

Company Registration No. 04616229 (England and Wales)

CIPHR LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2021

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CIPHR LIMITED

COMPANY INFORMATION

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

CIPHR LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present the strategic report for the year ended 31 December 2021, which has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiary undertakings when viewed as a whole. CIPHR Group Limited is the immediate parent company of CIPHR Limited and is part of the Bletchley Topco Limited Group.

Business review

Revenue for the year ended 31 December 2021 was up 23% to £19.2m and Trading EBITDA (as defined in note 1 below) was up 29% to £7.5m.

Annualised recurring revenue was £17.4m at the end of 2021.

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 (e.g. Pension Payroll, Alumni). The Group focuses on prospective customers based in the UK with over 100 employees and has c. 650 customers across all sectors, including major brands.

The Group continues to invest heavily in all aspects of the business to deliver future revenue growth and also to ensure high levels of product enhancement and customer service.

Key performance indicators

The Group's key performance indicators during the period were as follows:

Year ended 31 December	2018	2019	2020	2021
Total revenue	£9.3m	£11.4m	£15.6m	£19.2m
Revenue growth	25%	23%	37%	23%
Organic SaaS subscription growth	24%	25%	17%	26%
Recurring revenue as % of total revenue	81%	82%	84%	84%
SaaS & Services as % of total revenue	96%	97%	96%	98%
Trading EBITDA (note 1)	£2.3m	£3.3m	£5.8m	£7.5m
Trading EBITDA margin	25%	29%	37%	39%
Cash generated from operations	£2.8m	£4.1m	£7.2m	£5.7m
OCF as % of unadjusted EBITDA	137%	148%	147%	95%
FCF	£1.4m	£3.0m	£5.8m	£3.9m

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

CIPHR LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Principal risks and uncertainties

The group'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 group faces and it does not list the risks in any order of priority.

Competition

The market is highly competitive. The Group 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 Group 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 Group 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 Group deployed its Business Continuity Plan and successfully transitioned the entire group 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 Group's office premises.

Credit risk

The group's credit risk is primarily attributable to its trade receivables. The group 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 Group 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 group mitigates interest rate risk ensuring the majority of debt has fixed interest rates.

Liquidity risk

The group maintains sufficient cash for ongoing operations and future developments. The business is highly cash generative and has an undrawn revolving credit facility of £1.0m.

Covid-19 risk

Covid-19 represents a risk to the business and its employees, however the Group is mitigating this risk. The Group implemented its Business Continuity Plans in March 2020.

The business has moved from remote working to a hybrid working model and this is proving to be effective for all stakeholders. The impact on employees and customers is being monitored regularly and in the event of a significant escalation resulting in new government guidance, the business will follow the guidance.

CIPHR LIMITED

STRATEGIC REPORT (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2021**

Future outlook

The business performed in line with the directors' expectation in 2021 and the directors are confident of future growth, both organic and through functionality and capability enhancing acquisitions.

On behalf of the board

Ray Berry
.....

R P Berry
Director

Date: 24/05/22
.....

CIPHR LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their annual report and financial statements for the year ended 31 December 2021.

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 10.

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

R P Berry

(Resigned 26 August 2021)

(Appointed 1 September 2021)

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 CIPHR Limited incurred £435,000 (2020: £464,000) 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.

CIPHR LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

On behalf of the board

Ray Berry
.....

R P Berry
Director

Date: 24/05/22
.....

CIPHR LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

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

Opinion

We have audited the financial statements of CIPHR Limited (the 'company') for the year ended 31 December 2021 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 2021 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)

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 6, 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)

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.

Neil Mellor

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
24/05/22

CIPHR LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £'000	2020 £'000
Turnover	3	16,321	12,773
Cost of sales		(529)	(483)
Gross profit		15,792	12,290
Administrative expenses		(12,951)	(11,363)
Other operating income		1,437	790
EBITDA*		5,642	3,235
Amortisation		(1,139)	(1,328)
Depreciation		(225)	(190)
Operating profit	6	4,278	1,717
Interest receivable and similar income	8	3	2
Interest payable and similar expenses	9	-	(237)
Profit before taxation		4,281	1,482
Tax on profit	10	(859)	113
Profit for the financial year		3,422	1,595

*Earnings before interest, tax, depreciation and amortisation

CIPHR LIMITED**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021**

	Notes	2021 £'000	£'000	2020 £'000	£'000
Fixed assets					
Goodwill	11		1,077		1,287
Other intangible assets	11		2,095		1,925
Total intangible assets			3,172		3,212
Tangible assets	12		371		319
Investments	13		-		-
			3,543		3,531
Current assets					
Debtors	15	15,604		12,951	
Cash at bank and in hand		3,049		3,615	
		18,653		16,566	
Creditors: amounts falling due within one year	16	(13,111)		(14,779)	
Net current assets			5,542		1,787
Total assets less current liabilities			9,085		5,318
Creditors: amounts falling due after more than one year	17		(1,120)		(1,120)
Provisions for liabilities	18		(728)		(383)
Net assets			7,237		3,815
Capital and reserves					
Called up share capital	21		618		618
Profit and loss reserves	22		6,619		3,197
Total equity			7,237		3,815

The financial statements were approved by the board of directors and authorised for issue on 24/05/22
and are signed on its behalf by:

Ray Berry

R P Berry
Director

CIPHR LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	Profit and loss reserves	Total
	£'000	£'000	£'000
Balance at 1 January 2020	618	1,602	2,220
Year ended 31 December 2020:			
Profit and total comprehensive income for the year	-	1,595	1,595
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	618	3,197	3,815
Year ended 31 December 2021:			
Profit and total comprehensive income for the year	-	3,422	3,422
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2021	<u>618</u>	<u>6,619</u>	<u>7,237</u>

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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 Bletchley Topco Limited and the results of CIPHR Limited are included in the consolidated financial statements of Bletchley Topco 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 2021

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 2021

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, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost 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

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 2021

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 and amounts due to group undertakings, 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 2021

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 2021

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 fixed assets.

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

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

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 2021

1 Accounting policies (Continued)

The company received a discretionary cash grant of £nil (2020: £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 2021

3 Turnover and other revenue

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

	2021 £'000	2020 £'000
Turnover analysed by class of business		
Saas, services and other	16,163	12,591
Maintenance and support	158	182
	<u>16,321</u>	<u>12,773</u>
	2021 £'000	2020 £'000
Other revenue		
Interest income	3	2
Grants received	178	155
Transfer pricing revenue	1,259	635
	<u>1,440</u>	<u>792</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:

	2021 Number	2020 Number
Sales & marketing	36	36
Delivery & support	74	58
IT / research & development	24	25
General & administrative	17	12
	<u>151</u>	<u>131</u>

Their aggregate remuneration comprised:

	2021 £'000	2020 £'000
Wages and salaries	7,730	6,601
Social security costs	815	715
Pension costs	326	280
	<u>8,871</u>	<u>7,596</u>

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

5 Directors' remuneration

	2021 £'000	2020 £'000
Remuneration for qualifying services	469	446
Company pension contributions to defined contribution schemes	25	25
	<u>494</u>	<u>471</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 3 (2020 - 2).

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

	2021 £'000	2020 £'000
Remuneration for qualifying services	<u>167</u>	<u>165</u>

6 Operating profit

	2021 £'000	2020 £'000
Operating profit for the year is stated after charging/(crediting):		
Research and development costs	435	464
Government grants (RDEC Claim)	(178)	(155)
Depreciation of owned tangible fixed assets	225	190
Loss on disposal of tangible fixed assets	1	8
Amortisation of intangible assets	1,139	1,328
Operating lease charges	141	158
Exceptional items	<u>367</u>	<u>675</u>

Exceptional items in the current and comparative year consist of non recurring costs in relation to office closures, staff termination and other corporate activities.

7 Auditor's remuneration

	2021 £'000	2020 £'000
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the company	<u>14</u>	<u>12</u>

8 Interest receivable and similar income

	2021 £'000	2020 £'000
Interest income		
Interest on bank deposits	<u>3</u>	<u>2</u>

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

9 Interest payable and similar expenses

	2021 £'000	2020 £'000
Loan arrangement fee amortisation	-	96
Interest on bank loans	-	141
	<u>-</u>	<u>237</u>

10 Taxation

	2021 £'000	2020 £'000
Current tax		
UK corporation tax on profits for the current period	17	-
	<u>17</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	618	(80)
Changes in tax rates	(44)	-
Previously unrecognised tax loss, tax credit or timing difference	-	(33)
Adjustment in respect of prior periods	268	-
	<u>842</u>	<u>(113)</u>
Total deferred tax	842	(113)
	<u>842</u>	<u>(113)</u>
Total tax charge/(credit)	859	(113)
	<u>859</u>	<u>(113)</u>

On 3 March 2021, the UK Government announced an increase in the main UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The change in rate was substantively enacted on 24 May 2021. Deferred tax has been calculated at 19% which was the tax rate substantively enacted at 31 December 2021.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

10 Taxation (Continued)

The total tax charge/(credit) 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:

	2021 £'000	2020 £'000
Profit before taxation	4,281	1,482
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	813	282
Tax effect of expenses that are not deductible in determining taxable profit	25	44
Change in unrecognised deferred tax assets	-	(16)
Adjustments in respect of prior years	-	(33)
Effect of change in corporation tax rate	104	(41)
Group relief	(395)	-
Permanent capital allowances in excess of depreciation	58	-
Research and development tax credit	(14)	-
Other permanent differences	-	(349)
Deferred tax adjustments in respect of prior years	268	-
Taxation charge/(credit) for the year	859	(113)

11 Intangible fixed assets

	Goodwill £'000	Software development costs £'000	Customer relationships £'000	Total £'000
Cost				
At 1 January 2021	2,095	11,648	540	14,283
Additions - internally developed	-	813	-	813
Additions - separately acquired	-	286	-	286
At 31 December 2021	2,095	12,747	540	15,382
Amortisation and impairment				
At 1 January 2021	808	9,993	270	11,071
Amortisation charged for the year	210	875	54	1,139
At 31 December 2021	1,018	10,868	324	12,210
Carrying amount				
At 31 December 2021	1,077	1,879	216	3,172
At 31 December 2020	1,287	1,655	270	3,212

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

11 Intangible fixed assets (Continued)

Included within the cost of software development costs is an amount of £331,709 (2020: £410,878) 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 £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2021	629	937	1,566
Additions	7	273	280
Disposals	-	(3)	(3)
At 31 December 2021	636	1,207	1,843
Depreciation and impairment			
At 1 January 2021	568	679	1,247
Depreciation charged in the year	30	195	225
At 31 December 2021	598	874	1,472
Carrying amount			
At 31 December 2021	38	333	371
At 31 December 2020	61	258	319

13 Fixed asset investments

		2021 £'000	2020 £'000
Investments in subsidiaries	14	-	-

14 Subsidiaries

Details of the company's subsidiaries at 31 December 2021 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:

a) Units 1-3 Hilltop Business Park, Devizes Road, Salisbury, Wiltshire, United Kingdom, SP3 4UF

Subsequent to the period end, on 25 January 2022, Computers in Personnel Limited was voluntarily dissolved and struck off the register.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

15 Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade debtors	3,284	2,243
Corporation tax recoverable	86	-
Amounts owed by group undertakings	11,900	9,999
Other debtors	20	25
Prepayments and accrued income	314	275
	<u>15,604</u>	<u>12,542</u>
Deferred tax asset (note 19)	-	409
	<u>15,604</u>	<u>12,951</u>

16 Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	214	158
Amounts due to group undertakings	2,209	4,979
Other taxation and social security	810	1,207
Deferred income	9,515	8,124
Accruals	363	311
	<u>13,111</u>	<u>14,779</u>

17 Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Other borrowings	<u>1,120</u>	<u>1,120</u>

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.

18 Provisions for liabilities

	Notes	2021 £'000	2020 £'000
Dilapidation provision		80	80
Onerous lease		216	303
		<u>296</u>	<u>383</u>
Deferred tax liabilities	19	432	-
		<u>728</u>	<u>383</u>

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

18 Provisions for liabilities (Continued)

Movements on provisions apart from deferred tax liabilities:

	Dilapidation provision £'000	Onerous lease £'000	Total £'000
At 1 January 2021	80	303	383
Utilisation of provision	-	(87)	(87)
At 31 December 2021	<u>80</u>	<u>216</u>	<u>296</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.

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 2021 £'000	Liabilities 2020 £'000	Assets 2021 £'000	Assets 2020 £'000
Balances:				
Accelerated capital allowances	446	290	-	-
Tax losses	(1)	-	-	699
Short term timing differences	(13)	-	-	-
	<u>432</u>	<u>290</u>	<u>-</u>	<u>699</u>
Movements in the year:				2021 £'000
Liability/(Asset) at 1 January 2021				(409)
Charge to profit or loss				841
Liability at 31 December 2021				<u>432</u>

The deferred tax liability set out above is expected to reverse within 12 months and relates to accelerated capital allowances that are expected to mature within the same period.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

20 Retirement benefit schemes

	2021	2020
	£'000	£'000
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	326	280

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 £50,000 (2020: £11,000) outstanding in relation to pension contributions.

21 Share capital

	2021	2020
	£'000	£'000
Ordinary share capital		
Issued and fully paid		
617,700 Ordinary shares of £1 each	618	618
Preference share capital classified as debt		
Issued and fully paid		
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
	1,120	1,120

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 intercompany guarantee in respect of all borrowing undertaken by the group with ECI Nominees Limited. The borrowings at 31 December 2021 amounted to £20m (2020: £60m).

The company's bank loans are secured by a composite debenture in favour of Lucid Trustee Services Limited containing fixed and floating charges over the group, together with intergroup cross guarantees from certain group undertakings, which amounted to £40m at 31 December 2021.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

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:

	2021 £'000	2020 £'000
Within one year	206	206
Between one and five years	401	465
	<u>607</u>	<u>671</u>

25 Capital commitments

Amounts contracted for but not provided in the financial statements:

	2021 £'000	2020 £'000
Acquisition of tangible fixed assets	-	200
	<u>-</u>	<u>200</u>

26 Ultimate controlling party

The immediate parent company of CIPHR Limited is CIPHR Group Limited.

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.

Bletchley Topco Limited is the smallest and largest group 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.