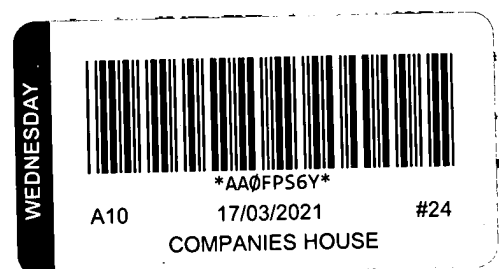


DILIGENTA LIMITED

Annual Report and Financial Statements

**For the year ended
31st December 2020**



Annual Report and Financial Statements for the year ended 31st December 2020

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COMPANY INFORMATION

Board of Directors

N G Subramaniam
Chairman

D Praveen
Chief Executive Officer

R Reid
Non-Executive Director

M Arthur
Non-Executive Director

S Muthuswami
Non-Executive Director

Company Secretary

A Jackson

Auditors

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL
United Kingdom

Registered Office

Lynch Wood
Peterborough
Cambridgeshire
PE2 6FY

Company Registration Number

05535029

Strategic Report

The Directors present their Strategic Report for the year to 31st December 2020.

Principal Activities

Diligenta Limited ("the Company") is a Private Company, limited by shares. The Company has continued to deliver successfully a range of Life and Pension Administration services throughout the year. The Company contracts with major Life and Pension insurance companies in the UK. The nature and scale of the Company's business mean that the Company is regulated by the Financial Conduct Authority (FCA). As a subsidiary of Tata Consulting Services Limited (TCS), the delivery of the Company's services is achieved through collaboration with other group companies.

The directors are committed to explore other growth opportunities and continue to tender for contracts providing Life and Pension Administration services to the UK Financial Services sector.

Review of Business and Future Developments

On 11th March 2020, the World Health Organisation declared the outbreak of COVID-19 to be a pandemic. Since that date, the Company has had to adapt its working practices to comply with UK Government guidelines and regulations, including a transition to extensive remote working for its employees. Throughout this challenging period, the Company has continued to deliver its core services to its clients and maintained its IT platforms in a fully operational state. The advent of the pandemic has however meant that a number of aspects of the Company's transformation projects, i.e. where it is transitioning policy handling from a client or other third-party service provider onto its own platforms, have encountered some delays.

The Company's focus has been to maintain strong Business Resilience in all aspects of its service and performance despite the unprecedented challenges posed by the COVID-19 pandemic. The Company continues to deliver a robust service with remote working enabled by the TCS Secured Borderless Workspace™ model (SBWS). Clients are appreciative of the efforts by the Company and its employees in adapting to SBWS quickly, maintaining a stable work environment and in making a positive impact to the Customer experience and outcomes.

Against this backdrop, revenue was flat, year on year, at £388 million in the year (2019: £387 million), principally due to the reduction in Change spend and deferral of project decisions by clients. Operating expenses increased to £353 million (2019: £346.3 million) as a result of additional customer service demands in view of COVID-19 uncertainties and additional staff and services being transferred under contract arrangements from clients at the start of service commencement. Operating profit therefore reduced by £6.4 million compared with the prior year, yielding £35.0 million (2019: £41.4 million).

Profit after tax was £28.1 million (2019: £33.3 million). Details of the results for the year ended 31 December 2020 and the previous year are set out in the financial statements and the related notes on pages 19 to 60.

In spite of the turmoil caused by the pandemic, with the positive support of its clients, the Company remains optimistic about its ability to continue to deliver large scale transformation programmes currently underway, with key milestones later in 2021 and also into 2022. The Company also sees further opportunities for organic growth, both in terms of extending the range of services to its existing client base as well as taking on new clients. In achieving such expansion, the Company recognises the need for continuing investment in its IT security and infrastructure and in ensuring that its regulatory compliance keeps pace with the growth in the business as well as new regulatory requirements.

Key Performance Indicators

In assessing the performance of the Company, the Directors monitor several key performance indicators, financial and non-financial. These are:

- Policy numbers administered: This key indicator is directly linked to revenue. During the year, the number of policies being administered stood at 18 million (2019: 18 million).
- Transformation milestones: key digital and policy migration transformation milestones have been delivered for the Phoenix Group, M&G and Lloyds Banking Group during the year with over 1.2 million policies being added to the Company's platform.
- Revenue: Revenue for the year has remained flat, £388 million (2019: £387 million), with increases in policy administration revenue and Transformations offsetting a steep reduction in Change demand.

- **Liquidity:** The Company regularly monitors its liquidity position to ensure that, even under stressed conditions, the Company has sufficient liquidity to meet its obligations. With no debt, the Company has adequate liquid assets to meet its obligations, including its Regulatory Capital requirement.
- **IT Security:** The Company's IT security performance remains strong. The IT and security teams have been involved in a substantial amount of COVID-19 related activities including the enablement of corporate devices and enabling remote working capabilities. The Directors are of the opinion that there are no significant unmitigated risks affecting the Company in executing its contracts.
- **Regulatory Breaches:** The Company and its clients have responsibility for regulatory compliance. Consequently, appropriate contractual arrangements are in place to provide clarity of respective responsibilities and information about regulatory matters flows from the Company to its clients and vice-versa. The Company has a dedicated Compliance function which provides continuous guidance to the business on compliance with regulatory matters. Regular, contractually required meetings between senior managers in the Company and its clients seek to identify issues at an early stage and act in concert both to prevent escalation or take necessary action.

Risk Management

Responsibility for setting as well as managing risk appetite and risk policy resides with the Board. The Board has delegated certain risk matters to the Risk Management and Compliance Committee, (formally established on 18 June 2020) which has a responsibility for [oversight and] monitoring management's implementation of the risk management framework within the Company. Prior to 18 June 2020, responsibility for risk management oversight was with the Board Audit and Compliance Committee.

This Company-wide risk management framework for the identification, assessment, measurement, and management of risk covers the full spectrum of risks that the Company is exposed to, with risks categorised as operational, strategic, regulatory, people, commercial or financial. Risks are entered in a register with each risk having a specified owner who is responsible for overseeing the necessary mitigating actions to keep the risk within the approved risk appetite. The status of risks is regularly assessed, at least once a quarter, to ensure that appropriate management actions are taken in an event that a key risk is deemed out of appetite.

The quarterly review of the risk register is done by the senior management team, Risk and Compliance Committee and the Board committees (Risk Management and Compliance Committee and Board Audit Committee). A risk dashboard is also provided to the Board.

Principal risks currently registered

Key risks include economic and political uncertainty alongside operational risk which is heightened by the current pandemic situation. The current key COVID-19 related operational risks for the Company are summarised below:

- Business continuity - Ability to deliver multiple / concurrent transformation programmes within the extended COVID-19 lockdowns, alongside Business as Usual (BAU) and regulatory change programmes across client accounts
- Recovering some aspects of the Company's services which have been impacted by significant death claims and changing customer behaviours emerging during lockdown
- Employee well-being - Supporting employees' well-being during extended periods of home working.

Other risks include:

IT and cyber security threats

Risks of cyber-attacks are a continued risk on account of the fast-evolving nature of the threat. In addition to impact on business operations, a security breach could result in reputational damage, penalties, and legal and financial liabilities.

The Company has invested in automated prevention and detection solutions, enhanced internal vulnerability detection, data leak prevention tools, defined and tested incident management and recovery processes.

Regulatory compliance

The Company operates in a highly regulated environment, its principal regulator being the Financial Conduct Authority (FCA). The Company's clients are regulated by both the FCA and the Prudential Regulatory Authority (PRA).

Both the Company and its clients have responsibility for regulatory compliance. Consequently, appropriate contractual arrangements are in place to provide clarity of respective responsibilities and information about regulatory matters flows from the Company to its clients and vice-versa.

The Company operates a '3 lines of defence' model. The Compliance function provides 2nd line oversight of, and guidance to, the business in respect of regulatory compliance, and carries out a programme of monitoring activities to assess regulatory compliance in the 1st line. In addition, Compliance has regular and frequent dialogue with the Company's Supervision Team at the FCA, encompassing the FCA's programme of proactive engagement with the Company. This has been focussed on areas which include:

- The Company's strategy and growth ambitions
- On boarding of new clients
- The effectiveness of its Board
- A review and validation of its regulatory authorisations and permissions
- Liquidity, stress testing and wind down plans

During the COVID-19 outbreak, contact with the FCA has increased and has been focussed on providing the regulator with assurance in the following areas:

- The maintenance of customer service and good customer outcomes.
- Operational and IT resilience.
- Change management.
- Cyber and information security.
- Staff wellbeing.

COVID-19

The Company's business is primarily UK focussed and the outbreak of COVID-19, in line with its global impact, is expected to impact the UK economy adversely as well as causing volatility in global financial markets. As the situation continues to evolve, so does the Company's assessment of the risks and the degree to which they might crystallise. The Company's resilience to such events is regularly reviewed through stress and scenario testing. Plans to continue to operate critical business processes are in place and are being continually reviewed in light of the COVID-19 outbreak.

As a result of the on-going COVID-19 pandemic and extended lockdowns, there may be an increasing negative impact on employee mental well-being, affecting their ability to work effectively, both at home and/or in the office where roles are deemed essential.

The Company has undertaken several initiatives, including extensive staff communication since the start of the COVID-19 pandemic, and has also undertaken staff surveys to obtain feedback to inform the ongoing communication programmes. To enhance the existing employee well-being offering, the Company has now launched a new 'Able Futures' Mental Health Wellbeing service offering, as provided for across England, Scotland and Wales, on behalf of the Department for Work & Pensions, led by Ingeus UK.

Financial Risk Management

The Company is exposed to financial risk through its financial assets and liabilities and its contractual obligations to its clients.

As a result of the pandemic, some of the contractual Transformation milestones, planned for delivery in 2020, have been realigned to 2021 and 2022 in agreement with the Company's clients.

The Company does not use hedging for any type of transactions. The exposure of the Company to credit risk is managed through regular reviews of the level and age profiles of amounts outstanding.

The directors do not consider that the Company and its activities are subject to any other significant financial risk.

Brexit

Brexit impacts continue to be monitored within the Company; the overall impact of Brexit on the Company's contracted services to clients has been low to date. There have been no Brexit related transactional surges or client related fund closure requests arising.

Clients have issued Brexit related customer scripts (Q&A's) for the Company to use to support Brexit related customer contact, and in some cases customer mailings have been issued in relation to potential bank account constraints and insurance product benefit limitations caused by localised EU territory variations.

All the Company's clients are UK based. Most policies administered by the Company are UK based policies (the EU based policy books administered by the Company are small in comparison). The Company has a very small number of critical EU third party suppliers, who provide services for a limited number of policies under administration.

The Company does not have large numbers of EU staff working in the UK. Finally, the Company's financial arrangements are not significantly impacted by the Pound (£) to Euro (€) exchange rates.

The Directors are of the opinion that there are no significant unmitigated risks affecting the Company in executing its contracts and that the Company continues to be fully supported by the infrastructure of its parent company.

The Directors have completed financial forecasts including future cash flows and undertaken an extensive exercise of scenario planning, including downside sensitivities.

The Company has access to considerable committed financial resources together with long-term contracts with a number of clients and suppliers and as a consequence the directors believe that the Company is well placed to manage its business risks successfully despite the continued uncertain economic climate.

The Company also maintains internal key performance indicators to monitor, evaluate and respond to identified risks. These include metrics regarding performance of financial performance, service level performance and employee metrics for delivery of services to each client and at overall organisational level.

Impact of COVID-19

The outbreak of the COVID-19 pandemic has presented a situation unparalleled in recent history.

The Company has addressed this situation with priority being given to safeguard the health and wellbeing of its employees while continuing to support its clients' mission-critical activities. Some of these measures are:

- Regular communication with all of the Company's employees, both through human resources and management teams, to answer their questions related to COVID-19 and to offer them moral support.
- Deployment of TCS' Secure Borderless Workspaces (SBWS™) infrastructure enabling employees to work remotely, thus responding to the Government's containment measures, while ensuring continuity of service. The transition was swift and minimised the operational impact. This has demonstrated the Company's operational resilience and consequently, the Company has received excellent feedback from customers and clients across accounts.
- The Company has continued to promote its digital propositions.
- Digital operating process changes are being worked upon with relevant client account teams in order to deliver superior customer journeys and business efficiencies.
- Regular communication with clients and suppliers on the measures taken to report on the progress of their projects.
- Regular communication with the Financial Conduct Authority.
- Regular analysis of clients' business needs in the current context.
- Continuous monitoring of funds to maintain an adequate level of liquidity in order to meet the Company's commitments.

The COVID-19 impact on the Company, as at the reporting date, is assessed under the following dimensions.

(a) Going concern and liquidity assessment

The Company is debt-free and has investments, cash and cash equivalents of £51 million as at 31 December 2020. The Investments element of cash and cash equivalents are liquid and can be called on at two days' notice. These balances are unencumbered and are at the free disposal of the Company. The aforesaid balances constitute 22% of gross total assets and thus assure liquidity for the Company.

The Company firmly believes that it has the financial strength and a portfolio of technology and business solutions which are even more relevant, in the current circumstances, in partnering with its clients to help them realise their goals. Reference is also drawn to Note-3a & b on "basis of preparation" & "Going Concern" forming a part of the basis of preparation of financial statements.

While the Company believes strongly that it has a rich portfolio of services to partner with clients, the impact on future revenue streams could come from the inability of the Company's clients to continue their businesses due to financial resource constraints or their services no-longer being availed by their customers. Based on current information available, it would be premature to make a realistic estimate of the impact on future revenue streams. The Company believes that it can re-align its operating levers to navigate through the period of crisis in a financially prudent manner.

(b) Property, Plant and Equipment and Right-of-use assets

These assets comprise the Company's office facilities, computer and office equipment. The Company does not foresee any large-scale contraction in demand which could result in significant down-sizing of the Company's employee base rendering physical infrastructure redundant. The leases that the Company has taken from landlords on properties are long term in nature and no changes in terms of those leases are expected due to the current crisis. The Company is reassessing its location strategy to take account of the impacts of COVID-19 and the adoption of the TCS Secure Borderless Workspace (SBWS™) model.

(c) Current Assets

The current assets, excluding investments, cash and cash equivalents stand at £134.6 million as on 31 December 2020. The projects in respect of which the cost or unbilled revenue is being carried forward, are continuing projects. There is no information regarding discontinuance or cancellation of on-going projects.

(e) Liabilities

The Company has taken steps to assess the cost budgets required to complete its performance obligations in respect of fixed price projects and incorporated the impact of likely delays/increased cost in meetings its obligations.

The Company has also assessed the impact of delays and its inability to meet contractual commitments and has taken actions such as engaging with its clients to agree on revised service level agreements (SLA's) in light of the current crisis to ensure that revenue is only recognised based on contractual arrangements.

Section 172(1) Statement

The Directors acknowledge their duty to promote the success of the Company for the benefit of its shareholder, employees, clients, and regulator, as well as the wider community in which it operates.

This financial year has seen the introduction of a number of new initiatives for employee engagement, as well as the continuation of existing programmes. The Company has enhanced its employee communication intranet, the Hub, to facilitate the distribution of information about the Company, the COVID-19 pandemic and employee wellbeing, making it accessible to all employees across both existing and new site locations and accounts.

Employee satisfaction surveys have continued to be undertaken, which cover all aspects of the working environment, and these have provided valuable feedback, to which the Directors have regard in their decision making.

A diversity and inclusion council, made up of management and workforce, has continued to meet to ensure that the Company represents a truly diverse and inclusive culture, that opportunities are provided for all employees and that the Company thrives to be a workplace that is understanding and welcoming of its diverse population with inclusion for all evident at the heart of its operations and culture. Feedback and ideas have been sought from the workforce on suggestions for ways to improve processes and operations and many of the inputs have been implemented with positive results.

The Board of Directors receives feedback from the Company's executive Management team, through presentations at meetings to assess the progress of various initiatives seeking views and observing the consistent fostering of the Company's culture among the employees.

Attrition of staff is always an area of focus for the Company, with the need to ensure that knowledge is retained. The Directors have ensured that regular information is received so that any trends can be identified, and positive action has been taken to address these.

The Company has complied with its obligation to produce a Gender Pay Gap report, which has been reviewed by Directors to identify any issues that require to be addressed.

The Company has continued to operate a graduate engagement programme and participates in the Government's apprenticeship levy scheme.

Directors have reviewed the financial position of the Company's defined benefits pension scheme and have continued to make the contributions, to ensure that the scheme's funding position remains strong.

On behalf of the Company's clients, Directors have supported the Company to develop and implement a new digital operating model, for delivery to the client's customers, online access to their financial arrangements and products in order to enhance the customer's access to important information.

Directors, through the executive Management team, have engaged with clients to identify ways to improve their businesses, with the result that existing clients have entrusted the Company with significant new business opportunities, in particular the agreement reached to take on the administration of an open-book pensions portfolio which will see the Company progress into new lines of business in line with the Company's long-term strategy.

Engagement with clients is frequent, at all levels of the Company's hierarchy, to ensure a full understanding of the Company's clients' needs and to foster good client relations. Feedback is provided to Directors by the executive Management team, to ensure that feedback of the Company's performance is gained.

Directors receive and consider information and data, from external agencies, around the client's customer's satisfaction with the services provided by the Company to ensure that standards are both maintained and improved.

The Company reviews and assesses its payment practices regarding supplier's invoices and these are annually reported to Companies House. The Company has clear processes in place, which Directors monitor, to ensure payment of Company liabilities are made promptly in line with agreed timescales. Directors review and approve the Company's Procurement and Supplier Management policy regularly.

The Company operates an annual charity partnership, raising funds through employee events which are fully supported by the Company.

The Directors ensure that the Company's relationship with its regulator, the Financial Conduct Authority, is maintained and enhanced through regular interaction on all aspects of the Company's business. In this year, the Company has continued to fully participate in the regulator's evaluation of the Company's business which has seen a number of initiatives being implemented and the Directors undertaking an external review of its own effectiveness. The Directors have considered all findings and have implemented such changes as were identified as being required.

The Company recognises the need to meet the dividend expectations of its shareholder, Tata Consultancy Services Limited, and this is a priority for directors. The Company has returned to profit in the recent financial years and this has enabled Directors to continue to declare a dividend for its shareholder.

Approved by the Board and signed on its behalf by:



Daniel Praveen
Chief Executive Officer

02 March 2021

Directors' Report

The Directors have pleasure in presenting their annual report of the Company, together with the financial statements and auditor's report for the year ended 31 December 2020. The monetary amounts are reported in GBP (£) and are rounded to the nearest thousand.

Details of the results for the year ended 31 December 2020 and the comparative previous year are set out in the financial statements and the related notes.

Principal Activities

The principal activity of the Company is the provision of a range of life and pension administration services to the UK Financial Services sector.

Dividends

The Directors recommend dividend payment of £5.0 million for the year ended 31 December 2020 (year ended 31 December 2019: £10.0 million).

Directors

The Directors, who served through the period, except as noted, were as follows:

N G Subramaniam
D Praveen
R Reid
M Arthur
S Muthuswami

Directors' Indemnities

The Company's parent undertaking Tata Consultancy Services Limited has made qualifying third-party indemnity provisions for the benefit of certain Directors which were made during the period and remain in force at the date of this report.

Employees

The Company has an established practice of keeping employees informed of matters affecting them and the financial and economic factors affecting the performance of the Company. This is done through a comprehensive system of consultation and communication involving regular meetings between management and employees and information releases.

The Company operates a 'Zero Tolerance' approach towards acts of bribery and corruption. The Company will not engage in any form of bribery or corrupt behaviour and will take firm and vigorous action against any individual who does not comply with this policy. This may involve disciplinary action being taken, which the Company will normally treat as gross misconduct, which may lead to dismissal, and legal action where appropriate. This action would be taken irrespective of whether criminal proceedings are pursued by the authorities.

It is the policy of the Company that training, career development and promotion opportunities are available to all employees.

The Company is committed to providing equal opportunities to all employees irrespective of their sex, age, sexual orientation, marital status, religion, race, or disability. It is the Company's policy to give positive consideration to disabled persons with respect to applications for employment, training, career development and promotion, having regard to each individual's particular aptitudes and abilities.

Employee Engagement

The Company operates a variety of different on-going Employee Engagement initiatives including interactions with various bespoke Employee / Management Forums, Trade Union and Regulative Committee representatives as an on-going basis that recognises and respects each other's separate and shared aims in the context of building a successful business. The Company recognises Unite the Union as the negotiating body for all its employees within the Bargaining Unit in various forms, each locational site having different Recognition Agreements in place from an information and consultation perspective applicability.

In summary, the Company and the employee representatives always seek to work together in a spirit of co-operation, wherever possible. This is achieved by timely and transparent communicating, consulting, and sharing of information, as well as listening and recognising the joint interests all parties have in making the Company a successful company and place to work.

Both parties recognise that open and timely sharing of relevant information, including movements in the markets in which the Company operates, is fundamental to the creation of trust and confidence required to underpin their on-going relationship. This has been most evident throughout the current COVID-19 pandemic of 2020 and into 2021.

All employee representatives recognise they are likely to become privy to confidential information and all (Employee Representatives) have agreed to maintain the confidentiality of any information provided to them until they are advised that this information can be disclosed to any third parties, including other union members, members of staff or management.

Engagement with Customer, Suppliers and others in a business relationship with the Company

The Directors have had regard to the need to foster the Company's business relationships with suppliers, clients and others. Please refer detailed discussion under Section 172(1) Statement, part of Strategic Report, on pages 7 to 8.

Creditor Payment Policy

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

Reporting in accordance with the Wates Corporate Governance principles for large Private Companies (the "Wates Principles")

The Company has applied the Wates Principles guidance in its entirety in the financial year ended 31 December 2020 and the report is set out below.

Purpose and Leadership

The Directors ensure that the Company operates with a clear sense purpose and collective vision by the continued publication of the Company's values to all stakeholders and through statements and communications issued by the Chief Executive Officer (CEO) and his Executive Management Team. The Directors have continued to hold dialogue with the workforce and wider stakeholders, through trade union information and consultation, management forums and the participation of the workforce in voluntary bespoke confidential surveys. The Directors, through the CEO have provided updates and corporate messages to the workforce via the Company's intranet, through town hall sessions and through regular cascade messages to the workforce through the management team.

The Company's purpose and values have been explained and integrated into the different functions and operations of the business in a robust manner. The objective setting process forms the backbone of the setting of and adherence to the Company's core values, and these have continued to be reinforced via the intranet as well as through publicity material visible throughout the Company's sites. The Company has continued to monitor culture by, conducting employee surveys, engagement with trade unions, reviewing absenteeism rates, conducting exit interviews and undertaking Board feedback sessions. The Directors have led on the establishment of transparent whistleblowing policies in relation to raising concerns about misconduct and unethical practices and put in place effective review processes.

Board Composition

The Directors have continued to collectively demonstrate an excellent understanding of the Company's business needs and stakeholder interests. The Company's Board of Directors is constituted of individuals with a wide range of industry and subject expertise. The chairman promotes open debate and facilitates constructive discussion. This enables the Board of Directors to be an open forum for discussion where varied views are tabled, and challenge is issued to the executive team on various matters. The Chairman ensures that all Directors have appropriate information and that sufficient time is made available for meaningful discussion. Detailed inputs are provided five working days before the Board meets and meetings take place quarterly with sufficient time being allowed for discussion of issues to be covered. The Company has a commitment to the ongoing professional development of its Directors who embrace such opportunities and ensure that they have sufficient time to discharge their duties.

The Company's policy on diversity and inclusion is underpinned throughout all of the Company's corporate policies in both spirit and practice, inclusive of a bespoke diversity and inclusion council which drives this agenda forward.

Director Responsibilities

The Directors have established and maintained corporate governance practices that provide clear lines of responsibility for individual Directors, including the non-executive Directors, to support effective decision-making. The Company has a full suite of policies that it reviews regularly against a number of criteria, including regulation, best practice and alignment to client policies, which govern its internal affairs. Policies have formally assigned owners who are responsible to the Board of Directors. The Directors have established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable.

The Directors have agreed and set out how conflicts of interest should be identified and managed within the Company, through a conflicts of interest policy which is trained and tested across the whole workforce every year.

Opportunity and Risk

The Directors have continued to consider and assess how the Company creates and preserves value over the long-term. The Company has processes for the identification of future opportunities for innovation and entrepreneurship, by operating in a variety of ways to ensure it remains innovative, including via market learning, in forums with its clients and by way of benefitting from the very extensive knowledge-based innovation which is a key strength of its parent company, Tata Consultancy Services Limited.

The Directors have oversight of risk, how it is managed, and appropriate accountability to stakeholders. There are clear areas of responsibility for individual Directors, including for the non-executive Directors, and all have identified areas of oversight over the key stakeholders and managers of the business. The Directors have established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable.

Remuneration

Remuneration for Directors and senior managers is aligned with performance, behaviours, and the achievement of company purpose, values and strategy. The Company utilises specialist external agencies to provide pay comparability methodologies to assist with determining remuneration throughout the Company.

In setting Director and senior manager remuneration, consideration has been given to remuneration throughout the organisation to reinforce a sense of shared purpose. The Directors have established clear policies on remuneration structures and practices which enable effective accountability to shareholders, taking account of the broader operating context, including the pay and conditions of the wider workforce and the Company's response to matters such as any gender pay gap, living wage etc.

Stakeholder Relationships and Engagement

The Company considers how its activities may impact both current and future stakeholders, including how these could impact on the environment in everything it does. This is carried out via the Company's conduct risk framework; environmental policy; HR policies (including workforce surveys); formal governance and feedback surveys with clients; end customer satisfaction results and analysis; regular meetings and audits with regulators; and charitable support, including formally supported charities.

The Company presents to stakeholders a fair, balanced and understandable assessment of the Company's position and prospects and makes this available on an annual basis through intranet communications and messages from executive management, results of workforce surveys and the publication of the Company's annual report and accounts.

The directors ensure that there is a range of formal and informal channels in place to receive appropriate feedback from discussions with stakeholders and the Company follows recognised international standards or frameworks. Workforce policies and practices are aligned with the Company's purpose and values.

Donations

Donations to charitable organisations in the year amounted to £Nil (2019: £15,000).

Streamlined Energy and Carbon Reporting

The Streamlined Energy and Carbon Reporting disclosure presents our carbon footprint inside the UK across Scope 1, 2 and 3, appropriate intensity metric, the total energy use of electricity and gas and an energy actions summary of actions taken during this financial year. Diligenta Limited can be classified as a low energy user for the current financial period. A low energy user is defined as consuming 40MWh or less during the reporting period – Diligenta only generated minimal transport emissions during the first two months of the year due to the Covid pandemic situation.

Access to any energy data besides transport emissions is not possible. All properties occupied by Diligenta are operated by the Landlord and a third-party FM company as shared facilities and so obtaining usage information relating to the business use has not been possible. Diligenta have no operational control over the energy use in the buildings they occupy.

	Kg CO2
Emissions from combustion of gas (Scope 1 – tonnes of CO2e)	Out of Scope
Emissions from combustion of fuel for transport purposes (Scope 1 – tonnes of CO2e)	Totals remain under reporting threshold due to lockdown travel restrictions throughout 2020
Emissions from electricity purchased for own use, including for the purposes of transport (Scope 2 – tonnes of CO2e)	Out of Scope (inclusive contracts for utilities)
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3 - tonnes of CO2e)	Scope 3 not applicable for 1 st year reporting
Total gross CO2e based on above	N/A - Under reporting threshold
Intensity ratio (kgCO2e/per full time employee)	N/A - Under reporting threshold

Actions summary

Diligenta Limited is committed to reducing carbon emissions through operational and technological improvements, wherever possible to include:

- Introduction of VC communication to reduce business miles
- Flexible home working approach where possible to reduce carbon footprint

Methodology

We have used 2020 UK Government's Conversion Factors for Company Reporting and the Energy Institute Energy Savings Opportunity Scheme toolkit and the GWPs used within that were consistent with those used in the 2020 UK Government Conversion Factors.

Reporting Period	1st January 2020 – 31st December 2020
Organisational boundary	Financial control approach
Alignment with financial reporting	SECR disclosure has been prepared in line with the annual accounts made up to 31 December 2020
Emissions factor source	DEFRA, 2020 for all emissions factors - https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020
Calculation method	Activity Data x Emission Factor = GHG emissions
Reason for the intensity measurement choice	The chosen metric is based on the number of full-time employees – (4,005 employees)

Disclosure of information to auditor

The Directors who held office at the date of approval of this Director's 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.

Other information

An indication of likely 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 3.

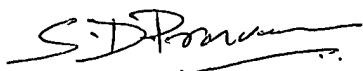
Auditor

KPMG LLP were appointed as auditors during the preceding year. "Following an elective resolution passed on 14 February 2007 to dispense with the annual reappointment of auditors, 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."

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Further information on the adoption of the going concern basis is set out in Note 3(b) to these financial statements.

Approved by the Board and signed on its behalf by:



Daniel Praveen
Chief Executive Officer

02 March 2021

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report, and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006 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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

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

Opinion

We have audited the financial statements of Diligenta Limited ("the company") for the year ended 31 December 2020 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended.
- have been properly prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- an inability to achieve the revenue growth targets in the Company's budget; and
- an inability to achieve collections on unbilled revenue amounts as they relate to the Company's transformation business

We also considered less predictable but realistic second order impacts, such as a sudden unexpected downturn in revenue related to Transformation projects.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Company's current and projected cash (a reverse stress test).

We considered whether the going concern disclosure in note 3b to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and, dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 3b to be acceptable.

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



Independent Auditor's Report to the Members of Diligenta Limited (continued)

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, the audit committee, internal audit, and the risk/compliance group and inspection of policy documentation as to the Company's policies and procedures to prevent and detect fraud, including the internal audit function, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/ audit committee minutes.
- Considering remuneration incentive schemes and performance targets
- Using analytical procedures to identify any usual 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 the subjective measurements involved in percentage of completion ("POC") revenue recognition, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that POC revenue is recorded incorrectly and the risk that Company management may be in a position to make inappropriate accounting entries and the risk of bias in POC estimates.

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 performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted with specific keywords in the text, back posted entries, and those which transfer costs from one project to another.
- Assessing significant accounting estimates for 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 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 license to operate. We identified the following areas as those most likely to have such an effect: Financial Conduct Authority (FCA) regulation of permitted activities and the related capital requirements due to 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



Independent Auditor's Report to the Members of Diligenta Limited (continued)

correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

Strategic report and Directors' report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small Companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 14, 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.



Independent Auditor's Report to the Members of Diligenta Limited (continued)

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.

A handwritten signature in black ink that reads 'Lynton Richmond'.

Lynton Richmond (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory
Auditor Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

4 March 2021

Statement of Financial Position
At 31 December 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
ASSETS			
Non-current assets			
Right-of-use assets	7	10,970	13,044
Property, plant, and equipment	8(a)	16,110	14,443
Intangible assets	8(b)	2,056	2,389
Deferred tax assets (net)	12	1,804	1,314
Income tax assets (net)		248	-
Unbilled receivables		1,743	2,131
Other financial assets	6(d)	70	-
Other assets	8(c)	11,327	13,870
Contract assets	8(c)	31,374	-
Total non-current assets		75,702	47,191
Current assets			
Other assets	8(c)	14,139	12,274
Contract assets	8(c)	58,013	64,746
Other financial assets	6(d)	212	415
Unbilled receivables		6,451	11,538
Trade receivables	6(c)	29,110	23,418
Investments	6(b)	29,000	46,000
Cash and cash equivalent	6(a)	21,999	6,623
Total current assets		158,924	165,014
TOTAL ASSETS		234,626	212,205
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Trade payables	6(f)	84,430	66,800
Lease liabilities	6(f)	4,278	3,157
Other financial liabilities	6(e)	7,096	2,912
Unearned and deferred revenue		532	5,706
Employee benefit obligations	13(a)	1,959	1,785
Income tax liabilities (net)		-	3,864
Other liabilities	8(d)	7,255	7,200
Total current liabilities		105,550	91,423
Non-current liabilities			
Lease liabilities	6(f)	7,318	9,955
Unearned and deferred revenue		-	6,579
Total non-current liabilities		7,318	16,534
TOTAL LIABILITIES		112,868	107,957

Statement of Financial Position (continued)

Equity			
Share capital	6(i)	1,000	1,000
Share premium		25,000	25,000
Retained earnings		53,758	36,248
Other reserve	6(i)	42,000	42,000
TOTAL EQUITY		121,758	104,248
TOTAL LIABILITIES AND EQUITY		234,626	212,205

The financial statements were approved by the Board of Directors and authorised for issue on 02 March 2021.
They were signed on its behalf by:



Daniel Praveen
Chief Executive Officer

02 March 2021

Notes 1 to 18 form part of the financial statements

Statement of Profit or Loss and other Comprehensive Income
For the year ended 31 December 2020

	Note	31 December 2020	31 December 2019
		£'000	£'000
Revenue	9	388,092	387,665
Operating expenses:			
Employee benefits expenses	13	(177,705)	(171,526)
Depreciation and amortisation expense	8(a),8(b)	(6,184)	(4,128)
Right of use assets depreciation	7	(3,532)	(2,977)
Other operating expenses	10	(165,709)	(167,623)
Total operating expenses		(353,130)	(346,254)
Operating profit		34,962	41,411
Other income / (expense):			
Finance and other income	11(a)	158	323
Finance cost	11(b)	(321)	(422)
Other gains/loss (net)		(340)	2
Total other (expense) / income		(503)	(97)
Profit before taxes		34,459	41,314
Income tax expense	12	(6,280)	(8,063)
Profit for the Year		28,179	33,251
Other comprehensive (losses) / income, net of taxes			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined employee benefit plans		(826)	1,928
Deferred tax on remeasurement of defined employee benefit plans		157	(366)
Total other comprehensive income / (losses), net of taxes		(669)	1,562
Total comprehensive income for the Year		27,510	34,813

Notes 1 to 18 form part of the financial statements

Statement of changes in Equity

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total Equity £'000
Balance at 01 January 2019	<u>1,000</u>	<u>25,000</u>	<u>42,000</u>	<u>11,435</u>	<u>79,435</u>
Profit for the year	-	-	-	33,251	33,251
Other comprehensive (loss)	-	-	-	1,562	1,562
Total comprehensive income	-	-	-	34,813	34,813
Dividend	-	-	-	(10,000)	(10,000)
Balance at 31 December 2019	<u>1,000</u>	<u>25,000</u>	<u>42,000</u>	<u>36,248</u>	<u>104,248</u>
Balance at 01 January 2020	<u>1,000</u>	<u>25,000</u>	<u>42,000</u>	<u>36,248</u>	<u>104,248</u>
Profit for the year	-	-	-	28,179	28,179
Other comprehensive income	-	-	-	(669)	(669)
Total comprehensive income	-	-	-	27,510	27,510
Dividend	-	-	-	(10,000)	(10,000)
Balance at 31 December 2020	<u>1,000</u>	<u>25,000</u>	<u>42,000</u>	<u>53,758</u>	<u>121,758</u>

Other reserve of £42,000,000 (2019: £42,000,000) relates to a capital redemption reserve following the redemption of preference shares in previous years. This is a non – distributable reserve.

Notes 1 to 18 form part of the financial statements

Statement of Cash Flows

	Note	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Cash flows from operating activities			
Profit for the year		28,179	33,251
Income tax expense	12	6,280	8,063
Adjustment to reconcile profit or loss to net cash provided by operating activities:			
Depreciation and amortisation expense	7, 8(a), 8(b)	9,716	7,105
Finance costs		321	422
Dividend income		(77)	(271)
Loss on modification of lease		185	-
Operating profit before working capital changes		44,604	48,570
Net change in:			
Trade receivables		(5,692)	(6,940)
Unbilled receivables		5,475	16,034
Other financial assets		285	673
Other assets		(24,790)	(49,551)
Trade payables		17,630	11,262
Unearned and deferred revenue		(11,753)	10,625
Other financial liabilities		4,184	405
Other liabilities and provisions		230	373
Cash generated from operations		30,173	31,451
Taxes paid (net of refunds)		(10,725)	(6,247)
Net cash generated from operating activities		19,448	25,204
Cash flows from investing activities			
Purchase of investments		(190,000)	(154,000)
Payment for purchase of property, plant and equipment	8(a)	(7,517)	(10,197)
Proceeds from disposal / redemption of investments		207,000	147,500
Dividend received		95	276
Net cash provided from/ (used in) investing activities		9,578	(16,421)
Cash flows from financing activities			
Dividend paid		(10,000)	(10,000)
Repayment of lease liabilities		(3,329)	(2,978)
Interest paid		(321)	(422)
Net cash used in financing activities		(13,650)	(13,400)
Net change in cash and cash equivalents		15,376	(4,617)
Cash and cash equivalents at the beginning of the year		6,623	11,240
Cash and cash equivalents at the end of the year		21,999	6,623

Notes 1 to 18 form part of the financial statements

Notes to the Financial Statements

1. General information

The Company is incorporated in the United Kingdom under the Companies Act. The address of the registered office is Lynch Wood, Peterborough, Cambridgeshire PE2 6FY and Company registration number is 05535029. The nature of the Company's operations and its principle activities are set out in the strategic and directors' reports.

2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB) and in accordance with the Companies Act 2006.

3.a Basis of preparation

The financial statements have been prepared on historical cost basis except for certain financial instruments which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

3.b Going concern

The financial statements have been prepared on the going concern basis. The directors have reviewed the budget and cash flow forecasts of the Company and considered severe but plausible downside scenarios which include a decrease in revenue in light of the possible impact of COVID-19 for a period of not less than 12 months from the date of approving these financial statements.

As discussed on Page 6 & 7, the Company has seen minimal impact on the business from COVID-19 and has taken numerous steps to ensure business continuity. In addition, the overall net position of the company has remained strong as the Company is debt free and has investment and cash and cash equivalent of £ 51 million as at 31 December 2020. The Company has also been trading close to budget with cash balances remaining in line with the working capital and capital requirements of the Company. 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 statement and therefore have prepared the financial statements on a going concern basis.

4. Use of estimates and judgements

The preparation of financial statements in conformity with the recognition and measurement principles of IFRS requires management to make estimates and judgements that affect the reported balances of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of income and expenses for the periods presented.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and future periods are affected.

Notes to the Financial Statements (continued)

The Company uses the following critical accounting estimates in preparation of its financial statements:

a. Revenue recognition

- The Company's contracts with clients could include promises to transfer multiple products and services to a client. The Company assesses the services promised in a contract and identifies distinct performance obligations in the contract. Identification of a distinct performance obligation involves judgement to determine the deliverables and the ability of the client to benefit independently from such deliverables.
- *Judgement is also required to determine the transaction price for the contract. The transaction price could be either a fixed amount of client consideration or variable consideration with elements such as volume discounts, service level credits, performance bonuses, price concessions and incentives. The transaction price is also adjusted for the effects of the time value of money if the contract includes a significant financing component. The Company has applied the practical expedient provided by IFRS 15, whereby the Company does not adjust the transaction price for the effects of the time value of money where the period between when the control on goods and services transferred to the client and when payment thereof is due, is one year or less. Any consideration payable to the client is adjusted to the transaction price unless it is a payment for a distinct product or service from the client. The estimated amount of variable consideration is adjusted in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and is reassessed at each reporting period. The Company allocates the elements of variable consideration to all the performance obligations of the contract unless there is observable evidence that they pertain to one or more distinct performance obligations.*
- The Company uses judgement to determine an appropriate standalone selling price for a performance obligation. The Company allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling price of each distinct product or service promised in the contract. Where standalone selling price is not observable, the Company uses the expected cost-plus margin approach to allocate the transaction price to each distinct performance obligation.
- 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 client consumes benefits as services are rendered or who controls the asset as it is being created or existence of enforceable right to payment for performance to date and alternate use of such product or service, transfer of significant risks and rewards to the client, acceptance of delivery by the client, etc.
- Revenue for fixed-price contracts is recognised using percentage-of-completion method. The Company uses judgement to estimate the future cost-to-completion of the contracts which is used to determine the degree of completion of the performance obligation.
- Contract fulfilment costs are generally expensed as incurred except for certain software licence costs which meet the criteria for capitalisation. Such software cost is amortised over the economic life of the licence. The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recovered

b. Employee benefits

The accounting of employee benefit plans in the nature of defined benefit requires the Company to use assumptions. These assumptions have been explained under the employee benefits note.

Notes to the Financial Statements (continued)

5. Recent accounting standards

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 16	:	Leases – COVID-19-Related Rent Concessions ¹
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	:	Interest Rate Benchmark Reform – Phase 2 ²
Amendments to IAS 1	:	Classification of Liabilities ³
Amendments to IAS 16	:	Property, plant and equipment: Proceeds before intended use ⁴
Amendments to IAS 37	:	Onerous Contracts - Costs of Fulfilling a Contract ⁴
Amendments to IFRS 3	:	Business Combinations - Reference to Conceptual Framework ⁴
Annual Improvements to IFRS Standards 2018-2020	:	IFRS 9 and IFRS 16 ⁴

¹Effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at May 28, 2020. The amendment is also available for interim reports.

²Effective for annual periods beginning on or after January 1, 2021.

³Effective for annual periods beginning on or after January 1, 2023.

⁴Effective for annual periods beginning on or after January 1, 2022.

IFRS 16 – COVID-19-Related Rent Concessions

In May 2020, International Accounting Standards Board (IASB) issued COVID-19-Related Rent Concessions, which provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. It requires lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications.

Lessees need to disclose that fact and need to apply the exemption retrospectively in accordance with IAS 8, but they do not need to restate prior period numbers. The practical expedient is available only for lease payments originally due up to June 2021. The Company has applied the amendment effective April 1, 2020 if applicable.

Interest Rate Benchmark Reform – Phase 2

In August 2020, IASB published 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The changes relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting. The Company is studying the amendments in order to evaluate the impact on its financial statements, if any.

IAS 1 – Classification of Liabilities

In January 2020, IASB issued the final amendments in Classification of Liabilities as Current or Non-Current, which affect only the presentation of liabilities in the statement of financial position. They clarify that classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months. The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. They make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The Company does not expect the amendments to have any significant impact on its presentation of liabilities in its statement of financial position.

IAS 16 – Proceeds before intended use

In May 2020, IASB amended IAS 16, which prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss. The Company does not expect the amendments to have any impact in its recognition of its property, plant and equipment in its financial statements.

Notes to the Financial Statements (continued)

IAS 37 – Onerous Contracts - Costs of Fulfilling a Contract

In May 2020, IASB issued Onerous Contracts - Cost of Fulfilling a Contract, which specify that that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts. The amendment is essentially a clarification and the Company does not expect the amendment to have any significant impact in its financial statements.

IFRS 3 – Reference to Conceptual Framework

In May 2020, IASB published Reference to Conceptual Framework, that update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework; add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and add to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. These changes do not significantly change the requirements of IFRS 3. The Company does not expect the amendment to have any significant impact in its financial statements.

IFRS 9 – Annual Improvements to IFRS Standards - 2018-2020

In May 2020, IASB amended IFRS 9 as part of its Annual Improvements to IFRS Standards 2018-2020. The amendment clarifies which fees an entity includes when it applies the '10 percent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. The company does not expect the amendment to have any significant impact in its financial statements.

IFRS 16 – Annual Improvements to IFRS Standards - 2018-2020

In May 2020, IASB issued an amendment to Illustrative Example 13 accompanying IFRS 16, as part of its Annual Improvements to IFRS Standards - 2018-2020, which removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. The amendment is only as regards the Illustrated example; therefore, no effective date is stated. The Company does not expect the amendment to have any significant impact in its financial statements

Notes to the Financial Statements (continued)

6. Financial assets, financial liabilities and equity instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value measured on initial recognition of financial asset or financial liability.

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired.

Cash and cash equivalents

The Company considers all highly liquid financial instruments, which are readily convertible into known amounts of cash that are subject to an insignificant risk of change in value and having original maturities of three months or less from the date of purchase, to be cash equivalents. Cash and cash equivalents consist of balances with banks which are unrestricted for withdrawal and usage.

Financial assets at amortised cost

Financial assets are subsequently measured at amortised cost if these financial assets are held within a business whose objective is to hold these assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through profit or loss

Financial assets are measured at fair value through profit or loss unless they are measured at amortised cost or at fair value through other comprehensive income on initial recognition. The transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are immediately recognised in statement of profit or loss.

The Company has deposits into Mutual Funds which are classified as financial assets measured through profit or loss. The Mutual Funds have a standard value of per unit which is the reference for any gains or losses on the holding. There has been no gain or loss on the holding of Mutual Funds.

Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method.

Equity instruments

An equity instrument is a contract that evidences residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments recognised by the Company are recognised at the proceeds received net of direct issue cost.

Impairment of financial assets (other than at fair value)

The Company assesses at each date of statement of financial position whether a financial asset or a group of financial assets is impaired. IFRS 9 requires expected credit losses to be measured through a loss allowance. The Company recognises lifetime expected losses for all contract assets and / or all trade receivables that do not constitute a financing transaction. In determining the allowances for doubtful trade receivables, the Company has used a practical expedient by computing the expected credit loss allowance for trade receivables based on a provision matrix. The provision matrix takes into account historical credit loss experience and is adjusted for forward looking information. The expected credit loss allowance is based on the ageing of the receivables that are due and rates used in the provision matrix. For all other financial assets, expected credit losses are measured at an amount equal to the 12-month expected credit losses or at an amount equal to the life time expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition.

Notes to the Financial Statements (continued)

a. Cash and cash equivalents

Cash and cash equivalents are held in a banking institution with a credit rating of AA- (Standard & Poor's) and consist of the following:

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Cash in hand and at banks	21,999	6,623

b. Investments

Investments consist of the following:

Investments - Current	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Investments carried at fair value through profit or loss		
Mutual fund units	29,000	46,000
Total	29,000	46,000

The mutual fund balances are deposits in a fund with daily liquidity, where the aim is to provide investors with security of capital together with an investment return which is comparable to normal Sterling-denominated money market interest rates.

Notes to the Financial Statements (continued)

c. Trade receivables

Trade receivables consist of the following:

Trade receivables – Current	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Trade receivables	29,110	23,418
Less: Allowance for doubtful trade receivables	-	-
Total	<u>29,110</u>	<u>23,418</u>

d. Other financial assets

Other financial assets consist of the following:

Other financial assets – Current	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Interest receivable	-	18
Employee loans and advances	105	142
Security deposits	7	7
Sub lease receivable	100	-
Restricted cash with Bank *	-	248
Total	<u>212</u>	<u>415</u>

*Diligenta Limited is the trustee under the Diligenta Group Life Assurance Scheme and, as such, receives funds ('trust money') from the insurers following the death of a member, and holds the trust money, as trustee.

Other financial assets – Non-Current	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Sub lease receivable	70	-
Total	<u>70</u>	<u>-</u>

*Sub lease receivable is on St Vincet premise in Glasgow (as per IFRS 16).

Notes to the Financial Statements (continued)

e. Other financial liabilities

Other financial liabilities consist of the following:

Other financial liabilities – Current	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Accrued payroll	<u>7,096</u>	<u>2,912</u>
Total	<u><u>7,096</u></u>	<u><u>2,912</u></u>

f. Financial instruments by category

The carrying value of financial instruments by categories as at 31 December 2020 is as follows:

	Fair value through profit or loss	Amortised cost	Total carrying value
	£'000	£'000	£'000
Financial assets			
Cash and cash equivalents	-	21,999	21,999
Trade receivables	-	29,110	29,110
Investments	29,000	-	29,000
Unbilled receivables	-	8,194	8,194
Other financial assets	-	282	282
Total	<u>29,000</u>	<u>59,585</u>	<u>88,585</u>
Financial liabilities			
Trade payables	-	84,430	84,430
Lease liability	-	11,596	11,596
Other financial liabilities	-	7,096	7,096
Total	<u>-</u>	<u>103,122</u>	<u>103,122</u>

The carrying value of financial instruments by categories as at 31 December 2019 is as follows:

	Fair value through profit or loss	Amortised cost	Total carrying value
	£'000	£'000	£'000
Financial assets			
Cash and cash equivalents	-	6,623	6,623
Trade receivables	-	23,418	23,418
Investments	46,000	-	46,000
Unbilled receivables	-	13,669	13,669
Other financial assets	-	415	415
Total	<u>46,000</u>	<u>44,125</u>	<u>90,125</u>

Notes to the Financial Statements (continued)

	Fair value through profit or loss	Amortised cost	Total carrying value
	£'000	£'000	£'000
Financial liabilities			
Trade payables	-	66,800	66,800
Finance lease liability	-	13,112	13,112
Other financial liabilities	-	2,912	2,912
Total	-	82,824	82,824

Carrying amounts of cash and cash equivalents, trade receivables, unbilled receivables and trade payables as at 31 December 2020 and 2019 approximate the fair value. Difference between carrying amounts and fair values of earmarked balances with banks, other financial assets, other financial liabilities and lease liabilities subsequently measured at amortised cost is not significant in each of the years presented.

£61 million of the trade payables balances represents amounts due to related undertaking (2019: £44 million).

g. Fair value hierarchy

The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable and consists of the following three levels:

- Level 1 — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 — Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 — Inputs are not based on observable market data (unobservable inputs). Fair values are determined in whole or in part using a valuation model based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The following table summarises financial assets and liabilities measured at fair value on a recurring basis and financial assets that are not measured at fair value on a recurring basis (but fair value disclosures are required):

As at 31 December 2020	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets:				
Mutual fund units	29,000	-	-	29,000
Total	29,000	-	-	29,000
As at 31 December 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets:				
Mutual fund units	46,000	-	-	46,000
Total	46,000	-	-	46,000

Notes to the Financial Statements (continued)

h. Financial risk management

The Company is exposed primarily to fluctuations in foreign currency exchange rates, credit, liquidity and interest rate risks, which may adversely impact the fair value of its financial instruments. The Company has a risk management policy which covers risks associated with the financial assets and liabilities. The risk management policy is approved by the Board of Directors. The focus of the risk management committee is to assess the unpredictability of the financial environment and to mitigate potential adverse effects on the financial performance of the Company.

i. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Such changes in the values of financial instruments may result from changes in the foreign currency exchange rates, interest rates, credit, liquidity and other market changes. The Company looks to mitigate the market risk by agreeing terms predominantly in the functional currency, securing fixed price borrowings and liquid investment.

(a) foreign currency exchange rate risk

The functional currency of the Company is GBP (£).

Foreign currency transactions are recorded at exchange rates prevailing on the date of the transaction. Foreign currency denominated monetary assets and liabilities are restated into the functional currency using exchange rates prevailing on the dates of statement of financial position. Gains and losses arising on settlement and restatement of foreign currency denominated monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are not translated.

The Company's transactions are mainly in GBP, hence its exposure to foreign currency exchange rate risk is limited.

(b) Interest rate risk

The Company is not exposed to interest rate risk.

ii. Credit risk

Credit risk is the risk of financial loss arising from counterparty failure to repay or service debt according to the contractual terms or obligations. Credit risk encompasses of both, the direct risk of default and the risk of deterioration of creditworthiness as well as concentration of risks. Credit risk is controlled by analysing credit limits and creditworthiness of customers on a continuous basis to whom the credit has been granted after obtaining necessary approvals for credit. The credit risk of financial instruments has not increased since the initial recognition.

Financial instruments that are subject to concentrations of credit risk principally consist of trade receivables, unbilled receivables, investments, cash and cash equivalents and other financial assets. Investments include an amount of £29,000,000 held as mutual funds. None of the other financial instruments of the Company result in material concentration of credit risk.

(a) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk was £89,585,000 and £90,125,000 as at 31 December 2020 and 31 December 2019, respectively, being the total of the carrying amount of balances with banks with high quality credit rating, trade receivables, unbilled receivables, other financial assets and investments.

(b) Trade Receivables and Contract assets

The entity's exposure to credit risk with regards to trade receivables and contract assets is influenced mainly by the individual characteristics of each customer in relation to the industry practices and business environment in which they operate. The entity limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 365 days for its customers after which they are in default (credit impaired). To manage this risk, the Company has a robust Credit Management process in place. The Company has adopted a policy of dealing only with creditworthy counterparties. The Company's exposure of the counterparties is continuously monitored and necessary changes to the credit terms are made. The carrying amounts of financial assets represent the maximum credit risk exposure. None of the customer balances have been written off and no customer balances have been credit impaired at the reporting date.

Notes to the Financial Statements (continued)

h. Financial risk management (continued)

The following customers form more than 10% of outstanding trade receivable and unbilled receivables as at 31 December 2020 and 31 December 2019

	£'000		£'000	
	As at 31 December 2020		As at 31 December 2019	
	Amount	%	Amount	%
Customer A	3,948	10.58	3,953	10.66
Customer B	11,352	30.43	11,310	30.50
Customer C	16,080	43.10	11,819	31.87
Customer D	3,399	9.11	7,065	19.05

Geographic concentration of credit risk

Geographic concentration of trade receivables (gross and net of allowances) and unbilled receivables is as follows:

	As at 31 December 2020		As at 31 December 2019	
	Gross%	Net %	Gross %	Net %
United Kingdom	100	100	100	100

Geographical concentration of trade receivables and unbilled receivables is allocated based on the location of the customers.

The Company uses an allowance matrix to measure the expected credit loss of trade receivable from customers. The expected credit loss allowance is based on the ageing of the days the receivables are due and are as follows:

As at 31 December 2020		in'000 £				
Ageing	Weighted average loss rate	Gross carrying amount*	Provision balance adjusted	Net Amount	Loss amount	Credit impaired
Not Due	0%	27.12	-	-	-	-
1-90 days	0%	0.11	-	-	-	-
91-180 days	0%	1.05	-	-	-	-
181-272 days	0%	0.00	-	-	-	-
273-364 days	100%	0.00	-	-	-	-
>365 days	100%	0.00	-	-	-	-
TOTAL		<u>28.28</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

* Gross carrying amount excludes inter-Company receivables

Notes to the Financial Statements (continued)

h. Financial risk management (continued)

iii. Liquidity risk

Liquidity risk refers to the risk that the Company cannot meet its financial obligations. The objective of liquidity risk management is to maintain sufficient liquidity and ensure that funds are available for use as per requirements.

The Company does not face a significant liquidity risk with regard to its lease liabilities as the current assets are sufficient to meet the obligations related to lease liabilities as and when they fall due.

The Company consistently generated sufficient cash flows from operations to meet its financial obligations as and when they fall due.

The tables below provide details regarding the contractual maturities of significant financial liabilities as at 31 December 2020

	Due 1 st year	Due 2 nd year	Due 3 rd to 5 th year	Due after 5 th year	Total
	£'000	£'000	£'000	£'000	£'000
Non derivative financial liabilities:					
Trade payables	84,430	-	-	-	84,430
Lease liability	4,368	3,934	3,618	-	11,920
Other financial liabilities	7,096	-	-	-	7,096
Total	95,894	3,934	3,618	-	103,446

The tables below provide details regarding the contractual maturities of significant financial liabilities as at 31 December 2019:

	Due 1 st year	Due 2 nd year	Due 3 rd to 5 th year	Due after 5 th year	Total
	£'000	£'000	£'000	£'000	£'000
Non derivative financial liabilities:					
Trade payables	66,800	-	-	-	66,800
Lease liability	3,393	3,343	7,088	-	13,824
Other financial liabilities	2,912	-	-	-	2,912
Total	73,105	3,343	7,088	-	83,536

Other risk – Impact of COVID-19

Financial assets carried at fair value as at 31 December 2020 is £29,000,000 and financial assets carried at amortised cost as at 31 December 2020 is £59,585,000. A significant part of the financial assets carried at fair values are classified as Level 1 having fair values of £29,000,000 as at 31 December 2020. The fair value of these assets is marked to an active market which factors the uncertainties arising out of COVID-19. The financial assets carried at fair value by the company are mainly investments in liquid securities and accordingly, any material volatility is not expected.

Financial assets of £21,999,000 as at 31 December 2020 carried at amortised cost is in the form of cash and cash equivalents, bank deposits and earmarked balances with banks where the company has assessed the counterparty credit risk. Trade receivables of £29,110,000 as at 31 December 2020 forms a significant part of the financial assets carried at amortised cost which is valued considering provision for allowance using expected credit loss method. In addition to the historical pattern of credit loss, we have considered the likelihood of delayed payments, increased credit risk and consequential default considering emerging situations while arriving at the carrying value of these assets due to COVID-19. This assessment is not based on any mathematical model but an assessment considering the nature of verticals, impact immediately seen in the demand outlook of these verticals and the financial strength of the customers.

Notes to the Financial Statements (continued)

Company closely monitors its customers who are going through financial stress and assesses actions such as change in payment terms, discounting of receivables with institutions on no-recourse basis, recognition of revenue on collection basis etc., depending on severity of each case. The collections pattern from the customers in the current period does not indicate stress beyond what has been factored while computing the allowance for expected credit losses. The same assessment is done in respect of unbilled receivables and contract assets of £ 97.58 million as at 31 December 2020 while arriving at the level of provision that is required. Basis this assessment, no credit loss allowance for trade receivables as at 31 December 2020 is considered.

i. Equity instruments

The Company's objective for capital management is to maximise shareholder value, safeguard business continuity and support the growth of the Company. The Company determines the capital requirement based on annual operating plans, long-term and other strategic investment plans. The funding requirements are met through equity and operating cash flows generated.

Diligenta is required by the Financial Conduct Authority (FCA) to hold sufficient resources to undertake regulated activities on behalf of its clients. As a regulated firm, the Company has a robust governance framework in place, underpinned by several governance committees which report into the Risk Management and Compliance Committee, the Board Audit Committee and ultimately to the Board of Directors. The regulatory capital threshold was revised from £17m to £27m during the year.

The authorised, issued, subscribed and fully paid up share capital consist of the following:

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
(a) Authorised		
Ordinary equity shares 2,000,000 of £1 each	2,000	2,000
Redeemable preference shares 50,000,000 of £1 each	50,000	50,000
(b) Issued, Subscribed and Paid Up		
1,000,001 ordinary equity shares of £1 each	1,000	1,000

Other reserve of £42,000,000 (2019: £42,000,000) relates to a capital redemption reserve following the redemption preference shares in previous years. This is a non – distributable reserve.

7. Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract and allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Company recognises right-of-use asset representing its right to use the underlying asset for the lease term at the lease commencement date. The cost of the right-of-use asset measured at inception shall comprise of the amount of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received, plus any initial direct costs incurred and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the underlying asset or site on which it is located. The right-of-use assets is subsequently measured at cost less any accumulated depreciation, accumulated impairment losses, if any and adjusted for any remeasurement of the lease liability. The right-of-use assets is depreciated using the straight-line method from the commencement date over the shorter of lease term or useful life of right-of-use asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Right-of-use assets are tested for impairment whenever there is any indication that their carrying amounts may not be recoverable. Impairment loss, if any, is recognised in profit or loss.

Notes to the Financial Statements (continued)

The Company measures the lease liability at the present value of the lease payments that are not paid at the commencement date of the lease. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the Company uses incremental borrowing rate. For leases with reasonably similar characteristics, the Company, on a lease-by-lease basis, may adopt either the incremental borrowing rate specific to the lease or the incremental borrowing rate for the portfolio as a whole. The lease payments shall include fixed payments, variable lease payments, residual value guarantees, exercise price of a purchase option where the Company is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The lease liability is subsequently remeasured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. The Company recognises the amount of the re-measurement of lease liability due to modification as an adjustment to the right-of-use asset and profit or loss depending upon the nature of modification. Where the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognises any remaining amount of the re-measurement in profit or loss.

The Company has elected not to apply the requirements of IFRS 16 to short-term leases of all assets that have a lease term of 12 months or less and leases for which the underlying asset is of low value. The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

Company as a lessor

At the inception of the lease, the company classifies each of its leases as either an operating lease or a finance lease. The company recognises lease payments received under operating leases as income on a straight-line basis over the lease term. In case of a finance lease, finance income is recognised over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. When the company is an intermediate lessor it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the company applies the exemption described above, then it classifies the sub-lease as an operating lease.

The details of the right-of-use asset held by the Company are as follows:

	Additions for the year 31 December 2020 £'000	Net Carrying amount as at 31 December 2020 £'000
Buildings	2,067	10,429
Computer Equipment	-	-
Vehicles	-	1
Office equipment	-	540
Total	2,067	10,970

Notes to the Financial Statements (continued)

Depreciation on right-of-use asset is as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Buildings	3,344	2833
Computer Equipment	37	111
Vehicles	10	10
Office equipment	141	23
Total	3,532	2,977

Amounts recognised in the statement of profit and loss

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Depreciation	3,532	2,977
Interest on lease liability	321	346
Expense relation to short term lease and lease of low value asset	122	578
Total	3,975	3,901

Amount recognised in statement of cash flow

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Total cash outflow for leases	3,772	3,676

Lease contracts entered by the Company majorly pertains for buildings taken on lease to conduct its business in the ordinary course. The Company does not have any lease restrictions and commitment towards variable rent as per the contract.

Extension Option

Some property leases contain extension options that the Company may exercise up to eleven months before the end of the non-cancellable contract period. The extension options maintained are exercisable by both the Company and the lessor. The Company evaluates on the start date of the lease if it is reasonably safe to exercise the extension options.

The Company has estimated that possible future lease payments of £5.4 million, in case of exercising the extension option, would result in an increase in lease liabilities of £5.19 million.

Impact of COVID-19

The Company does not foresee any large-scale contraction in demand which could result in significant down-sizing of our employee base rendering the physical infrastructure redundant. The leases that the company has entered with lessors towards properties used as delivery centres / sales offices are long term in nature and no significant changes in the terms of those leases are expected due to the COVID- 19.

Notes to the Financial Statements (continued)

8. Non-financial assets and liabilities

a. Property, plant and equipment

Property, plant and equipment are stated at cost comprising of purchase price and any initial directly attributable cost of bringing the asset to its working condition for its intended use, less accumulated depreciation (other than freehold land) and impairment loss, if any.

Depreciation is provided for property, plant and equipment so as to expense the cost less residual values over their estimated useful lives based on a technical evaluation. The estimated useful lives and residual values are reviewed at the end of each reporting period, with the effect of any change in estimate accounted for on a prospective basis. The estimated useful lives are as mentioned below:

Type of asset	Method	Useful lives
Leasehold improvements	Straight line	Lease term
Computer equipment	Straight line	4 years
Furniture and fixtures	Straight line	5 years
Office equipment and other assets	Straight line	5 years

Depreciation is not recorded on capital work-in-progress until construction and installation are complete and the asset is ready for its intended use. Capital work-in-progress includes capital advances.

Property, plant and equipment with finite life are evaluated for recoverability whenever there is any indication that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount (i.e. higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss.

Property, plant and equipment consist of the following:

	Computer equipment	Leasehold improvements	Capital work in progress	Total
	£'000	£'000	£'000	£'000
Cost as at 01 January 2020	27,117	1,223	-	28,340
Additions	7,309	172	37	7,518
Cost as at 31 December 2020	34,426	1,395	37	35,858
Accumulated Depreciation as at 01 January 2020	13,541	356	-	13,897
Depreciation for the year	5,550	301	-	5,851
Accumulated Depreciation as at 31 December 2020	19,091	657	-	19,748
Net carrying amount as at 31 December 2020	15,335	738	37	16,110

Notes to the Financial Statements (continued)

8(a). Property, plant and equipment (continued)

	Computer equipment	Leasehold Improvements	Capital work in progress	Total
	£'000	£'000	£'000	£'000
Cost as at 01 January 2019	24,270	310	271	24,851
Additions	9,365	832	-	10,197
Transition impact of IFRS 16	(6,708)	-	-	(6,708)
Transfers	190	81	(271)	-
Cost as at 31 December 2019	27,117	1,223	-	28,340
Accumulated Depreciation as at 01 January 2019	16,586	137	-	16,723
Depreciation for the year	3,515	219	-	3,734
Transition impact of IFRS 16	(6,560)	-	-	(6,560)
Accumulated Depreciation as at 31 December 2019	13,541	356	-	13,897
Net carrying amount as at 31 December 2019	13,576	867	-	14,443

b. Other Intangible assets

Intangible assets purchased, are measured at cost as at the date of acquisition, as applicable, less accumulated amortisation and accumulated impairment, if any.

Intangible assets are amortised on a straight-line basis.

Intangible assets consist of Pre-contract costs, rights under licensing agreement and software licences. The following table summarises the nature of intangibles and their estimated useful lives.

Nature of intangible	Useful lives
Pre-contract costs	10-12 years
Software license	License period
Rights under licensing agreement	2-5 years

Intangible assets with finite life are evaluated for recoverability whenever there is any indication that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount (i.e. higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss.

Notes to the Financial Statements (continued)

8(b) other intangible assets (Continued)

Intangible assets consist of the following:

	Pre-Contract costs	Rights under licensing agreement and software licences	Total
	£'000	£'000	£'000
Costs at 01 January 2020	5,162	6,905	12,067
Cost as at 31 December 2020	5,162	6,905	12,067
Accumulated amortisation as at 01 January 2020	5,162	4,516	9,678
Amortisation for the year	-	333	333
Accumulated amortisation as at 31 December 2020	5,162	4,849	10,011
Net carrying amount as at 31 December 2020	-	2,056	2,056
	Pre-Contract costs	Rights under licensing agreement and software licences	Total
	£'000	£'000	£'000
Costs at 01 January 2019	5,162	6,905	12,067
Cost as at 31 December 2019	5,162	6,905	12,067
Accumulated amortisation as at 01 January 2019	5,162	4,122	9,284
Amortisation for the year	-	394	394
Accumulated amortisation as at 31 December 2019	5,162	4,516	9,678
Net carrying amount as at 31 December 2019	-	2,389	2,389

Notes to the Financial Statements (continued)

c. Other assets

Other assets consist of the following:

Other assets – Current

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Advance to suppliers	151	164
Indirect tax recoverable	210	340
Prepaid expenses	2,742	3,285
Contract fulfilment costs *	11,036	8,485
	<hr/>	<hr/>
Total	14,139	12,274
	<hr/> <hr/>	<hr/> <hr/>

Other assets – Non-current

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Prepaid expenses	741	1,713
Contract fulfilment costs *	7,074	8,255
Net pension asset – refer note 13b	3,512	3,902
	<hr/>	<hr/>
Total	11,327	13,870
	<hr/> <hr/>	<hr/> <hr/>

* £10,092K has been charged to statement of profit or loss during the year ended 31 December 2020 from contract fulfilment cost.

Other assets – Current

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Contract assets	58,013	64,746
	<hr/>	<hr/>

Other assets – Non-current

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Contract assets	31,374	-
	<hr/>	<hr/>

Notes to the Financial Statements (continued)

Movement in contract assets is given below:

	Amount in £ '000
Opening balance as on 01 January 2020	64,746
Revenue recognised during the year	80,173
Invoices raised during the year	(55,532)
Closing balance as on 31 December 2020	89,387

d. Other liabilities

Other liabilities – Current	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Advance received from customers	-	100
Indirect tax payable and other statutory liabilities	7,186	6,819
Others*	69	281
Total	7,255	7,200

* There is no amount as on 31 December 2020 (31 December 2019 is £248,000) towards restricted cash with bank held by Diligenta Limited. Diligenta Limited is the trustee under the Diligenta Group Life Assurance Scheme and, as such, receives funds ('trust money') from the insurers following the death of a member, and holds the trust money, as trustee.

Other liabilities – Non-current	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Operating lease liabilities	-	61
Total	-	61

Notes to the Financial Statements (continued)

9. Revenue recognition

The Company earns revenue primarily from providing IT services, consulting and business solutions. The Company offers a consulting-led, cognitive powered, integrated portfolio of IT, business and engineering services and solutions.

Revenue is recognised upon transfer of control of promised products or services to customers in an amount that reflects the consideration that the Company expects to receive in exchange for those products or services.

- Revenue from time and material and job contracts is recognised on output basis measured by units delivered, efforts expended, number of transactions processed, etc.
- Revenue related to fixed price maintenance and support services contracts where the Company is standing ready to provide services is recognised based on time elapsed mode and revenue is straight lined over the period of performance.
- In respect of other fixed-price contracts, revenue is recognised using percentage-of-completion method ('POC method') of accounting with contract cost incurred determining the degree of completion of the performance obligation. The contract cost used in computing the revenues include cost of fulfilling warranty obligations.
- Revenue from the sale of distinct internally developed software and manufactured systems and third-party software is recognised upfront at the point in time when the system / software is delivered to the customer. In cases where implementation and / or customisation services rendered significantly modifies or customises the software, these services and software are accounted for as a single performance obligation and revenue is recognised over time on a POC method.
- Revenue from the sale of distinct third-party hardware is recognised at the point in time when control is transferred to the customer.
- The solutions offered by the Company may include supply of third-party equipment or software. In such cases, revenue for supply of such third-party products are recorded at gross or net basis depending on whether the Company is acting as the principal or as an agent of the customer. The Company recognises revenue in the gross amount of consideration when it is acting as a principal and at net amount of consideration when it is acting as an agent.

Revenue is measured based on the transaction price, which is the consideration, adjusted for volume discounts, service level credits, performance bonuses, price concessions and incentives, if any, as specified in the contract with the customer. Revenue also excludes taxes collected from customers.

Contract assets are recognised when there is excess of revenue earned over billings on contracts. Contract assets are classified as unbilled receivables (only act of invoicing is pending) when there is unconditional right to receive cash, and only passage of time is required, as per contractual terms.

Unearned and deferred revenue ("contract liability") is recognised when the billing is in excess of recognised revenue.

Billing to customers follows different schedules based upon the nature and type of goods and services being transferred. The billing schedules agreed with customers could include periodic performance-based payments and/or milestone-based progress payments. Invoices are payable within contractually agreed credit periods.

In accordance with IAS 37, the Company recognises an onerous contract provision when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits to be received.

Contracts are subject to modification to account for changes in contract specification and requirements. Contract modifications are reviewed in conjunction with the original contract. Based on the review, either the transaction price is allocated to a new performance obligation or the transaction price of an existing obligation undergoes a change. In the event that the transaction price is revised for an existing obligation, a cumulative adjustment is accounted for.

The Company disaggregates revenue from contracts with customers by industry segments, geography, and nature of services.

The Company generates revenue through the supply of outsourcing services to the UK Financial Services sector primarily in the Life and Pension industry.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Revenue from contracts with customers	388,092	387,665

All revenue is derived in the United Kingdom.

Notes to the Financial Statements (continued)

9. Revenue Recognition (continued)

While disclosing the aggregate amount of transaction price yet to be recognised as revenue towards unsatisfied or partially satisfied performance obligations, along with the broad time band for the expected time to recognise those revenues, the Company has applied the practical expedient in IFRS 15. Accordingly, the Company has not disclosed the aggregate transaction price allocated to unsatisfied (or partially satisfied) performance obligations which pertain to contracts where revenue recognised corresponds to the value transferred to customer typically involving time and material, outcome based and event-based contracts.

Unsatisfied (or partially satisfied) performance obligations are futuristic and therefore subject to variability due to several factors such as terminations, changes in scope of contracts, periodic revalidations of the estimates, economic factors (changes in currency rates, tax laws etc.). The aggregate value of transaction price allocated to unsatisfied (or partially satisfied) performance obligations is £ 170,489,609 out of which 57 % is expected to be recognised as revenue within the next 1 year and the balance thereafter. No consideration from contracts with customers is excluded from the amount mentioned above.

Movement in unearned and deferred revenue is given below:

	Amount in £ '000
Opening balance as on 01 January 2020	12,285
Revenue recognised that was included in the unearned and deferred revenue at the beginning of the year	(12,285)
Increase due to invoicing during the year, excluding amounts recognised as revenue during the year	532
Closing balance as on 31 December 2020	532

Impact of COVID-19

Company believes strongly that it has a rich portfolio of services to partner with customers, the impact on future revenue streams could come from the inability of our customers to continue their businesses due to financial resource constraints or their services no-longer being availed by their customers.. The financial performance in the current year reflects the impact on revenues from affected sectors and the Company has considered such impact to the extent known and available currently. While entities are re-calibrating their approach to deal with the economic impact of the pandemic in their operations, the assessment of impact on future revenues is a continuing process given the uncertainties associated with its nature and duration.

The supply side disruptions due to ongoing pandemic, which could result in having impact on future cost budgets or delays in meeting contractual commitments have largely been taken care of by deploying Secured Borderless Workspace Model™ (SBWS), approvals from the customer to render services through SBWS. The Company has taken steps to assess the cost budgets required to complete its performance obligations in respect of fixed price projects and incorporated the impact of likely delays / increased costs in meetings its obligations. Such impact could be in the form of provision for onerous contracts or re-setting of revenue recognition in fixed price contract where revenue is recognised on percentage-of-completion basis. The Company has also assessed the impact of delays and inability to meet contractual commitments and has taken actions such as engaging with the customer to agree on revised SLAs in light of current crisis, invoking of force-majeure clause etc. to ensure that revenue recognition in such cases reflect realisable revenues.

Notes to the Financial Statements (continued)

10. Cost recognition

The costs of the Company are broadly categorised into employee benefit expenses, depreciation and amortisation and other operating expenses. Employee benefit expenses include employee compensation, allowances, contribution to various funds and staff welfare expenses. Other operating expenses mainly include fees to external consultants, project expenses, software expenses, facility expenses, travel expenses, communication expenses, bad debts, and other expenses.

Other operating expense

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Project expenses	102,825	97,305
Software expense	18,821	21,316
Fees to external consultants and others	14,710	21,022
Facility expenses	4,648	6,238
Travel expense	644	1,872
Communication expense	6,881	6,131
Other expenses	<u>17,180</u>	<u>13,739</u>
Total	<u>165,709</u>	<u>167,623</u>

Remuneration of auditor for the year in respect of statutory audit services was £145k (Year to 31 December 2019: £90k), which includes a portion of fee paid by the Company's immediate Parent Company to the auditor's associate in India.

Notes to the Financial Statements (continued)

11. Other income

a. Finance and other income

Dividend income is recorded when the right to receive payment is established. Interest income is recognised using effective interest method.

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Dividend received	77	271
Others	81	52
	<hr/>	<hr/>
Total	158	323
	<hr/> <hr/>	<hr/> <hr/>

b. Finance cost

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Interest on lease liabilities	321	346
Other interest costs	-	76
	<hr/>	<hr/>
Total	321	422
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements (continued)

12. Income taxes

Income tax expense comprises current tax expense and the net change in the deferred tax asset or liability during the period. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

Current income taxes

Current tax is based on the taxable profit for the period and is calculated using tax rates that have been enacted by the end of the reporting period.

Advance taxes and provisions for current income taxes are presented in the statements of financial position after off-setting advance tax paid and income tax provision arising in the same tax jurisdiction and where the relevant tax paying unit intends to settle the asset and liability on a net basis.

Deferred income taxes

Deferred income tax is recognised using the balance sheet approach. Deferred income tax assets and liabilities are recognised for deductible and taxable temporary differences arising between the tax base of assets and liabilities and their carrying amount, except when the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be received or settled.

The income tax expense consists of the following:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Current tax		
Current tax expense	6,613	7,596
Current tax pertaining to prior periods	-	60
Total	6,613	7,656
Deferred tax		
Deferred tax expense	(333)	428
Deferred tax pertaining to prior periods	-	(21)
Total	(333)	407
Total tax	6,280	8,063

Notes to the Financial Statements (continued)

12. Income taxes (continued)

The reconciliation of estimated income tax expense at statutory income tax rate to income tax expense reported in statements of profit or loss is as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Profit before taxes	34,459	41,314
Statutory income tax rate	19%	19%
Expected income tax expense	<u>6,547</u>	<u>7,850</u>
Tax effect of adjustments to reconcile expected income tax expense to reported income tax expense:		
Income exempt from tax	(2)	(8)
Tax on income at different rates	(265)	158
Tax pertaining to prior years	-	60
Disallowable expenses	-	24
Deferred tax pertaining to prior years	-	(21)
Total income tax expense	<u><u>6,280</u></u>	<u><u>8,063</u></u>

The Budget on 8 July 2015 announced changes in the main UK corporation tax rate. The tax rate currently is 19%.

The reduction in tax rates was included in the 2015-2016 Finance Act which was substantively enacted for the purposes of IFRS and UK GAAP (i.e., having completed its Commons stages) on 26 October 2015.

The Budget on 16 March 2016 announced further changes in the main UK corporation tax rate. The effective rate of 18% from 1 April 2020 was to be further reduced to 17%.

This further reduction in tax rates was included in the 2016 Finance Act which was substantively enacted for the purposes of IFRS and UK GAAP (i.e., having completed its Commons stages) on 6 September 2016.

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly. The deferred tax asset/ (liability) at 31 December 2020 has been calculated at 19% (2019: 17%).

Notes to the Financial Statements (continued)

12. Income taxes (Continued)

Significant components of net deferred tax assets and liabilities for the year ended 31 December 2020 are as follows:

	Opening balance	Recognised In Retained earnings	Recognised in profit or loss	Recognised in / from other comprehens ive income	Closing Balance
	£'000	£'000	£'000	£'000	£'000
Deferred tax assets / (liabilities) in relation to					
Property, plant and equipment and intangible assets	1,389	-	350	-	1,739
Provision for employee benefits and compensated absences	(423)	-	(28)	157	(294)
IFRS 16	63	-	-	-	63
Others	285	-	11	-	296
Total deferred tax assets / (liabilities)	1,314	-	333	157	1,804

	Assets	Liabilities	Total
	£'000	£'000	£'000
As at 31 December 2020			
Property, plant and equipment and intangible assets	1,739	-	1,739
Provision for employee benefits and compensated absences	372	(666)	(294)
Operating lease liabilities	-	-	-
Transition impact of IFRS 16	-	-	-
Others	296	-	296
IFRS 16	63	-	63
Total deferred tax asset / (liabilities)	2,470	(666)	1,804

Notes to the Financial Statements (continued)

12. Income taxes (continued)

Significant components of net deferred tax assets and liabilities for the year ended 31 December 2019 are as follows:

	Opening balance	Recognised In Retained earnings	Recognised in profit or loss	Recognised in / from other comprehen sive income	Closing Balance
	£'000	£'000	£'000	£'000	£'000
Deferred tax assets / (liabilities) in relation to					
Property, plant and equipment and intangible assets	1,741	-	(352)	-	1,389
Provision for employee benefits and compensated absences	26	-	(83)	(366)	(423)
IFRS 16	-	42	21	-	63
Others	278	-	7	-	285
Total deferred tax assets / (liabilities)	2,045	42	(407)	(366)	1,314

	Assets	Liabilities	Total
	£'000	£'000	£'000
As at 31 December 2019			
Property, plant and equipment and intangible assets	1,389	-	1,389
Provision for employee benefits and compensated absences	274	(697)	(423)
Operating lease liabilities	-	-	-
Transition impact of IFRS 16	42	-	42
Others	285	-	285
IFRS 16	21	-	21
Total deferred tax asset / (liabilities)	2,011	(697)	1,314

Notes to the Financial Statements (continued)

13. Employee Benefits

Defined benefit plans

For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the date of each statement of financial position. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Past service cost, both vested and unvested, is recognised as an expense at the earlier of (a) when the plan amendment or curtailment occurs; and (b) when the entity recognises related restructuring costs or termination benefits.

The retirement benefit obligations recognised in the statement of financial position represents the present value of the defined benefit obligations reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the scheme.

Defined contribution plans

Contributions to defined contribution plans are recognised as expense when employees have rendered services entitling them to such benefits.

Compensated absences

Compensated absences that are expected to occur within twelve months after the end of the period in which the employee renders the related services are recognised as an undiscounted liability at the date of statement of financial position. Compensated absences that are not expected to occur within twelve months after the end of the period in which the employee renders the related services are recognised as an actuarially determined liability at the present value of the defined benefit obligation at the date of financial position.

Employee benefit expenses consist of the following:

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Salaries, incentives and allowances	149,984	143,610
Social security and pension costs	24,701	24,582
Staff welfare expenses	3,020	3,334
Total	177,705	171,526

The average number of employees was as follows:

	Year ended 31 December 2020 No.	Year ended 31 December 2019 No.
Administration	5,028	4,977

Notes to the Financial Statements (continued)

13. Employee Benefits (continued)

Employee benefit obligations consist of the following:

a. Employee benefit obligations - current

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Compensated absences	1,959	1,785
Total	1,959	1,785

b. Employee benefit obligations – non - current

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Net defined benefit pension asset	3,512	3,902
Total	3,512	3,902

Notes to the Financial Statements (continued)

13. Employee Benefits (continued)

Defined contribution scheme

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The total cost charged to income of £11,619,657 (2019: £12,025,563) represents contributions payable to these schemes.

Employee benefit plans

The following table sets out the details of the defined benefit retirement plans and the amount recognised in the financial statements.

The Company operates a defined benefit pension scheme for the benefit of certain employees. The scheme is closed to new joiners. During 2007/8 certain employees transferred under Transfer of Undertaking (Protection of Employment) TUPE to TCS Limited. Therefore, the pension scheme is a group scheme. As a majority of staff remained within the Company and consolidated accounts including TCS are not available in the UK, the pension scheme has been reported fully in these financial statements.

The plan closed to future accrual on 31 March 2014 with current active members receiving a deferred pension in the plan.

The pension scheme assets are held in a separate Trustee administered fund to meet long term pension liabilities to past and present employees. The Trustees of the fund are required to act in the best interests of the fund's beneficiaries. The appointment of Trustees to the fund is determined by the scheme's trust documentation.

Costs and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuation was carried out as of 31 March 2018 and updated to 31 December 2020 by a qualified independent actuary.

The movement in the present value of defined benefit obligations during the year were as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Plan liabilities at the beginning of the year	33,814	30,854
Interest costs	671	850
Actuarial loss / (gain) on liabilities	7,052	3,117
Benefits paid from plan assets	<u>(570)</u>	<u>(1,007)</u>
Plan liabilities at the end of the year	<u>40,967</u>	<u>33,814</u>

The movement in the fair value of scheme assets during the year was as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Fair value of assets at the beginning of the year	37,716	32,456
Actuarial return on assets	6,838	5,807
Employer contributions	495	460
Benefits paid	<u>(570)</u>	<u>(1,007)</u>
Fair value of assets at the end of the year	<u>44,479</u>	<u>37,716</u>

Notes to the Financial Statements (continued)

13. Employee Benefits (continued)

The amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Fair value of assets	44,479	37,716
Present value of scheme liabilities	(40,967)	(33,814)
Net pension asset	3,512	3,902

The analysis of the scheme assets at the balance sheet date was as follows:

	Fair value of assets	
	As at 31 December 2020	As at 31 December 2019
	£'000	£'000
Bonds	15,703	14,758
Cash	342	687
Diversified Growth Funds	11,731	11,096
Liability Driven Investment	16,703	11,175
Total	44,479	37,716

The amounts charged within the operating profit were:

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Current scheme expenses	140	137
Total	140	137

Other finance cost comprises:

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Interest on plan liabilities	671	850
Expected return on assets in the plan	(752)	(899)
Total	(81)	(49)

Notes to the Financial Statements (continued)

13. Employee Benefits (continued)

The amount recognised in the other comprehensive income is:

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Actual return less interest on pension scheme assets	6,226	5,045
Change in the assumptions underlying the present value of the scheme liabilities	(7,052)	(3,117)
Total before adjustment for tax	(826)	1,928
Adjustment for tax	157	(366)
Total gain / (loss) recognised in the statement of comprehensive income	(669)	1,562

The cumulative amount of actuarial gains and losses recognised in other comprehensive income since the pension scheme creation is £3,719,000 (December 2019: £4,388,000).

The main assumptions used by the actuary were:

	31 December 2020 % p.a	31 December 2019 % p.a
Discount rate	1.25	2.00
Rate of increase of pensions in payment	2.35	2.00
Retail Price Index (RPI) inflation	2.90	3.00

The Company has updated its approach since the prior year to setting its CPI inflation assumptions in light of the RPI reform consultation published on the 25th November 2020 by the UK Chancellor and UK Statistics Authority. For CPI, the Company reduced the assumed difference between RPI and CPI by 0.45% (from 1.00% per annum at the prior year to an average of 0.55% per annum at 31 December 2020) to reflect increased clarity on the future of the RPI index. The estimated impact of this change is a £1.1m increase in the Defined Benefit Obligation."

Based on the discount of 1.25% the estimate duration of the defined benefit obligation as at December 2020 is 22 years.

Estimated contributions to be made to the plan by the Company in the year ending 31 December 2021 is £495k. This estimate is in line with the annual employer contribution of £495k, made up of funding contributions of £375k and scheme expenses of £120k, that was approved by the Board in April 2019.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions holding other assumptions constant would have affected the defined benefit obligation by the amounts shown below.

	31 December 2020 Increase £'000	31 December 2020 Decrease £'000	31 December 2019 Increase £'000	31 December 2019 Decrease £'000
Discount rate (0.5% movement)	(4,097)	4,506	(3,381)	3,720
RPI Inflation (0.5% movement)	2,458	(2868)	2,029	(2,029)
Assumed life expectancy (1 year)	1,638	-	1,014	-

The COVID-19 pandemic has had a significant impact on asset markets and corporate bonds yields, which are key to the IAS19 assessment of the net pension asset or liability. Following initial volatility at the start of the pandemic, AA corporate bond yields, used to set the IAS19 discount rate, have somewhat stabilized. There is unlikely to be a material change in the reporting position as at 31 January 2021.

Notes to the Financial Statements (continued)

13. Employee Benefits (continued)

Assumptions

The mortality assumptions have been updated based on the preliminary results of the 2012 actuarial valuation (but using a best estimate assumption) and is consistent with the previous period.

Expected Lifetime at 31 December 2020

The expected lifetime of a participant who is age 60 and the expected lifetime (from age 60) of a participant who will be aged 60 in 20 years are shown in years below:

Age	Males	Females
60	26.2	28.1
60 in 20 years	27.3	29.3

Movement in related deferred tax liability	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Related deferred tax liability at beginning of year	(736)	(304)
Recognised through profit and loss account	(71)	(65)
Recognised through statement of comprehensive income	156	(367)
Related deferred tax liability at end of year	(651)	(736)
Projected benefits payable in future years from the end of the current year	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
1 st following year	477	638
2 nd following year	560	447
3 rd following year	549	543
4 th following year	649	625
5 th following year	813	619
Years 6 to 10	4811	4,389
The movement in the surplus during the year was:	31 December 2020 £'000	31 December 2019 £'000
Surplus in the plan at the beginning of the year	3,902	1,602
Current service costs	(140)	(137)
Contributions paid	495	460
Other finance income	81	49
Actuarial gain / (loss)	(826)	1,928
Surplus in the plan at the end of the year	3,512	3,902

Notes to the Financial Statements (continued)

14. Directors Remuneration

Remuneration in respect of directors during the year was as follows:

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Emoluments (excluding pension contributions)	405	368
Company contributions to money purchase pension schemes	11	10
	416	378
	416	378

During the year, no directors (2019: none) participated in defined benefit pension schemes and no director (year ended 31 December 2019: none) participated in money purchase pension schemes.

The emoluments disclosed in the notes to these accounts are in respect of the directors with qualifying services for the Company and in relation to those directors comprises their total emoluments in respect of services to the Company.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Highest paid director's remuneration:		
Aggregate amount of emoluments (excluding pension contributions)	333	297
Pension contributions to money purchase pension schemes	11	10
	344	307
	344	307

15 Commitments and contingencies

Commitments

The Company has contractually committed £584,774 as at 31 December 2020 and as £836,730 as at 31 December 2019 for purchase of property, plant and equipment.

Contingencies

The Company has no material contingencies to the best knowledge of the Directors as at 31 December 2020 and 31 December 2019.

Notes to the Financial Statements (continued)

16. Related party transactions

The Company's principal related parties consist of its holding company TCS Limited and its subsidiaries. All transactions are conducted on normal commercial terms, settled through cash payments / receipts. None of the balances are secured. No expense has been recognised in the current or prior period for bad or doubtful debts in respect of amounts owed by related parties.

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Services received from TCS Limited	99,359	93,775
Services provided to TCS Limited	3,503	3,535
Expenses recharged to TCS Limited	308	108
Expenses recharged by TCS Limited	2,585	2,574
Dividend paid	10,000	10,000
	As at 31 December 2020	As at 31 December 2019
Amounts due from TCS Limited	832	699
Amounts owed to TCS Limited	61,915	44,054

Tata Communications Limited ("TCOM") is a fellow subsidiary of TCS Limited. The following transactions and balances are all conducted on an arm's length basis and settled through cash payments.

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Services received from TCOM	1,279	744

17. Subsequent Events

The company has no adjusting or material non adjusting post balance sheet event that require disclosure.

18. Parent Undertakings

The Company's immediate parent undertaking and controlling entity is Tata Consultancy Services Limited ("TCS"), a Company incorporated in India which is registered as a foreign Company in the United Kingdom. The registered office is 9th Floor, Nirmal Building, Nariman Point, Mumbai, 400 021, India. The Company's ultimate parent undertaking and controlling entity is Tata Sons Limited whose registered office is Bombay House, 24 Homi Mody Street, Mumbai, 400 001, India. The smallest and largest Company accounts in which these results are consolidated are TCS and Tata Sons Limited respectively.