible assets. Determining the amount to be capitalised requires each project to be clearly defined and the relevant proportions of each individual's time to be recorded on a monthly basis. The useful economic life of software projects cannot be known in advance and the directors estimate this using a basis consistent with the estimation of the useful economic life of intangible assets acquired on a business combination as described above. Determining whether software development intangible assets are impaired requires an estimation of the recoverable value, which represents the higher of fair value and value in use. Management has not identified any indicators of impairment to the software development intangible assets.

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

### 3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2020 £'000	2019 £'000
<b>Turnover analysed by class of business</b>		
Saas, services and other	12,591	10,963
Maintenance and support	182	257
	<u>12,773</u>	<u>11,220</u>
	2020 £'000	2019 £'000
<b>Other revenue</b>		
Interest income	2	8
Grants received	155	-
Transfer pricing revenue	635	549
	<u>692</u>	<u>557</u>

All revenue was generated within the UK.

### 4 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2020 Number	2019 Number
Sales & marketing	36	41
Delivery & support	58	47
IT / research & development	25	29
General & administrative	12	10
	<u>131</u>	<u>127</u>

Their aggregate remuneration comprised:

	2020 £'000	2019 £'000
Wages and salaries	6,601	6,095
Social security costs	715	629
Pension costs	280	274
	<u>7,596</u>	<u>6,998</u>

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2020

#### 5 Directors' remuneration

	2020 £'000	2019 £'000
Remuneration for qualifying services	446	531
Company pension contributions to defined contribution schemes	25	37
	<u>471</u>	<u>568</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2019 - 3).

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

	2020 £'000	2019 £'000
Remuneration for qualifying services	165	161
Company pension contributions to defined contribution schemes	-	3
	<u>-</u>	<u>3</u>

#### 6 Operating profit

	2020 £'000	2019 £'000
Operating profit for the year is stated after charging/(crediting):		
Research and development costs	464	411
Government grants	(155)	-
Depreciation of owned tangible fixed assets	190	172
Loss on disposal of tangible fixed assets	8	-
Amortisation of intangible assets	1,328	1,217
Operating lease charges	158	201
Exceptional items	675	392
	<u>675</u>	<u>392</u>

Exceptional items in the current and comparative year consist of non recurring costs, such as staff termination and office and data centre closure.

#### 7 Auditor's remuneration

	2020 £'000	2019 £'000
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the company	12	10
	<u>12</u>	<u>10</u>

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

### 8 Interest receivable and similar income

	2020	2019
	£'000	£'000
<b>Interest income</b>		
Interest on bank deposits	2	8
	<u>2</u>	<u>8</u>

### 9 Interest payable and similar expenses

	2020	2019
	£'000	£'000
Loan arrangement fee amortisation	96	31
Interest on bank loans	141	159
	<u>237</u>	<u>190</u>

### 10 Taxation

	2020	2019
	£'000	£'000
<b>Deferred tax</b>		
Origination and reversal of timing differences	(80)	69
Previously unrecognised tax loss, tax credit or timing difference	(33)	-
	<u>(113)</u>	<u>69</u>

The Finance Act 2016 was enacted so as to reduce the corporation tax rate from 19% to 17% with effect from 1 April 2020; however, in March 2020 the Chancellor announced that tax rate would remain at 19%. These rates have been used to measure deferred tax assets and liabilities, where applicable.

The total tax (credit)/charge for the year included in the income statement can be reconciled to the profit before tax multiplied by the standard rate of tax as follows:

	2020	2019
	£'000	£'000
Profit before taxation	1,482	913
	<u>1,482</u>	<u>913</u>
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	282	173
Tax effect of expenses that are not deductible in determining taxable profit	44	92
Change in unrecognised deferred tax assets	(16)	16
Adjustments in respect of prior years	(33)	-
Effect of change in corporation tax rate	(41)	(6)
Other permanent differences	(349)	-
Additional deduction for R&D expenditure	-	(206)
	<u>(113)</u>	<u>69</u>
Taxation (credit)/charge for the year	<u>(113)</u>	<u>69</u>

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

### 11 Intangible fixed assets

	Goodwill	Software development costs	Customer relationships	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 January 2020	2,095	10,620	540	13,255
Additions - internally developed	-	721	-	721
Additions - separately acquired	-	307	-	307
<b>At 31 December 2020</b>	<b>2,095</b>	<b>11,648</b>	<b>540</b>	<b>14,283</b>
<b>Amortisation and impairment</b>				
At 1 January 2020	600	8,927	216	9,743
Amortisation charged for the year	208	1,066	54	1,328
<b>At 31 December 2020</b>	<b>808</b>	<b>9,993</b>	<b>270</b>	<b>11,071</b>
<b>Carrying amount</b>				
At 31 December 2020	1,287	1,655	270	3,212
At 31 December 2019	1,495	1,693	324	3,512

Included within the cost of software development costs is an amount of £410,878 (2019: £410,220) relating to assets in the course of construction and as such do not incur any amortisation.

Amortisation is included within administrative expenses.

### 12 Tangible fixed assets

	Fixtures and fittings	Computer equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 January 2020	635	804	7	1,446
Additions	17	136	-	153
Disposals	(23)	(3)	(7)	(33)
<b>At 31 December 2020</b>	<b>629</b>	<b>937</b>	<b>-</b>	<b>1,566</b>
<b>Depreciation and impairment</b>				
At 1 January 2020	548	523	7	1,078
Depreciation charged in the year	31	159	-	190
Eliminated in respect of disposals	(11)	(3)	(7)	(21)
<b>At 31 December 2020</b>	<b>568</b>	<b>679</b>	<b>-</b>	<b>1,247</b>
<b>Carrying amount</b>				
At 31 December 2020	61	258	-	319
At 31 December 2019	87	281	-	368

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

### 13 Fixed asset investments

		2020 £'000	2019 £'000
Investments in subsidiaries	14	-	-

### 14 Subsidiaries

Details of the company's subsidiaries at 31 December 2020 are as follows:

Name of undertaking	Address	Nature of business	Class of shares held	% Held Direct
Computers In Personnel Limited	a)	Dormant	Ordinary	100.00

Registered office addresses (all UK unless otherwise indicated):

a) Abbey House, 28-30 Chapel Street, Marlow, Buckinghamshire, SL7 1DD.

### 15 Debtors

	2020 £'000	2019 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	2,243	1,935
Amounts owed by group undertakings	9,999	6,955
Other debtors	25	65
Prepayments and accrued income	275	264
	<u>12,542</u>	<u>9,219</u>
Deferred tax asset (note 19)	409	296
	<u>12,951</u>	<u>9,515</u>

### 16 Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Bank loans and overdrafts	-	260
Trade creditors	158	62
Amounts due to group undertakings	4,979	100
Other taxation and social security	1,207	796
Deferred income	8,124	6,676
Accruals	311	269
	<u>14,779</u>	<u>8,163</u>

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

### 17 Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Bank loans	-	2,983
Unamortised arrangement fee	-	(96)
Other borrowings	1,120	1,120
	<u>1,120</u>	<u>4,007</u>

Bank loans were provided by HSBC, interest was payable quarterly at a rate of LIBOR plus 3.0% to 3.5%. The loans were repaid during the year.

Preference shares cumulate a dividend of 7% per annum and are redeemable at par on winding up of the company in preference to ordinary shareholders.

Amounts included above which fall due after five years are as follows:

Payable other than by instalments	-	3,120
	<u>-</u>	<u>3,120</u>

### 18 Provisions for liabilities

	2020 £'000	2019 £'000
Dilapidation provision	80	75
Onerous lease	303	-
	<u>383</u>	<u>75</u>

Movements on provisions:

	Dilapidation provision £'000	Onerous lease £'000	Total £'000
At 1 January 2020	75	-	75
Additional provisions in the year	5	303	308
	<u>80</u>	<u>303</u>	<u>383</u>
At 31 December 2020	<u>80</u>	<u>303</u>	<u>383</u>

#### *Onerous Lease*

The onerous lease provision relates to rents due on the Company's leased properties no longer occupied by the Company, where there are no reasonable prospects of sub-letting the space.

#### *Dilapidations provision*

A provision for contractual dilapidation obligations has been made in respect of the leasehold properties.

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

### 19 Deferred taxation

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (before offset) for financial reporting purposes:

	Liabilities 2020 £'000	Liabilities 2019 £'000	Assets 2020 £'000	Assets 2019 £'000
<b>Balances:</b>				
Accelerated capital allowances	290	301	-	-
Tax losses	-	-	699	597
	<u>290</u>	<u>301</u>	<u>699</u>	<u>597</u>
				<b>2020</b>
<b>Movements in the year:</b>				<b>£'000</b>
Liability/(Asset) at 1 January 2020				(296)
Credit to profit or loss				(113)
				<u>(409)</u>
Liability/(Asset) at 31 December 2020				<u>(409)</u>

The deferred tax assets and liabilities set out above are expected to reverse within 12 months and relate to accelerated capital allowances and tax losses that are expected to mature within the same period.

### 20 Retirement benefit schemes

	2020 £'000	2019 £'000
<b>Defined contribution schemes</b>		
Charge to profit or loss in respect of defined contribution schemes	<u>280</u>	<u>274</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund. At the reporting date there was an amount of £11,000 outstanding in relation to pension contributions.

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

### 21 Share capital

	2020 £'000	2019 £'000
<b>Ordinary share capital Issued and fully paid</b>		
617,700 Ordinary shares of £1 each	618	618
<b>Preference share capital classified as debt Issued and fully paid</b>		
1,050,000 7% A Preference shares of £1 each	1,050	1,050
70,000 7% B Preference shares of £1 each	70	70
	<u>1,120</u>	<u>1,120</u>

The holders of Ordinary shares are entitled to vote at shareholders meetings and the right to dividends as they arise.

Additionally the company has in issue 1,120,000 preference shares of £1 each, classified as liabilities. These shares do not carry voting rights

### 22 Reserves

#### Profit and loss reserves

Cumulative profit and loss net of distributions to owners.

### 23 Financial commitments, guarantees and contingent liabilities

By way of a composite guarantee dated 18 December 2020, Bletchley Midco Limited and all subsidiary undertakings (including CIPHR Limited) have provided an intercreditor guarantee in respect of all borrowing undertaken by the group with ECI Nominees Limited. The borrowings at 31 December 2020 amounted to £60m (2019: £8.1m).

### 24 Operating lease commitments

#### Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2020 £'000	2019 £'000
Within one year	206	207
Between one and five years	465	671
	<u>671</u>	<u>878</u>

# CIPHR LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

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### 25 Capital commitments

Amounts contracted for but not provided in the financial statements:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition of tangible fixed assets	200	-
	<u>200</u>	<u>-</u>

### 26 Ultimate controlling party

The immediate parent company, CIPHR Group Limited, is the smallest and largest company which produces consolidated accounts which include CIPHR Limited.

Copies of the accounts can be obtained from its registered office of Abbey House, 28-30 Chapel Street, Marlow, Buckinghamshire, SL7 1DD.

As of 18 December 2020, the ultimate parent company is Bletchley Topco Limited, which is controlled by ECI Partners LLP, acting in its capacity as manager of ECI 11 LP.