

Babylon Healthcare Services Limited
Annual Report and Financial Statements
Registered number 09229684
Year ended 31 December 2021

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Strategic Report

The Directors present their strategic report together with the audited financial statements for the year ended 31 December 2021.

Results and other information

In the year ended 31 December 2021, Babylon Healthcare Services Limited made a profit of £1.3m (2020: £0.8m loss) and had net assets of £3.5m (2020: £1.3m net assets).

The position of the Company at 31 December 2021 can be found on page 13.

Principal Activity

The principal activity of the Company provides healthcare services primarily through employee benefit contracts with corporations, private patients, and its NHS GP at Hand offering. This includes engaging healthcare professionals and selling the company's services through the technology developed by other companies in the Group (Babylon Holdings Limited and its subsidiaries).

Within its Babylon GP at Hand offering, the company provide medical services under a contract with NHS for patients registered with Babylon GP at hand or temporarily resident in the area and seeking primary medical care. The other primary activity of the company is providing clinical services through the agreement with private insurers, as well as through agreements with employers for whom the company provide employees access to its clinical services.

Business Review

The Group continues its mission to put an accessible and affordable healthcare service in the hands of everyone on earth.

For Babylon Healthcare Services Limited this has meant further investment in the development of clinical services, through its GP at Hand in partnership with the NHS, expanding employee benefit contracts with corporations and private patients. The company saw significant growth in its appointment numbers via the private insurer revenue stream.

For the year-ended December 31, 2021 clinical service revenue increased by £5.6 million to £22.9 million (2020: £17.3 million) and this was primarily due to the membership growth in the Babylon GP at Hand population as well as an increase number of virtual consultations through private insurers. The GP at Hand service reached 112k users in 2021 (2020: 93k) operating from seven clinics (2020: eight).

Key Performance Indicators

At a Group level, we review a number of operating and financial metrics, including key metrics and non-IFRS measures. To evaluate and measure Babylon Healthcare Services Limited's ("the Company") performance we measure the growth and the profitability of the company by looking at the movement in revenue and operating profit.

In the year ended 31 December 2021, the Company increased revenues to £24.4m (2020: £17.3m) and the operating profit for the year was £1.3m (2020: £0.8m). The increase in revenue and operating profit is following the growth in both GP at Hand users to 112k in 2021 (2020: 93k) and the increase of contracts in place.

Future Developments

In response to the continuation of the global pandemic of coronavirus disease (COVID-19), the Company is continuing the on-boarding of future customers having access to its Artificial Intelligence engine combined with Virtual Healthcare systems. Babylon GP at Hand opened two new clinics in London in Q2 2022 to provide face-to-face appointments alongside its digital-first integrated care already available to over 100k patients. The Company continues to expand its portfolio of B2B contracts.

The GP at Hand service reached 115k registrations at the signing of these accounts.

Strategic Report (continued)

Principal Risks and Uncertainties

The type of risks that affect management of the Company are exposure to various financial risks: credit risk, liquidity risk and currency risk in cash flows. The company's global risk management programme focuses on uncertainty in the financial markets and aims to minimise the potential adverse effects on the company's profits. The company's uses derivatives to mitigate certain risks.

The company's financial department controls the management of liquidity risk and currency risk in accordance with the company's policies. This department centrally identifies, evaluates and makes decisions whether to hedge financial risks to which the company is exposed. As at the end of December 2021, the company has net assets of £3.5m and cash and cash equivalents of £1.2m.

The rapid spread of COVID-19 around the world ("Pandemic") has altered the behaviour of businesses and people, with significant negative effects on national, state and local economies, the duration of which remains unknown at this time. While several of the markets in which we operate are beginning to experience reductions in the effects of the Pandemic, it is not currently possible to predict the ultimate financial impact COVID-19 will have had on our business, results of operations and financial condition. Key factors will include the extent to which changes in the behaviour of people during the Pandemic result in a permanent change in their behaviour, a longer-term reversion back to pre-pandemic behaviours or a significant immediate change in behaviours as the impacts of the Pandemic become more manageable because of global vaccination programs.

The situation in Ukraine has led to significant global uncertainty and disruption to supply chains. As a business, we don't have any operations in Russia or Ukraine, however, we continue to monitor and effectively manage any impact of the wider macro environment on the Company's supply chain and revenue. While the Company has no direct exposure through revenue from, or purchases to, Russia or Ukraine, it may be impacted by rising global commodity markets over the coming months. Consequently, if impacted, the Company will take mitigating actions to recover increased costs, both through cost efficiency measures and pricing actions.

Cyberattack and Data Protection

Protecting patient data is critical to the business. The Company could face financial loss, disruption or damage to brand reputation arising from an attack on our systems by criminals, terrorists or foreign governments. If the Company does not adequately protect our patient and employee data, the Company could breach regulation and face penalties and loss of customer trust. The Group ensures that it is up to date with industry standards and address identified weaknesses.

General Data Protection Regulation (GDPR) regulations that came into effect in May 2018 have been incorporated into operating and compliance practices.

Going concern

The Company has net assets of £3.5m as at 31 December 2021, a profit for the year then ended of £1.3m and operating cash outflows for the year of £332k. However, the majority of the Company's assets relate to amounts due from the Group with the Company reliant on financial support from its immediate parent company, Babylon Holdings Limited. The financial statements have been prepared on a going concern basis which the directors consider to be appropriate based on the conclusions reached at Group, as follows.

At December 31, 2021, the Group incurred a loss for the year of \$374.5 million (2020: loss of \$188.0 million), which includes a Recapitalization transaction expense of \$148.7 million, and operating cash outflows of \$145.9 million (2020: \$143.4 million). As of December 31, 2021 the Group had a net asset position of \$165.3 million (2020: \$48.4 million). At December 31, 2021, the Group had cash and cash equivalents of \$262.6 million (2020: \$101.8 million). The Group has financed its operations principally through issuances of debt and equity securities and has a strong record of fundraising, including the closing of the Merger and PIPE Transaction on October 21, 2021 receiving proceeds of \$229.3 million and entering into a note subscription agreement for \$200.0 million on October 8, 2021. The Group requires significant cash resources to, among other things, fund working capital requirements, increase headcount, make capital expenditures, including those related to product development, and expand our business through acquisitions.

Strategic Report (continued)

While there is no assurance that additional funds are available on acceptable terms, the directors believe that they will be successful in raising the additional capital needed to meet working capital and capital expenditure requirements that may fall due within 12 months of the date of approval of these financial statements. Based on this, we believe it remains appropriate to prepare our financial statements on a going concern basis. However, the above indicates that there are material uncertainties (ability to fund raise further capital) related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern and therefore, to continue realizing its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate due to an inability of the Group to provide financial support to the Company.

The Directors of the Company have assessed the conclusions reached by the directors of the Group and agree with their conclusions. Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Engaging with our Stakeholders (section 172(1) statement)

This section describes how we have engaged with and had regard to the interests of our key stakeholders when exercising our duty to promote the success of the Company under section 172(1) of the Companies Act 2006. The principles underpinning section 172 are not something that are only considered at Board level, they are embedded throughout our Company.

Our key stakeholders are our customers and people. Our suppliers and regulators are also important stakeholder groups. All key Board decisions take into account the impact on relevant stakeholders. Increasingly, stakeholders are looking to understand our performance from multiple areas including products and services, innovation, governance and workplace practices. The Board endeavours to gain an understating of perceptions and attitudes of each stakeholder group and the weight they give to different issues. Where the views of different stakeholder groups do not align, the Board must decide on the best course of action that promotes the company's long-term success.

People

We founded Babylon with a single purpose. To put an accessible and affordable high-quality health service in the hands of every person on Earth. Everything else flows from this – our values and the way we behave, the people we seek, the way we recruit, what we expect, how we reward, and the way we work with each other to deliver our mission

The most important part of Babylon are the values we live by:

- Dream big
- Build fast
- Be brilliant

Our behaviours are born from these values. Because values are only words until you put them into action. That's why we are dedicated to recruiting like-minded Babylonians who embody these behaviours.

We know what is to be delivered, who owns it and when it is going to be done - we call it a WOW. And we consistently review everything as we go, to push ourselves further and keep learning through regular employee feedback, and engagement surveys to ensure that Babylon, and every Babylonian is the best they can be.

Customers

Our clinical services offering is tailored to our customers' needs but can include access to our full range of digital care tools, including our app-based Digital Suite, as well as consultations with licensed medical professionals.

We deliver our Babylon GP at Hand offering, providing primary care clinical services on behalf of NHS, and provide clinical services through our agreement with Bupa, a private insurer, as well as through agreements with employers for whom we provide employees access to our clinical services. We also we provide a direct to consumer

Strategic Report (continued)

service where patients can purchase a subscription or pay for an individual appointment directly through our website or app. These services through a mix of fee-for-service and capitation fees.

Through our Babylon GP at Hand offering, which we started in 2017, we provide end-to-end primary care for members in lieu of them registering with another NHS general practitioner, or GP. Since 2017, we have grown our GP at Hand offering over fifty times, from 2,000 to over 100,000 members, and from one location in London to seven physical locations in London and Birmingham. Today, anyone who lives or works within 30 minutes of one of

our physical practices, irrespective of age and health, can sign up with GP at Hand. We have further improved accessibility of healthcare for our member populations by providing digital consultation within two hours of a member seeking an appointment compared to over a week, the average for an NHS GP appointment. We have received 95% 4 and 5-star ratings from our members in 2021 and 96% at the time of the signing of these accounts.

We employ doctors, nurses, prescribing pharmacists and other specialists in order to deliver this care to our membership. Our work with the NHS has demonstrated conclusive cost savings. The NHS's own studies have shown that our member base has experienced reduced acute care costs by over 35% compared to a similar population.

Bupa is the United Kingdom's largest private health insurer, used by 2.4 million people alongside the NHS. Bupa's covered population has access to Babylon's digital platform, for which we are paid a capitation fee per member. In addition, Bupa members can undertake virtual consultations with our doctors or healthcare professionals, for which we receive a fee for service. Following a virtual consultation, if appropriate, we then refer these members into the secondary care system – either with the NHS or Bupa. We do not operate any physical premises in order to deliver healthcare to these members.

Regulator

The Company is regulated by the Care Quality Commission ("CQC"). The CQC's role is to check, through inspection and ongoing monitoring, that their expected standards are being met, ultimately to protect patients and ensure that they are receiving the best possible care.

The CQC assess us in five different areas: Safe, Effective, Caring, Responsive and Well Led. These are assessed through ongoing monitoring and periodic inspection. At our last inspection in September 2019, we were rated as "Good" in all areas other than Well led where we were rated "Outstanding".


We have an open and collaborative relationship with our CQC Inspection Team, working with them to ensure we meet regulatory standards, act quickly to address and concerns raised, and ensure a process of continual development and improvement.

Suppliers

Babylon's supply chain is critical to delivering a high-quality service to both our clients and end customers (users). Babylon provides a Vendor Code of Conduct to its suppliers to set expectations on how we will mutually work together. Babylon segments its suppliers into five categories, those that are deemed Strategic and Mission Critical are managed through a Supplier relationship programme (SRM) which aims to introduce a formal 'Best Practice' by deepening relations and drive additional benefits through continuous improvement. Through the SRM we undertake performance management and are fully equipped to be agile and proactive in relation to developing and improving the supply chain for mutual gain

Babylon deploys a collaborative approach to the adoption of governance and control measures to support the business and our end clients. This in turn will drive tangible continuous improvement of supplier services across all aspects of the business leading defined financial and non-financial returns.

By order of the board


Ali Parsa (Jul 8, 2022 16:08 GMT+1)

Ali Parsadoust

Director

1 Knightsbridge Green

London

SW1X 7QA

8 July 2022

Directors' Report

The Directors present their report and the audited financial statements of the Babylon Healthcare Services Limited for the year ended 31 December 2021.

Healthcare Services

The Company provides healthcare services primarily through employee benefit contracts with corporations, private patients, and its NHS GP at Hand offering.

Financial Instruments

Financial instruments held during the year ended 31 December 2021 include debtors and creditors. The Company measures all financial instruments at fair value.

Proposed dividend

The directors do not recommend the payment of a dividend (2020: £nil).

Directors

The directors who held office during the year were as follows:

Dr Ali Parsadoust

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

Greenhouse gas emissions and energy consumption

The Company has not disclosed detailed energy and carbon information, as it is a low energy user with <40MWh energy use.

Disclosure of information to auditor

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

Other information


An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

Auditor

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

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board


Ali Parsadoust (Jul 6, 2022 16:08 GMT+1)

Ali Parsadoust
Director

1 Knightsbridge Green
London
SW1X 7QA
8 July 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board 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 estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the International Accounting Standards Board;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 (as amended).

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BABYLON HEALTHCARE SERVICES LIMITED

Opinion

We have audited the financial statements of Babylon Healthcare Services Limited ("the Company") for the year ended 31 December 2021 which comprise the statement of profit and loss and other comprehensive income, statement of financial position, statement of changes in equity, cash flow statement and related notes, including the accounting policies in note 4.

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 UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements which indicates that the Company is reliant on financial support from its immediate parent company, Babylon Holdings Limited. However, the ability of Babylon Holdings Limited to provide this support is uncertain as it is dependent on its ability to raise further capital as the financial statements of Babylon Holdings Limited contained a material uncertainty in relation to going concern. These events and conditions, along with other matters explained in note 2, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Our conclusion based on our financial statements audit work: we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that clinical services revenue is recorded in the wrong period and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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

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

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate in specific territories. We identified the following areas as those most likely to have such an effect: anti-bribery, healthcare provision conduct regulations, personal data (including specific data on health), and employment law recognising the nature of the Company's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

Strategic report and directors' report

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

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

- we have not identified material misstatements in the strategic report and directors' report;

- in our opinion the information given in those reports for the financial year are consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Sabira Datto (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
11 July 2022

Statement of Profit and Loss and Other Comprehensive Income

		2021	2020
<i>for year ended 31 December 2021</i>			
	<i>Note</i>	£	£
Revenue	5	24,374,856	17,276,040
Cost of care delivery	7	(27,712,823)	(21,555,920)
Platform & application expense	8	(99,829)	(11,945)
Research & development expense	9	(700,357)	(843,361)
Sales, general & administration expenses	10	(12,253,055)	(15,143,335)
Other operating income	24	17,853,699	21,315,083
Operating profit		1,462,491	1,036,562
Finance costs	12	(184,481)	(196,933)
Profit before taxation		1,278,010	839,629
Tax (expense) benefit	13	-	-
Profit for the financial year		1,278,010	839,629
Profit and total comprehensive income for the year		1,278,010	839,629

All activities arise from continuing operations.

There were no recognised gains and losses for 2021 or 2020 other than those indicated in the statement of profit and loss and other comprehensive income.

The notes on pages 16 to 34 form an integral part of the financial statements.

Statement of Financial Position

<i>At 31 December 2021</i>	<i>Note</i>	2021	2020
		£	£
ASSETS			
Non-current assets			
Intangible assets	15	533,250	260,693
Right of use asset	20	1,574,423	1,882,668
Amounts due from related parties	24	-	17,939,902
Property, Plant and Equipment	14	351,099	-
Total non-current assets		2,458,772	20,083,263
Current assets			
Amounts due from related parties	24	17,611,446	-
Cash and cash equivalents	16	1,180,667	2,597,700
Trade and other receivables	17	3,711,744	976,167
Contract assets	5	2,104,727	1,548,207
Right of use asset	20	308,045	307,695
Total current assets		24,916,629	5,429,769
Total assets		27,375,401	25,513,032
EQUITY AND LIABILITIES			
EQUITY			
Ordinary share capital	22	1	1
Share based payment reserve	21	2,794,317	1,916,314
Retained earnings		682,369	(595,641)
Total Equity		3,476,687	1,320,674
LIABILITIES			
Non-current liabilities			
Contract liabilities	5	-	206
Lease liabilities	20	1,310,412	1,472,035
Total non-current liabilities		1,310,412	1,472,241
Current liabilities			
Trade and other payables	18	1,241,418	982,468
Amounts due to related parties	24	19,301,788	19,323,351
Accruals and provisions	19	760,136	636,107
Lease liabilities	20	94,099	145,846
Contract liabilities	5	1,190,861	1,632,345
Total current liabilities		22,588,302	22,720,117
Total liabilities		23,898,714	24,192,358
Total liabilities and equity		27,375,401	25,513,032

These financial statements were approved by the board of directors on 8 July 2022 and were signed on its behalf by:


Ali Parsadoust (Jul 8, 2022 16:08 GMT+1)

Ali Parsadoust
Director

The notes on pages 16 to 34 form an integral part of the financial statements.
Company registered number: 09229684

Statement of Changes in Equity

	Share capital	Share reserve	Retained earnings	Total equity
	£	£	£	£
Balance at 1 January 2020	1	891,899	(1,435,270)	(543,370)
Total comprehensive income for the period				
Loss for the financial year	-	-	839,629	839,629
Equity-settled share-based payment transactions	-	1,024,415	-	1,024,415
Balance at 31 December 2020	1	1,916,314	(595,641)	1,320,674
	Share capital	Share reserve	Retained earnings	Total equity
	£	£	£	£
Balance at 1 January 2021	1	1,916,314	(595,641)	1,320,674
Total comprehensive income for the period				
Profit for the financial year	-	-	1,278,010	1,278,010
Equity-settled share-based payment transactions	-	878,003	-	878,003
Balance at 31 December 2021	1	2,794,317	682,369	3,476,687

The notes on pages 16 to 34 form an integral part of the financial statements.

Cashflow Statement

	Note	2021 £	2020 £
<i>for year ended 31 December 2021</i>			
Cash flows from operating activities			
Profit/(loss) for the year		1,278,010	839,629
<i>Adjustments for:</i>			
Depreciation and amortisation	14, 15, 20	393,545	319,035
Impairment	15	14,179	-
Equity settled share-based payments	21	904,982	1,024,415
Finance costs	12	184,481	194,888
		<u>2,775,197</u>	<u>2,377,967</u>
Working capital adjustments:			
(Increase)/Decrease in trade and other receivables	17	(2,735,577)	691,835
Increase/(Decrease) in trade and other payables	18	200,097	158,772
Increase/(Decrease) in accruals, provision and other liabilities	19	124,029	(371,217)
Amounts due to/(from) related parties	24	302,275	(1,595,875)
(Increase)/Decrease contract assets	5	(556,520)	(916,451)
Increase/(Decrease) in contract liabilities	5	(441,690)	(10,841)
		<u>(3,107,386)</u>	<u>(2,043,777)</u>
Net cash flows from operating activities		<u>(332,189)</u>	<u>334,190</u>
Cash flows from investing activities			
Development costs capitalised	15	(340,511)	(196,686)
Capital expenditure on property, plant and equipment	14	(351,099)	-
Net cash outflow from investing activities		<u>(691,610)</u>	<u>(196,686)</u>
Payment of lease liabilities	20	(396,476)	(167,146)
Interest paid	12	(1,375)	-
Amounts due to/(from) related parties	24	4,617	2,403,537
Net cash inflow from financing activities		<u>(393,234)</u>	<u>2,236,391</u>
Net increase/(decrease) in cash and cash equivalents		(1,417,033)	2,373,895
Cash and cash equivalents at 1 January		2,597,700	223,805
Cash and cash equivalents at 31 December		<u>1,180,667</u>	<u>2,597,700</u>

The notes on pages 16 to 34 form an integral part of the financial statements.

Notes

(forming part of the financial statements)

1 Corporate Information

Babylon Healthcare Services Limited (the “Company”) is a private company limited by shares and is incorporated, registered and domiciled in England, UK. The address of the registered office is 1 Knightsbridge Green, London, England, SW1X 7QA.

2 Basis of Preparation

Measurement Convention

The financial statements have been prepared on the historical cost basis and approved by the Directors in accordance with UK adopted International Financial Reporting Standards as issued by the International Accounting Standards Board.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in Note 3.

Going Concern

The Company has net assets of £3.5m as at 31 December 2021, a profit for the year then ended of £1.3m and operating cash outflows for the year of £332k. However, the majority of the Company’s assets relate to amounts due from the Group with the Company reliant on financial support from its immediate parent company, Babylon Holdings Limited. The financial statements have been prepared on a going concern basis which the directors consider to be appropriate based on the conclusions reached at Group, as follows.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its immediate parent company, Babylon Holdings Limited (“the Group”), to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Babylon Holdings Limited providing additional financial support during that period. Babylon Holdings Limited has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts.

In addition, the principal activity of the company is to provide healthcare services primarily through employee benefit contracts with corporations, private patients, and its NHS GP at Hand offering. The company having a trade is entirely dependent on the Group continuing to trade. The company meets its day to day working capital requirements from cash resources and intercompany balances with Group companies. Therefore, the going concern assessment of the company is dependent on that of the Group as a whole.

The Directors note that the ultimate parent entity of the Group has included in their financial statements which were approved on 30 March 2022 a material uncertainty regarding going concern. This uncertainty relates to the group requiring injections of further investment capital in order to meet its liabilities as they fall due for a period of 12 months from the date of approval of these financial statements. While the Group believes it will be successful in raising the additional capital needed to meet working capital and capital expenditure requirements there is no assurance that the Group will be able to do so. Based on the latest information available to the Directors this assessment remains appropriate. Consequently the Directors have concluded that there can be no certainty that the Group will be able to provide the financial support which the Company’s forecasts indicate is required.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern, and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

3 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The directors of the company have noted that there have been no critical accounting judgements or key sources of estimation uncertainty in the current year.

4 Summary of Significant Accounting Policies

The financial statements have been prepared under the historical cost basis, as modified by the recognition of certain financial instruments measured at fair value and are presented in Great British Pound ("GBP") which is the Company's presentation currency.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Revenue recognition

Revenue is primarily derived from patient revenues from the provision of clinical services.

Revenue is recognized upon transfer of control of services to customers in an amount that reflects the consideration which the Company expects to receive in exchange for those services.

Contract assets are recognized when there is an excess of revenue earned over billings on contracts where the rights are conditional on something other than passage of time. Contract assets are classified as unbilled receivables (i.e. only invoicing is pending) when there is an unconditional right to receive cash, and only passage of time is required, as per contractual terms.

Income received in advance ("contract liability") is recognized when there are billings in excess of revenues earned for services rendered.

The Company's contracts with customers could include promises to transfer multiple services to a customer. The Company assesses the services promised in a contract and identifies distinct or bundled performance obligations in the contract. Identification of these performance obligations involves judgement to determine the promises and the ability of the customer to benefit independently from such promises. If multiple performance obligations are identified in the contract the transaction price is allocated to each performance obligation on a relative stand-alone selling price basis based on observable prices, for which the Company recognizes revenue as or when the performance obligations under the contract are satisfied. Transaction prices are adjusted for the effects of a significant financing component if we expect, at contract inception, that the period between the transfer of the promised goods or services to the customer and when the customer pays for that service will be more than one year.

The Company exercises judgement in determining whether the performance obligation is satisfied at a point in time or over a period of time. The Company considers indicators such as how a customer consumes benefits as services are rendered, existence of enforceable rights to payment for performance to date, transfer of significant risks and rewards to the customer and acceptance of delivery of the service by the customer.

Clinical service revenue

Clinical service revenue represents clinical services provided to our business and private patients under an arrangement and is recognized when the services are rendered. Our clinical service fees are based on PMPM (per member per month) subscription fees and fees per appointment ("fee for service"). PMPM subscription fees give members access to our clinical services over the contractual period as set forth in the arrangement, recognized monthly based on the number of members covered by the plan in a given month. Fee for service is based on contracted rates determined in agreed-upon compensation schedules and is recognized when the services are rendered at a point in time. In arrangements where PMPM subscription fees are charged we assess whether any of the transaction price should be allocated to License fee revenue and allocate on a contract by contract basis.

Cost of Care Delivery

Cost of care delivery primarily consists of fees paid to the physicians and other health professionals in our provider network and costs incurred in connection with our provider network operations. Cost of care delivery is mainly driven by patient activity and required medical services and are relatively variable.

4 Summary of Significant Accounting Policies (continued)

Platform and application expenses

Platform and application expenses primarily include the amortization of capitalized development costs. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and if the Company has sufficient resources to complete the development. Capitalized development costs are recorded as intangible assets and amortized from the point at which the development is complete, and the asset is available for use. Costs are capitalized based on a model whereby a percentage is allocated to employee related expenses based on the time spent on the development of assets. Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All employee expenses included in this balance relate to employees in the technology departments, and the percentage attributable varies dependent on the nature of the work performed and the type of asset being developed. Expenses that do not meet the criteria for capitalization are expensed as incurred.

The technical feasibility of a new product is determined by a management team consisting of technical and finance leads based on understanding the availability of adequate technical, financial and other resources required to develop the product. The commercial feasibility of a new product is determined by understanding how this product feeds into Babylon's current offering. Commercial leads ascertain market interest by evaluating against existing and potential customer requirements. Feasibility is challenged with input from finance leads to verify the underlying financial implications of development and assess viability. Once the technical and commercial feasibility has been established and the project has been approved for commencement, the project moves into the development phase.

Development costs of approximately £372,386 (2020: £196,686) were capitalized during the year for those development and technology expenses that were deemed technologically feasible and probable of generating future economic benefits. During the period of development, the asset is tested for impairment at least annually.

Research and development expenses

Research and development expenses primarily included employee-related salaries, benefits, stock-based compensation, as well as contractor and consultant expenses that are engaged in performing activities to develop and improve the Company's digital healthcare platform as well as third-party application costs, hosting services and other indirect costs. Research costs and development costs that do not meet the criteria for capitalization are expensed as incurred.

Sales, general & administration expense

Sales, general and administrative expenses include employee-related expenses, contractors and consultants expense, stock-based compensation, property and facility related expenses, IT and hosting, marketing, training and recruiting expenses. Enterprise IT and hosting costs are primarily software subscriptions, domain and hosting costs. Our sales, general and administrative expenses also include depreciation of property, fixtures and fittings and amortization of acquired intangible assets.

Management charges

Management service fees payable to Babylon Partners Limited are recognised as an expense in the accounting period in which the services are rendered

Other operating income

Other operating income includes amounts received from a risk transfer agreement between the Company and Babylon Partners Limited ("BPL"), both wholly owned subsidiaries of the Group.

Taxation

Tax on the Statement of Profit and Loss for the year comprises current and deferred tax. Tax is recognized in the Statement of Profit and Loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

4 Summary of Significant Accounting Policies (continued)

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized.

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the Statement of Profit and Loss during the reporting period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- Fixtures and fittings 3 years
- Leasehold improvements 5-10 years

At the end of each reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When an asset is disposed of, the gain or loss is calculated by comparing proceeds received with its carrying amount and is recognized in the Statement of Profit and Loss.

Intangible assets

Intangible assets include capitalized development costs separately acquired in the normal course of business are recorded at historical cost, and intangible assets acquired in a business combination are recognized at fair value at the acquisition date. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized generally on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are at least reviewed at the end of each reporting period. The amortization expense on intangible assets with finite lives is recognized in depreciation and amortization. The useful lives of the intangible assets are 1-10 years

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit and Loss.

Trade receivable

We use a forward-looking expected credit loss ("ECL") model in determining our allowance for doubtful accounts as it relates to trade receivables, contract assets, and other financial assets. Our allowance is based on historical experience, and includes consideration of the aging of the receivables, the economic environment, industry trend analysis, and the credit history and financial conditions of the customers among other factors. We measure an impairment loss as the excess of the carrying amount over the present value of the estimated future cash flows discounted using the financial asset's original discount rate, and we recognize this loss in our Statement of Profit and Loss. A financial asset is written-off or written-down to its net realizable value as soon as it is known to be

4 Summary of Significant Accounting Policies (continued)

impaired. We adjust previous write-downs to reflect changes in estimates or actual experience. Our allowance for doubtful accounts is not material.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less from the date of purchase. The Company had no restricted cash amounts as of 31 December 2021 or 31 December 2020.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the Statement of Profit and Loss in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

The Group operates a share option scheme. It issues equity settled share-based payments to both employees and non-employees within the Group, whereby services are rendered in exchange for rights to purchase shares of the Company, which are primarily composed of restricted stock awards and options. Non-employees include contractors and advisors.

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions (if applicable) are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. The forfeitures rate is estimated and revised at each reporting date based on historical actuals. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

Foreign currency

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognized in the Statement of Profit and Loss.

Provisions

A provision is recognized in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Leases

Our lease contracts primarily include real estate leases for buildings and are accounted for under IFRS 16, Leases ("IFRS 16"). We assess whether a contract is or contains a lease, at inception of a contract. We recognize a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

4 Summary of Significant Accounting Policies (continued)

For these leases, we recognize the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Financial Instruments

Derivatives

Derivatives are initially measured at fair value and are subsequently remeasured to fair value at each reporting date. Changes in fair value are recognized in finance income or finance costs as appropriate.

Fair value measurements

The accounting standard regarding fair value of financial instruments and related fair value measurements defines financial instruments and requires disclosure of the fair value of financial instruments held by the Company. The accounting standards define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurement and enhance disclosure requirements for fair value measures. The three levels are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the fair value hierarchy by re-assessing categorisation at the end of each reporting period.

The carrying amounts reported in the Statement of Financial Position for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realisation and their current market rate of interest. The Company does not have any other material assets or liabilities that are recognized at fair value on a recurring basis.

New standards and interpretations not yet adopted

The following new and amended standards have been issued but have not been applied by the Company in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

- Amendments to References to the Conceptual Framework in IFRS 3: *Business Combinations*, Amendments to IAS 16: *Property, Plant and Equipment—Proceeds before Intended Use*, and Annual Improvements to IFRS Standards 2018-2020 (effective date January 1, 2022)
- Amendments to IAS 1: *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current*, Amendments to Disclosure of Accounting Policies in IAS 1: *Presentation of Financial Statements* and IFRS Practice Statement 2: *Making Materiality Judgements*, Amendments to Definition of Accounting Estimates in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and Amendments to Deferred Tax related to Assets and Liabilities arising from a Single Transaction in IAS 12: *Income Taxes* (effective date January 1, 2023)

4 Summary of Significant Accounting Policies (continued)

- Amendments to Sale or Contribution of Assets between an Investor and its Associate or Joint Venture in IFRS 10: *Consolidated Financial Statements* and IAS 28: *Investments in Associates and Joint Ventures* (effective date deferred indefinitely)

The adoption of the following new and amended standards may have a material effect on the financial statements. The Company is still assessing the impact.

- Amendments to IAS 37: *Onerous Contracts—Cost of Fulfilling a Contract* (effective date January 1, 2022)
- IFRS 17: *Insurance Contracts* (effective date January 1, 2023)

5 Revenue

(i) Disaggregation of revenue

In the following table, revenue is disaggregated by major products/service lines and timing of revenue recognition.

	2021	2020
	£	£
Clinical Services	22,852,534	17,276,040
Licensing	1,522,322	-
Total	<u>24,374,856</u>	<u>17,276,040</u>

(ii) Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	2021	2020
	£	£
Trade receivables (note 17)	3,417,792	722,573
Contract assets	2,104,727	1,548,207
Contract liabilities (current)	(1,190,861)	(1,632,345)
Contract liabilities (non-current)	<u>-</u>	<u>(206)</u>

The amount of revenue recognised in current period that was included in the contract liability balance at the beginning of the period was £1,632,345 (2020: £1,370,221).

The company applies the practical expedient in IFRS 15.121 and does not disclose information about remaining performance obligations that have original expected durations of less than one year.

6 Employee benefit expenses

Average Staff numbers:

The average number of persons employed by the company (including directors) during the year, analysed by category, were as follows:

	2021	2020
Engineers	16	17
Sales and Marketing	1	1
Admin, Finance, HR & Legal	3	2
Clinical Operations	273	237
Clinicians	537	443
	<u>830</u>	<u>700</u>

The aggregate payroll costs of these persons were as follows:

	2021	2020
	£	£
Wages and salaries	14,025,224	8,025,766
Share based compensation	904,982	1,044,430
Social security and pension contributions	13,048,210	13,505,019
	<u>27,978,416</u>	<u>22,575,215</u>

Of the total employee benefits expense, £25,504,775 (2020: £20,740,114) has been recognized in cost of care delivery, £698,672 (2020: £839,742) has been recognized in research and development expenses and £1,774,968 (2020: £995,360) in sales, general and administration expenses.

During 2021, the company capitalized employee costs of £372,386 (2020: £196,686) as development costs.

7 Cost of care delivery

	2021	2020
	£	£
Employee benefits expense	25,504,775	20,740,114
Contractors expense	-	101,671
Rent, property related expenses and other	1,283,114	714,135
Staffing, training and recruitment	27,970	-
Office and clinical supplies	473,400	-
IT and hosting costs	423,564	-
	<u>27,712,823</u>	<u>21,555,920</u>

8 Platform and Application Expenses

	2021	2020
	£	£
Depreciation and amortisation expense	85,650	11,340
Impairment	14,179	605
	<u>99,829</u>	<u>11,945</u>

Depreciation and amortization includes £85,650 (2020: £11,340) of amortization related capitalized development costs.

9 Research and Development Expenses

	2021	2020
	£	£
Employee benefits expense	698,672	839,742
Staffing, training and recruitment	908	3,619
Other	777	-
	700,357	843,361

10 Sales, general & administration expenses

	2021	2020
	£	£
Employee benefit expense	1,774,968	995,360
Rent and property related expenses	9,881	36,206
Staffing, training and recruitment	283,248	319,063
Contractors and consultants expense	10,279	70,481
Insurance	355,672	135,629
Marketing, travel and office supplies	8,665	968,222
Management fees	8,408,727	9,103,822
Local taxes	1,681,745	1,820,764
Depreciation and amortisation expense	307,895	307,695
IT and hosting Costs	76,397	489,270
Other	(664,422)	896,823
	12,253,055	15,143,335

11 Auditors' remuneration

	2021	2020
	£	£
Audit of these financial statements	47,807	40,000

Audit fees were incurred and paid for on behalf of the entity by the Company's parent entity, Babylon Holdings Limited.

12 Finance cost

	2021	2020
	£	£
Interest payable	1,375	2,045
Interest on leases	183,106	194,888
	184,481	196,933

13 Taxation

	2021	2020
	£	£
<i>Current tax</i>		
Current tax on loss for the period	-	-
<i>Deferred tax</i>		
Origination and reversal of timing differences	-	-
Total income tax charge/(credit)	-	-

Reconciliation of tax charge/(credit)

	2021	2020
	£	£
Profit for the year before tax	1,278,010	839,629
Tax on profit on ordinary activities at standard CT rate (19.00%)	242,822	159,530
Expenses not deductible for tax purposes	899	109,682
Group relief surrendered/(claimed)	(414,911)	133,257
Deferred tax not recognised	171,190	(402,469)
Tax provision (benefit) for the period	-	-

A reduction in the UK corporation tax rate from 19.0% to 17.0% (effective April 1, 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19.0% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. An increase in the UK corporation rate from 19.0% to 25.0% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future tax charge accordingly. The deferred tax liability at 31 December 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences (2020: 19.0%).

Unrecognized deferred tax assets

Due to uncertainty over future profitability a deferred tax asset of £1.6m (2020: £284k) relating to losses and other deductions, as well as intangible asset and short-term timing differences, has not been recognized. A tax rate of 19.0% was used to calculate the deferred tax asset.

14 Property, Plant and Equipment

	Leasehold Improvements	Fixtures and Fittings	Total
	£	£	£
Cost			
Balance at 1 January 2021	-	-	-
Additions	334,504	16,595	351,099
Disposals	-	-	-
Balance at 31 December 2021	334,504	16,595	351,099
Depreciation			
Balance at 1 January 2021	-	-	-
Depreciation charge for the year	-	-	-

14 Property, Plant and Equipment (continued)

Disposals	-	-	-
Balance at 31 December 2021	-	-	-
Net Book Value			
At 1 January 2021	-	-	-
Balance at 31 December 2021	<u>334,504</u>	<u>16,595</u>	<u>351,099</u>

15 Intangible assets

	Development Costs £	Intangibles under Development £	Total £
Cost			
Balance at 1 January 2020	60,186	16,164	76,350
Additions	-	196,686	196,686
Transfers	122,893	(122,893)	-
Balance at 31 December 2020	183,079	89,957	273,036
Balance at 1 January 2021	183,079	89,957	273,036
Additions	-	372,386	372,386
Transfers	199,264	(199,264)	-
Balance at 31 December 2021	382,343	263,079	645,422
Amortization and impairment			
Balance at 1 January 2020	(1,003)	-	(1,003)
Amortisation	(11,340)	-	(11,340)
Balance at 31 December 2020	(12,343)	-	(12,343)
Balance at 1 January 2021	(12,343)	-	(12,343)
Amortization for the year	(85,650)	-	(85,650)
Impairment	(14,179)	-	(14,179)
Balance at 31 December 2021	(112,172)	-	(112,172)
Net book value			
At 1 January 2020	59,183	16,164	75,347
At 31 December 2020 and 1 January 2021	170,736	89,957	260,693
At 31 December 2021	270,171	263,079	533,250

All development costs, including intangibles under development, have been internally generated. During 2021, £199,264 of intangibles under development were transferred to development costs as these projects were completed. Intangibles under development are tested for impairment at least annually.

The total net book value is considered to be the recoverable amount, as this balance is reviewed annually and impaired as necessary (Note 4). All development costs are related to software and artificial intelligence development and there are no distinguishable individually material intangible assets within the capitalised development costs. Development costs were impaired by £14,179 in 2021, mainly as a result of projects no longer being viable.

16 Cash and cash equivalents

	2021	2020
	£	£
Cash in hand and at bank	1,180,667	2,597,700

Cash in hand and at bank includes deposits and current accounts in financial institutions which earn interest at market rates. Current bank deposits also accrue interest at a market rate. Consequently, these assets are measured at an amount which is close to their fair value.

17 Trade and other receivables

	2021	2020
	£	£
Trade receivables	3,417,792	722,573
Prepayments	134,076	81,918
Other	159,876	171,676
	3,711,744	976,167

The company has assessed its expected credit loss estimate, in line with the requirements of IFRS 9, by taking into consideration historical credit loss experience and financial factors specific to the receivables and general economic conditions. As part of this assessment, the company has performed a recoverability assessment of its outstanding trade and other receivables at the reporting date and concluded that, due to uncertainty over recoverability, the expected credit loss as of 31 December 2021 is immaterial (2020: £820k).

18 Trade and other payables

	2021	2020
	£	£
Trade payables	298,165	250,050
Employee and social security liabilities	943,253	732,418
	1,241,418	982,468

Payables are normally settled within 30 days of the date of purchase and are non-interest bearing. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

19 Accruals and provisions

	2021	2020
	£	£
Accruals	747,295	623,266
Provisions	12,841	12,841
	760,136	636,107

20 Leases

The Company leases several assets which consist of buildings and IT equipment. The Company recognizes right-of-use assets and lease liabilities for its building leases only, as the leases for IT equipment meet the exemption requirements as short-term leases and leases of low-value assets. Therefore, the disclosures below for the Company's right-of-use assets relate only to buildings.

<i>Right of Use Asset</i>	£
Cost	
Balance at 1 January 2020	2,608,432
Additions to right-of-use-assets	-
Balance at 31 December 2020	<u>2,608,432</u>
Balance at 1 January 2021	2,608,432
Additions to right-of-use-assets	-
Balance at 31 December 2021	<u>2,608,432</u>
Amortization	
Balance at 1 January 2020	(110,374)
Amortization charge for the year	(307,695)
Balance at 31 December 2020	<u>(418,069)</u>
Balance at 1 January 2021	(418,069)
Amortization charge for the year	(307,895)
Balance at 31 December 2021	<u>(725,964)</u>
Net book value	
Balance at 1 January 2020	2,498,058
Balance at 31 December 2020 and 1 January 2021	2,190,363
Balance at 31 December 2021	<u>1,882,468</u>
<i>Lease liability</i>	£
Balance at 1 January 2020	1,590,139
Additions to lease liabilities	
Interest expense on lease liabilities	194,888
Principal payments on leases	(167,146)
Balance at 31 December 2020	<u>1,617,881</u>
Balance at 1 January 2021	1,617,881
Interest expense on lease liabilities (i)	183,106
Principal payments on leases	(396,476)
Balance at 31 December 2021	<u>1,404,511</u>

(i) Interest paid on lease liabilities are presented within cash flows from financing activities.

When measuring the lease liabilities, the Company discounted lease payments using its incremental borrowing rate. The weighted-average rate applied is 12.5%.

The following amounts have been recognized in the Statement of Profit and Loss for which the Company is a lessee:

20 Leases (Continued)

	2021	2020
	£	£
Depreciation expense on right-of-use assets	307,895	307,695
Interest expense on lease liabilities	183,106	194,888
Expenses relating to short term leases	474,744	379,198
Profit and loss impact	965,745	881,781

The following table provides the maturities of lease liabilities as of 31 December:

	2021	2020
	£	£
Short term (less than 1 year)	94,099	145,846
Long term (between 1 – 10 years remaining)	1,310,412	1,472,035
Total	1,404,511	1,617,881

21 Employee benefits

Pension plans

The Company operates a defined contribution plan, under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. During fiscal year 2021, the Company paid fixed contributions totalling £1,158,788 (2020: £832,471).

Equity Incentive Plans

Immediately prior to the closing of the Merger, we effected a reclassification (referred to below as the “Reclassification”) whereby all outstanding shares of Babylon, including the various options previously granted under the below plans, were reclassified to Class A ordinary shares or Class B ordinary shares, subject to a conversion ratio of approximately 0.3 (the “Conversion Ratio”). The description of activity in the narratives and tables below have been adjusted to reflect the Reclassification.

On 27 July 2015, the Board of Directors adopted the Babylon Holdings Limited Long Term Incentive Plan (the “LTIP”). Options granted under the LTIP were originally granted over Company’s Class B Shares. Following the Reclassification, the options subsist over Class A ordinary shares.

On 21 February 2021, the Board of Directors adopted the Company Share Option Plan (“CSOP”) and was intended to qualify as a company share option plan that meet certain requirements under the Income Tax Act of 2003. The options granted under the CSOP are, subject to certain qualifying conditions being met, potentially U.K. tax-favoured options.

In March 2021, the Company made an offer to all existing UK participants in the LTIP to convert their LTIP share options into the CSOP or into restricted stock awards (“RSAs”). All employees who elected to have their LTIP option converted to a new CSOP or RSA had their existing LTIP options forfeited and were granted an increased number of share options in line with the increased exercise price under the CSOP and RSA plans resulting in an equivalent economic value as compared to the grantee’s original award. There were no changes made to other terms, including vesting conditions or the period the original share options were granted. For the participants, within Babylon Healthcare Services Limited, who accepted the offer to transfer their LTIP awards into RSAs, a total of 531,162 LTIP options were cancelled and replaced with 576,621 RSAs during the year ending 31 December 2021. For the participants who accepted the offer to transfer their awards into CSOP options, a total of 1,165,194 LTIP options were cancelled and replaced with 1,352,214 CSOP options during year ending 31 December 2021.

On October 21, 2021, the shareholders approved the Babylon Holdings Limited 2021 Equity Incentive Plan, including the Non-Employee Sub-Plan (collectively, the “2021 Plan”). The 2021 Plan authorizes (a) the issuance of 13,700,125 Class A ordinary shares plus, (b) unless a lesser amount is approved by the Board prior to January 1st of a given year, an automatic increase on January 1st of each year, commencing on January 1,

21 Employee benefits (continued)

2022 and ending on (and including) January 1, 2031, in an amount equal to 5% of the total number of Class A ordinary shares outstanding on December 31st of the preceding calendar year, and (c) all or any part of an option or options to acquire unissued shares granted under the prior plans (the LTIP or CSOP described above) shall become available for award granted under the 2021 Plan subject to a maximum of 7,223,177 shares. Upon approval of the 2021 Plan, the LTIP and CSOP were no longer available for future awards. The 2021 Plan provides for the grant of options, share appreciation rights ("SARs"), RSAs, restricted share units ("RSUs"), and other share-based awards.

Share-based Payments

The parent company, Babylon Holdings Limited, issues equity settled share-based payments to employees of the Group and advisors, whereby services are rendered in exchange for rights over shares in the Group. Employees of all Group companies participate within this scheme through a variety of plans described above.

Under these plans, options are granted to employees at the start of their employment and typically expire between 10 to 15 years. Generally, upon completion of the first year of employment, 25.0% of options will vest, and the remainder will vest monthly over the next three years. In certain circumstances, additional options are

granted to employees to recognize performance. Such options vest in the same manner as those granted on joining. Share-based compensation expense is recognized using the graded vesting method.

Share-based payments are recognized as expense for RSUs, RSAs and options, net of forfeitures, as follows:

	2021 £	2020 £
Total share-based compensation expense	904,982	1,044,430

Restricted Stock Awards

The Company recorded share-based compensation expense related to RSAs of £0.02 million during the year ended 31 December 2021. As of 31 December 2021, the unrecognized compensation cost related to unvested RSAs is £0.03 million, which is expected to be recognized over the next one to two years.

Restricted Stock Units

The following table displays RSU activity and weighted average grant date fair values for the year ended 31 December 2021:

	RSUs	Weighted-Average Grant Date Fair Value Per RSU	
Balance at January 1, 2021	-	£	-
Granted	135,306	£	4.70
Vested and issued	-	£	-
Forfeited	-	£	-
Balance at December 31, 2021	135,306	£	4.70
Vested and unissued at December 31, 2021	95,934	£	4.70
Unvested at December 31, 2021	39,372	£	4.70

The Company recorded share-based compensation expense related to RSUs of £0.3 million during the year-ended 31 December 2021. There were no RSUs granted prior to 2021.

21 Employee benefits (continued)

Options

Options have been granted under the LTIP and CSOP described above. The fair value of each employee and non-employee stock option award was estimated on the date of grant for each option using the Black-Scholes option pricing model yielding a weighted average fair value of £5.62 for options granted during the year ended 31 December 2021. The key assumptions used for options granted during the year ended 31 December 2021, were as follows:

Fair value of underlying stock	£2.17 - £6.67
Volatility	63.4% - 70.0%
Risk-free interest rate	0.12% - 1.68%
Dividend yield	0% - 0%
Expected term (in years)	10.00 - 14.50

The number and weighted average exercise price of share options for the Group are as follows:

	Weighted average exercise price 2021 £	Number of options 2021	Weighted average exercise price 2020 £	Number of options 2020
Outstanding at the beginning of the year	0.01627	2,120,239	0.00054	1,866,974
Forfeited during the year	0.32147	(522,364)	0.00004	(83,413)
Exercised during the year	-	-	-	-
Granted during the year	0.54627	237,913	0.00004	336,678
Outstanding at the end of the year	0.49122	1,835,788	0.01627	2,120,239

As of December 31, 2021, the outstanding options had remaining contractual terms ranging from 6.9 - 15.0 years.

22 Capital and reserves

Share capital

	2021 £	2020 £
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

Retained earnings

The profit and loss account represents retained profits or losses less amount distributed to shareholders.

Share based payment reserve

The share-based payment reserve represents amounts accruing for equity-based share options granted.

23 Ultimate controlling party

The Company is a subsidiary undertaking of Babylon Holdings Limited, whose registered address is 31 Esplanade St, Jersey, JE1 1FT. The ultimate controlling party is ALP Partners Limited. The smallest and largest group in which the results of the company are consolidated is headed by Babylon Holdings Limited.

24 Related parties

Transactions with related parties

	Income from 2021 £	Income from 2020 £	Expenses incurred from 2021 £	Expenses incurred from 2020 £
Babylon Partners Limited	17,853,699	21,315,083	(8,408,727)	(9,103,822)

Other operating income includes amounts incurred on a long-term risk transfer agreement between the company and Babylon Partners Limited, a wholly owned subsidiaries of the Group (“BPL”), whereby BPL underwrites the entrepreneurial and commercial risk of the services provided by the company and a transfer is made from BPL to the company such that an agreed profit margin is maintained by the company.

Amounts due from and due to related parties

	Amounts due from 2021 £	2020 £	Amounts due to 2021 £	2020 £
Babylon Holdings Limited	-	-	(19,301,788)	(19,323,351)
Babylon Partners Limited	17,611,446	17,931,566	-	-
Babylon Health Canada Limited	-	8,336	-	-
	17,611,446	17,939,902	(19,301,788)	(19,323,351)

The amounts outstanding are unsecured, interest free and are repayable on demand. No guarantees have been given or received during the year ended December 31, 2021.

Management of the company have reviewed the intercompany receivable balances outstanding and have concluded the amounts will not be settled in the twelve months following the date of signing and therefore are all disclosed as non-current on the balance sheet.

Transactions with key management personnel

The Directors of the Company are considered key management. Due to the nature and operations of the Group, the remuneration of the Directors for their services to Babylon Healthcare Services Limited is not contained in the records of the Company. The directors are remunerated for their services to the group as a whole, which is disclosed in the financial statements of Babylon Partners Limited. The directors do not consider it material to apportion remuneration based on the services performed for individual undertakings within Babylon Healthcare Services Limited.

25 Financial risk management

The Company’s activities are exposed to various financial risks: credit risk, liquidity risk and currency risk in cash flows. The Company’s global risk management programme focuses on uncertainty in the financial markets and aims to minimise the potential adverse effects on the Company’s profits. The Company uses derivatives to mitigate certain risks.

The Company’s financial department controls the management of liquidity risk and currency risk in accordance with the Company’s policies. This department centrally identifies, evaluates and makes decisions whether to hedge financial risks to which the company is exposed.

25.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company’s receivables from customers and investments in debt securities. Our cash and cash equivalents and deposits are potentially subject to concentration of credit risk.

25 Financial risk management (continued)

Bank balances

The Company seeks to limit its credit risk with respect to banks by only dealing with reputable banks. The maximum amount of the Company's credit risk exposure is the carrying amounts of cash and cash equivalents and trades receivable. The Company attempts to mitigate such exposure to its cash by investing only in financial institutions with investment grade credit ratings or secured investments. The Company does not have significant exposure to credit risk at 31 December 2021 for any financial instruments.

Trade receivables

The responsibility for customer credit risk management rests with management. The Company seeks to limit its credit risk with respect to customers by implementing due diligence procedures on all customers. Payment terms vary and are set in accordance with practices in the different geographies and end-markets served. Credit limits are typically established based on internal or external rating criteria, which take into account such factors as the financial condition of the customers, their credit history and the risk associated with their industry segment.

More than 50% of the Company's customers are repeat customers, and none of these customers' balances have been written off or are credit-impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are a business or end-user customer, their geographic location, industry, trading history with the Company and existence of previous financial difficulties.

The Company receives cash payment for large contracts up front in some instances, in addition to contracting with government funded entities which subsequently carries lower risks.

The Company applies the simplified approach under IFRS 9 and has calculated expected credit losses based on lifetime expected credit losses, taking into consideration historical credit loss experience and financial factors specific to the receivables and general economic conditions and concluded that no expected credit loss provision is required as of 31 December 2021 (2020: £0).

25.2 Liquidity risk

Liquidity risk relates to the Company's ability to meet its cash flow requirements. The Company has a prudent policy to cover its liquidity risks which is focused on having sufficient cash and cash equivalents available.

25.3 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company has intercompany loans with both its parent company, Babylon Holdings Limited, and other international subsidiaries in the Group. As a result, Babylon Healthcare Services Limited is exposed to fluctuations in exchange rates.

25.4 Interest rate risk

The interest rate risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Company does not have any borrowings at floating interest rates that would expose the Group to cash flow interest rate risk.

25.5 Capital management

The Group is currently loss-making and, in the development, and growth phase of its business model. Consequently, there is an ongoing need for capital to fund the business and its continued growth. These capital requirements are currently met primarily from a mixture of equity capital raised from investors and debt capital borrowed from lenders. Capital management is focused on having sufficient financial resources to execute the Group's business plan with additional capital being raised when required.

26 Subsequent events

Grant of RSUs

On March 14, 2022, the Remuneration Committee of the Board of Directors granted employees RSUs under the 2021 Equity Incentive Plan, under which the holders have the rights to receive an aggregate 17,233,274 shares of the Babylon Holding Limited's Class A ordinary shares. Pursuant to the terms of the RSU awards, unvested shares are forfeited upon separation from the Company.