

Company registration number: 03475849 (England and Wales)

APTITUDE SOFTWARE LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020



# APTITUDE SOFTWARE LIMITED

## COMPANY INFORMATION

Directors	P Wood J Suddards
Company secretary	G Sharley
Company registration number	03475849
Registered office	Old Change House 128 Queen Victoria Street London England EC4V 4BJ
Independent auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG

# APTITUDE SOFTWARE LIMITED

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# APTITUDE SOFTWARE LIMITED

## STRATEGIC REPORT

### for the year ended 31 December 2020

#### Principal activities

The principal activity of Company is a specialist provider of powerful financial management software to large global businesses.

#### Financial Highlights

Year ended 31 December	2020 £000	2019 £000	% Change
Annual Recurring Revenue*	31,200	28,100**	+11%
- Software and subscription revenue	18,730	17,305	+8%
- Implementation and solution management services revenue	16,555	19,765	-16%
Revenue	35,285	37,070	-5%
Operating profit before non-underlying items	8,964	9,644	-7%
Statutory operating profit	9,412	9,173	+3%

\*Amount represents the Aptitude Group, of which the Company is a material contributor. Annual Recurring Revenue ('ARR') is the value of Aptitude Software's software and subscription recurring revenue at a specific point in time, normalised to a one-year period. ARR includes recurring revenues contracted but yet to commence and excludes recurring revenues which are currently being received but are known to be terminating in the future.

\*\*Constant currency is calculated by comparing the 2020 results with 2019 results retranslated at the rates of exchange prevailing during 2020. Items within the Financial Highlights table indicated by this superscript reference are calculated on a constant currency basis.

#### Business review

##### Overview

Aptitude Software made strategic and operational progress in a year in which the Group's key markets were disrupted by the onset of the pandemic.

In the initial months of Covid, a number of sales and implementations were slowed as organisations focused on other priorities, however, a more typical business environment returned in the final quarter of the year with several new business contracts completed. Whilst below the pre-pandemic new business expectations for 2020, overall the Group achieved a good number of new business wins and contract expansions in the banking, insurance and technology, media and telecom ('TMT') sectors demonstrating the strength of the Group's product portfolio and sector diversity. These additions led to Annual Recurring Revenue increasing to £31.2 million, of which the Company was a material contributor, as at 31 December 2020, representing year on year growth of 11% on a constant currency basis (31 December 2019: £28.1 million, 30 June 2020: £29.3 million, both restated for the prevailing exchange rates at 31 December 2020).

From the onset of the pandemic the Group remained both agile and resilient with all business functions, including those servicing our diverse client base, operating seamlessly. In the medium term, it is expected that the pandemic will accelerate the stimulus for organisations to undertake finance automation to further transform their finance functions, removing manual processes and improving the quality and regularity of their financial analysis and planning, a capability which is central to our product strategy.

Benefitting from the previously planned investment, the Group launched the Aptitude Accounting Hub and Aptitude Insurance Calculation Engine as SaaS offerings allowing the business to capitalise on the accelerated move to cloud experienced in the year with all key products now available as SaaS.

# APTITUDE SOFTWARE LIMITED

## STRATEGIC REPORT (CONTINUED)

### for the year ended 31 December 2020

Strengthening the Group's high-quality partner network, a strategic focus, has also been achieved with a number of joint propositions established in the year providing the business with access either to new geographies for specific products or to segments of existing markets not previously accessible.

#### *Business strength*

At this time of economic uncertainty caused by COVID-19 the Directors are reassured that the Company generated consistent profit before tax through its multi-year ARR model whilst the Aptitude Software Group is financially robust benefitting from a cash balance at 31 December 2020 of £44.8 million and no bank loans. Additionally, the Group is cash generative and profitable, reporting Adjusted Operating Profit in 2020 of £9.1 million. This financial strength should provide confidence to our clients, prospects, shareholders and employees. Whilst the Company is only carrying a cash balance of £1.5 million, the Group continues to support both the Company and all other Group entities.

The Group and Company also benefits from its recurring revenue business model of annual licence and subscription fees as opposed to one-off initial or perpetual licences. These recurring revenues, representing over 50% of total revenue, are resilient given the nature of the Group's enterprise applications which are typically heavily integrated and central to clients' mission-critical long-term financial reporting processes, underpinned by minimum contractual terms of up to six years at inception.

Furthermore, with implementation cycles of frequently over twelve months in duration, the Group has good visibility over its services revenue relating to existing client contracts for several months ahead.

In addition to the above strengths, Aptitude Software benefits from a diverse client base, across multiple geographies and industries.

#### *Implementation services*

Aptitude Software provides implementation services to its clients, with the scale of such services depending on the nature of the application, the size of the opportunity and the balance of responsibilities between Aptitude Software and its partners. Following on from the investment made in 2020, the business continues to invest in the expansion and enablement of its partner network to facilitate their ability to implement Aptitude Software's product suite reliably and efficiently. Whilst this enablement will lead to a greater proportion of services being provided by partners, it remains important to maintain a high quality delivery capability to ensure that the Group can continue to provide its expertise to both support partners and to those clients who wish to receive our services directly.

Whilst utilisation has been resilient, Covid disrupted a number of sales opportunities during the middle quarters of 2020. Due to the Group's long implementation cycles, services revenue will be most impacted by this disruption in 2021 and this has in turn resulted in a reduction in the Group's implementation services capacity. The investment in our partner strategy means that we expect future growth in demand for services to be increasingly fulfilled by the Group's strengthening partner network. This in turn will allow the Group to drive future margin progression and revenue visibility by improving the percentage of revenues from software and subscription fees.

#### *Scenario exercise*

A scenario testing exercise has been performed for the three years 2020, 2021 and 2022, with several different sets of assumptions modelled including some more pessimistic than current indications may suggest. In all scenarios Aptitude Software remains comfortably profitable and cash generative in the years under review.

After reviewing the company's forecasts and projections, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The uncertainty as to the future impact on Aptitude Software Limited of the recent COVID-19 outbreak in particular has been considered as part of the company's adoption of the going concern basis. The company therefore continues to adopt the going concern basis in preparing its financial statements.

# APTITUDE SOFTWARE LIMITED

## STRATEGIC REPORT (CONTINUED)

### for the year ended 31 December 2020

#### Financial Performance

##### *Revenue*

##### *Software and Subscription Revenues*

Software and subscription revenues recognised in 2020 increased by 8% to £18.7 million (2019: £17.3 million). Software and subscription revenues now represent 53% of overall revenue (2019: 47%). It is a key part of the Group's strategy to increase the value of this whilst maximising the growth rate of Aptitude Software's ARR, a strategy which in due course will lead to growth in operating margin percentage given the higher margins achievable from software and subscriptions revenues. This increase was due to a good new business performance in the year including multiple sales of the Aptitude Insurance Calculation Engine ('AICE'), Aptitude Revenue Management ('ARM') and the Aptitude Accounting Hub ('AAH').

##### *Implementation and Solution Management Services*

Implementation and solution management services revenue decreased by 16% to £16.6 million (2019: £19.8 million), as a result of the investment in partner enablement combined with the disruption to our key markets related to the pandemic. Due to the Group's long implementation cycles, some further reduction is anticipated in 2021.

#### **Operating Profit and Margins**

Operating profit before non-underlying items for the period decreased by 7% to £9.0 million (2019: £9.6 million) as a result of the increase in revenue. Operating profit on a statutory basis in 2019 includes £0.4 million of non-underlying costs being incurred in respect of overseas tax fees. Adjusted Operating Margin in 2020 was in line with the prior year at 25% (2019: 26%), despite continued investment in a number of areas. The Company continues to monitor the balance between investment in the opportunity facing the business and the growth in Aptitude Software's operating margins.

##### *Balance sheet*

The Company has a strong balance sheet with net assets at 31 December 2020 of £12.5 million (2019: £15.3 million), including cash at 31 December of £1.5 million (2019: £1.3 million).

#### **Principal Risks and Uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks. The principal risks and uncertainties, in the context of the Aptitude Software Group as a whole, of which this Company is part of, is provided on pages 19-21 of Aptitude Software Group plc's annual report which does not form part of this report.

# APTITUDE SOFTWARE LIMITED

## STRATEGIC REPORT (CONTINUED)

for the year ended 31 December 2020

### Key Performance Indicators

Key Performance Indicators for the Company's operating business can be found in the report on pages 1-3. The Key Performance Indicators for the Aptitude Software business are:

- Operating profit before Non-Underlying Items
- Recurring revenue
- Recurring Software-based Revenue Growth

Detailed discussion and analysis on the KPIs affecting the Group as a whole has been provided within the Aptitude Software Group plc 2020 Annual Report and Financial Statements.

## APTITUDE SOFTWARE LIMITED

### STRATEGIC REPORT SECTION 172 STATEMENT

for the year ended 31 December 2020

The Directors are aware of their statutory duty to promote the success of the Company, as required by Section 172 of the Companies Act 2006. As stated in the Act, this means having regard to, amongst other things:

- the likely consequences of any decisions in the long term;
- the interests of employees;
- the need to foster business relationships with suppliers, customers and others;
- the impact of operations on the community and environment;
- the desirability of maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

This duty underpins the decision-making processes and strategic direction of the listed Group, for which the Company is a material contributor, with due consideration given to the long-term impact of its decisions on shareholders, employees, customers and wider stakeholders. Practical measures that the Board takes to ensure the interests of these stakeholders are reflected in the Board's decision-making process are as follows:

#### **Workforce engagement**

The Directors and Group's Board are fully committed to ensuring that the opinions of employees across all regions and business areas are regularly sought and factored into its decision-making process. The Group has put in place extensive measures to engage with its employees. Through these engagement activities the Board is able to gather opinions and ideas from the wider workforce, identify any communication gaps or common areas of concern and address these through the Group's activities.

The Board receives regular reports on employee matters from the Group's Chief People Officer, including information relating to employee satisfaction, engagement levels, recruitment, retention and training and development.

#### **Shareholder engagement**

The Company, which represents a material subsidiary of the Group's listed parent Aptitude Software Group plc engages with institutional shareholders via investor roadshow programmes which this year have been undertaken via video conference. Regular updates are received on the views of the Group's major investors and these are factored into the Board's decision-making process and to ensure that the Group's market communications meet investor needs.

All shareholders are encouraged to submit questions prior to the Annual General Meeting and to lodge their votes ahead of the meeting to ensure that these are counted. The Annual Report is sent to shareholders at least 20 working days before to the Annual General Meeting and each issue for consideration at the Annual General Meeting is proposed as a separate resolution. All Directors generally attend the Annual General Meeting.

During 2020 the Group consulted specifically with its major investors on its 2020 remuneration strategy and responded in full to any queries that arose during this process. No significant concerns were raised by investors during this process.



## **APTITUDE SOFTWARE LIMITED**

### **STRATEGIC REPORT SECTION 172 STATEMENT (CONTINUED)**

**for the year ended 31 December 2020**

#### **Client engagement**

The Group is proactive in engaging directly with its clients to monitor and continually improve its service delivery and client satisfaction levels. The Board receives monthly reports on client related matters, including support ticket levels, services delivery and project status reports, which enable it to identify any trends or any areas requiring specific oversight or investment. In the event that any concerns are raised by clients, the Group ensures that these are addressed swiftly, and that proactive engagement occurs to ensure ongoing high standards of service delivery. The Group seeks direct engagement with clients through regular Client Advisory Boards in each region and these directly inform its product development and innovation strategies. The Group also holds an annual 'AptConnect' conference for clients and its partner network with clients encouraged to actively contribute to wide-ranging discussions. AptConnect 2020 was held as a virtual conference and saw record client attendance levels.

#### **Strategic partner engagement**

The Group works with a range of leading organisations to deliver long-term value to its clients, including advisory, consulting, integration and technology providers that bring complementary services and solutions to its clients. The Group engages with its partners through regular product and thought leadership briefings and a comprehensive sales and delivery enablement program. The Board actively encourages feedback from the Group's partners firms on the quality of its services and products to support continuous improvement.

#### **Supplier engagement**

The Group engages closely with its suppliers and has internal procedures to ensure that appropriate due diligence is undertaken on these firms. Engagement with any new suppliers is subject to a formal process and requires final approval from an Executive Director. Significant supplier contracts of a recurring nature require approval from the Board as a whole. Suppliers are chosen according to their ability to meet the Group's own high standards and to demonstrate values that are consistent with those of the Group. Regular engagement takes place with key suppliers, monitor their performance against contractual obligations and provide regular feedback in order to foster and support long-term relationships for the benefit of the Group. In the event that delivery standards do not meet the Group's expectations, proactive steps will be taken to communicate and address these directly with the supplier to ensure that there is no detrimental impact upon the Group's activities.

#### **Engagement with the wider community**

The Board ensures that the decisions made are responsible and ethical by taking into consideration the wider society external to the organisation. The Group is committed to contributing towards the community in which it operates as a business.

The Group operates a charitable donation scheme whereby it will match the funds raised by employees for specific charities (on a £ for £ basis) up to £500 per event. The Group also organises regular activities to increase awareness and raise funds for its chosen charities both in the United Kingdom and internationally. Charities and good causes that the Group raised funds for during 2020 included 'Mind' and the NHS in the United Kingdom and various organisations supporting healthcare workers and families in need in the Group's Poland and North America regions. The Group's charitable activities are co-ordinated by its regional social committees and employees are actively encouraged to partake in them at a regional level. The Group has also arranged a number of online activities to support family members of employees during the pandemic, such as sharing remote learning resources and competitions for children.

The Group has a written policy on Modern Slavery and Human Trafficking, which is reviewed on an annual basis by the Board and is published on the Group's website.

**APTITUDE SOFTWARE LIMITED**  
**STRATEGIC REPORT SECTION 172 STATEMENT (CONTINUED)**  
**for the year ended 31 December 2020**

**The environment**

As a provider of software solutions, the Group's operations have a relatively limited impact on the environment. However, the Board is committed to implementing measures that will result in incremental improvements to the Group's environmental impact, such as minimising paper usage, considering the environmental credentials of future office spaces and by avoiding unnecessary travel and using video-based meeting facilities where appropriate. The entire workforce is provided the technology and flexibility to work remotely to minimise travel.

The Board is committed to providing stakeholders with an increasing amount of transparency on its environmental credentials and this year the Group has expanded its energy and carbon reporting disclosures. The Group has seen a significant reduction in its carbon emissions from 2019 to 2020, largely due to reductions in office spaces, and it has also taken a number of other measures that incrementally reduce energy consumption.

**Maintaining a reputation for high standards of business conduct**

The Board is mindful that the continued growth and success of the Group is dependent upon maintaining high standards of business conduct, including:


- the ability to successfully compete within the market, to attract and retain clients, and to service clients these to a high standard;
- the ability to attract and retain high quality employees;
- the ability to attract investors and to meet their expectations of good governance and sound business conduct;
- to ability to meet the Group's regulatory obligations, and to meet the expectations of relevant regulatory bodies.

This awareness underpins the formulation of the Group's strategy and is evident throughout the Board's decision-making process.

**Ensuring that members of the Company are treated fairly**

The Board ensures that the Group's shareholders are treated equally and fairly, regardless of the size of their shareholding or their status as a private or institutional shareholder. The Group provides clear and timely communications to all shareholders in their chosen communication medium, as well as via the Group's website and via a Regulatory News Service. All holders of Ordinary shares are eligible to receive dividend payments and to vote at general meetings of the Company.

Philip Wood, as a Director of the Company, approves all the Statements contained within the Strategic Report



Philip Wood  
Director  
8 June 2021

# **APTITUDE SOFTWARE LIMITED**

## **DIRECTORS' REPORT**

### **for the year ended 31 December 2020**

The Directors of Aptitude Software Limited present their Directors report and the audited financial statements of the Company for the year ended 31 December 2020.

#### **Results and Dividends**

The results of the Company are set out in the financial statements and notes that appear on pages 14 to 47.

Dividends of 5.00p (2019: 4.80p) per share totaling £12,500,000 were paid in the year (2019: £12,000,000). See note 8 for further details. No further dividend is proposed in respect of the year ended 31 December 2020 (2019: £nil).

The review of the business is contained in the Strategic Report.

#### **Directors**

Details of Directors who have held office during the year and up to the date of signing these financial statements are given below:

P Wood  
J Suddards

#### **Future developments**

The future outlook is given in the Strategic Report.

#### **Financial risk management policy**

The principal risk and uncertainties of the Company are provided on page 3.

#### **Overseas branches**

The Company operates branches in Australia, Hong Kong, Ireland, Netherlands, Singapore, Sweden and Switzerland.

#### **Qualifying third party indemnity provision**

The Company has purchased and maintained throughout the year Directors' and officers' liability insurance in respect of itself and its Directors. The Directors are entitled to the benefit of an indemnity under article 18 of the Company's articles of association. Pursuant to this article 18, the Company has granted indemnities for the benefit of current and future Directors of, and the Company Secretary of the Company in respect of liabilities which may attach to them in their capacity as Directors of, or Company Secretary of, the Company to the extent permitted by law and also committing to maintain Directors' and officers' insurance cover. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2020 and continue in force, in relation to certain losses and liabilities which the Directors (or Company Secretary) may incur to third parties in the course of acting as Directors (or Company Secretary).

# APTITUDE SOFTWARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

### for the year ended 31 December 2020

#### Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### Employee Engagement

The Company encourages the participation of all employees in the operation and development of the business and has a policy of regular communications including overviews of the Company's financial performance. The Company from time to time provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when decisions are made that are likely to affect their interests. The Company incentivises employees and senior management through the payment of bonuses linked to performance objectives.

#### Responsibility for Environmental, Social and Governance matters

All members of the Board, together with senior management and the Company Secretary, take an active role in shaping and monitoring the Group's environmental, social and governance ("ESG") activities and it is appropriate that this responsibility is shared collectively. However, to ensure that ESG matters are given thorough consideration on an ongoing basis and approached in a co-ordinated manner, Philip Wood as Director is responsible for the oversight of the Group's ESG activities. This is a recent development in the Group's governance structure and reflects the Company's commitment to ensuring that environmental, social and governance considerations are fully embedded in the Group's operations and strategic direction.

# APTITUDE SOFTWARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

for the year ended 31 December 2020

### Environmental Policy

As a supplier of software solutions, the Group has no manufacturing facilities and its premises exclusively comprise of office spaces. Any obsolete office equipment and computers are resold or recycled to the extent practicable. The Group has recycling facilities in all its offices and use of wastepaper is minimised by promoting a paperless process and downloadable software products. The Group recognises that its activities should be carried out in an environmentally friendly manner and therefore aims to:

- comply with relevant environmental legislation;
- reduce waste and, where practicable, re-use and recycle consumables;
- dispose of non-recyclable items in an environmentally friendly manner;
- minimise the consumption of energy and resources in the Group's operations; and
- reduce the environmental impact of the Group's activities and where possible increase the procurement of environmentally friendly products.

### Directors' confirmations

The Directors consider that the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed at the start of this report confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent auditors

On 4 October 2019, the Company announced the appointment of Grant Thornton UK LLP ('Grant Thornton') as its new external auditor with immediate effect. Grant Thornton replaced PricewaterhouseCoopers LLP who had formally resigned and confirmed that there were no reasons or matters connected with their ceasing to hold office as auditors which they considered should be brought to the attention of the members of the Company. A resolution regarding the reappointment of Grant Thornton by shareholders was confirmed at the 2020 Annual General Meeting.



On behalf of the Board

Philip Wood

Director

8 June 2021

# APTITUDE SOFTWARE LIMITED

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF APTITUDE SOFTWARE LIMITED

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Aptitude Software Limited (the 'company') for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the company's business model including effects arising macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

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

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

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

## **APTITUDE SOFTWARE LIMITED**

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

#### **Other information**

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

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

We have nothing to report in this regard.

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

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

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

#### **Matter on which we are required to report under the Companies Act 2006**

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

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

#### **Responsibilities of Directors for the financial statements**

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

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

## APTITUDE SOFTWARE LIMITED

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

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

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

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

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We understood how the Company is complying with those legal and regulatory frameworks by, making inquiries to the management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the Group engagement team included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - challenging assumptions and judgments made by management in its significant accounting estimates;
  - identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item; and
  - held discussions with those outside the finance team including Company Secretary, human resources, key management, project and development team.

The engagement team collectively had the appropriate competence and capabilities to identify or recognize non-compliance with laws and regulations. The engagement team also engaged with tax specialists in the UK and overseas to address the risk of non-compliance relating to tax legislation.

#### Use of our report

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.

Rebecca Eagle  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
8 June 2021

*Grant Thornton UK LLP*



**APTITUDE SOFTWARE LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2020

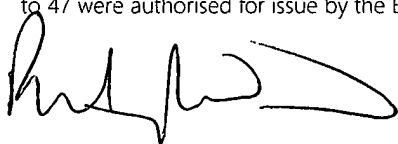
		Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Revenue	Note(s) 1,2	35,285	37,070
Operating costs	3	<u>(26,321)</u>	<u>(27,426)</u>
Operating profit before non-underlying items		8,964	9,644
Non-underlying items	3	<u>-</u>	<u>(471)</u>
Operating profit		<u>8,964</u>	<u>9,173</u>
Income from shares in group undertakings	5	401	388
Finance costs	6	<u>(24)</u>	<u>(24)</u>
Profit before income tax		9,341	9,537
Income tax credit/(expense)	7	<u>71</u>	<u>(1,850)</u>
Profit for the financial year		<u>9,412</u>	<u>7,687</u>
Other comprehensive income/(expense)			
Items that will or may be reclassified to profit or loss			
Fair value gain/(loss) on cash flow hedges	22	45	(169)
Currency translation difference		<u>16</u>	<u>(98)</u>
Other comprehensive income/(expense) for the year, net of tax		<u>61</u>	<u>(267)</u>
Total comprehensive income for the year		<u>9,473</u>	<u>7,420</u>

The accounting policies and notes on pages 17 to 47 are an integral part of these financial statements.

**APTITUDE SOFTWARE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2020**

	Note	As at 31 Dec 2020 £000	As at 31 Dec 2019 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	758	784
Goodwill	10	17,508	17,508
Investments in subsidiaries	11	9,058	9,132
Other long-term assets	13	1,186	1,377
Deferred income tax assets	12	236	203
		<b>28,746</b>	<b>29,004</b>
<b>Current assets</b>			
Trade and other receivables	14	5,410	7,728
Financial assets			
- derivative financial instruments	19	62	4
Current tax asset		208	409
Cash and cash equivalents	15	1,460	1,289
		<b>7,140</b>	<b>9,430</b>
<b>Total assets</b>		<b>35,886</b>	<b>38,434</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Financial liabilities			
- derivative financial instruments	19	(133)	(120)
Trade and other payables	16	(22,462)	(22,401)
Capital lease obligations	17	(543)	(403)
		<b>(23,138)</b>	<b>(22,924)</b>
<b>Net current liabilities</b>		<b>(15,998)</b>	<b>(13,494)</b>
<b>Non-current liabilities</b>			
Provisions	18	(260)	(180)
Capital lease obligations	17	(18)	-
		<b>(278)</b>	<b>(180)</b>
<b>NET ASSETS</b>		<b>12,470</b>	<b>15,330</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	20	2,500	2,500
Share premium account	21	-	-
Other reserves	22	(71)	(116)
Foreign currency translation reserve		(18)	(34)
Retained earnings		10,059	12,980
<b>TOTAL EQUITY</b>		<b>12,470</b>	<b>15,330</b>

The accounting policies and notes on pages 17 to 47 are an integral part of these financial statements. The financial statements on pages 14 to 47 were authorised for issue by the Board of Directors on 8 June 2021 and were signed on its behalf by:



Philip Wood  
Director

**APTITUDE SOFTWARE LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2020

	Note	Share capital £000	Share premium account £000	Foreign exchange reserve £000	Retained earnings £000	Other reserves £000	Total equity £000
Balance at 1 January 2019		7,154	1,081	64	9,965	53	18,317
<b>Comprehensive income/(expense)</b>							
Profit for the year		-	-	-	7,687	-	7,687
Cash flow hedges							
– net fair value loss in the year	22	-	-	-	-	(169)	(169)
Exchange rate adjustments		-	-	(98)	-	-	(98)
<b>Total comprehensive income for the year</b>		-	-	(98)	7,687	(169)	7,420
Dividends paid	8	-	-	-	(12,000)	-	(12,000)
Reduction of capital		(4,654)	(1,081)	-	5,735	-	-
Share options – value of employee service		-	-	-	607	-	607
Deferred tax on share options	12	-	-	-	(115)	-	(115)
Corporation tax on share options		-	-	-	1,101	-	1,101
<b>Total contributions by and distributions to owners of the company recognised directly in equity</b>		(4,654)	(1,081)	-	(4,672)	-	(10,407)
<b>Balance at 31 December 2019</b>		<b>2,500</b>	<b>-</b>	<b>(34)</b>	<b>12,980</b>	<b>(116)</b>	<b>15,330</b>
<b>Comprehensive income /(expense)</b>							
Profit for the year		-	-	-	9,412	-	9,412
Cash flow hedges							
– net fair value gain in the year	22	-	-	-	-	45	45
Exchange rate adjustments		-	-	16	-	-	16
<b>Total comprehensive income for the year</b>		-	-	16	9,412	45	9,473
Dividends paid	8	-	-	-	(12,500)	-	(12,500)
Share options – value of employee service		-	-	-	233	-	233
Deferred tax on share options	12	-	-	-	(69)	-	(69)
Corporation tax on share options		-	-	-	3	-	3
<b>Total contributions by and distributions to owners of the company recognised directly in equity</b>		-	-	-	(12,333)	-	(12,333)
<b>Balance at 31 December 2020</b>		<b>2,500</b>	<b>-</b>	<b>(18)</b>	<b>10,059</b>	<b>(71)</b>	<b>12,470</b>

The accounting policies and notes on pages 17 to 47 are an integral part of these financial statements.

# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2020

#### Accounting Policies

#### General Information

The Company is a private company limited by shares and incorporated and domiciled in England and Wales. The financial statements were authorised for issue by the Board of Directors on 8 June 2021.

#### Summary of significant accounting policies

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

#### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see pages 31-33).

The company is a wholly-owned subsidiary of Aptitude Software Group plc and is included in the financial statements of Aptitude Software Group plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

#### Going Concern

After reviewing the Company's forecasts and projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The future impact of both the pandemic and the United Kingdom's withdrawal from the European Union has been considered as part of the Company's adoption of the going concern basis. The Directors have prepared forecasts for going concern until 31 December 2022 which show that the Company will have sufficient cash to operate and meet their operating liabilities as and when they fall due for a period of at least 12 months from the date of approval of these financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Information used to make this decision is detailed below.

A scenario testing exercise was performed for the period covered by the going concern forecast, including considering managements base case forecast and an extreme downside scenario where no new customers were won, which is far more pessimistic than current situations may suggest. In all scenarios Aptitude Software remains comfortably profitable and cash generative in the years under review. Financial performance in 2021 is not expected to be materially impacted from current year levels due to the long-range revenue visibility achieved through the recurring revenue business model. These recurring revenues, representing over 50% of total revenue, are resilient given the nature of the Group's enterprise applications which are typically heavily integrated and central to clients' mission-critical long-term financial reporting processes, underpinned by minimum contractual terms of up to six years at inception.

# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### for the year ended 31 December 2020

#### Going Concern (continued)

The Directors are reassured that the Group is financially robust benefitting from a cash balance at 31 December 2020 of £44.8 million and no bank loans. Additionally, the Group is cash generative and profitable, reporting Adjusted Operating Profit in the year of £9.1 million.

Supplementing these strengths, Aptitude Software benefits from a diverse client base, across multiple geographies and industries. The Company has only minimal exposure to those industries which were most severely affected by the pandemic such as travel, retail and leisure.

The Company continues to monitor the collection of monies from clients with no material delays in payment being cited. The business benefits from an Annual Licence Fee Model in which software licence and subscription fees are received annually in advance.

#### Changes in Accounting policy and disclosures

##### *(a) New standards, interpretations and amendments effective from 1 January 2020*

There are no other new standards, amendments and interpretations which are effective for periods beginning on or after 1 January 2020, which had any impact on the Group's accounting policies and disclosures in these financial statements.

##### *(b) New standards and interpretations that have not been early adopted*

None of the new standards, amendments and interpretations, which are effective for periods beginning after 1 January 2020 and which have not been adopted early, are expected to have a significant effect on the consolidated financial statements of the Group.

There are no new standards, and amendments to standards and interpretations which are effective for annual periods beginning after 1 January 2020, which have been adopted in these financial statements.

#### Financial reporting standard 101- reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a Company, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.
- the requirements of the second sentence of paragraph 110 and paragraph 113(a), 114, 115, 118 and 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers

## APTITUDE SOFTWARE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

#### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Company. The Company derives its revenues from the following categories:-

- software-based activity relating to the Company's intellectual property (comprising software licences, maintenance, support, software subscription fees, funded development and related consultancy);
- managed services (comprising principally of solution management services); and
- general consultancy services.

The Company recognises revenue from each of these categories as follows:-

#### Software based activity

##### *Software licences, software subscription and maintenance fees*

The Group licences its software on an Annual Licence Fee, Initial Licence Fee or Perpetual Licence Fee basis. The Group also has a number of Software-as-a-Service offerings with software subscription fees being recognised in the same manner as Annual Licence Fees.

Within the policy, the Group references three distinct periods which drives the method by which these revenues are recognised, being the initial contractual term, the auto-renewal period and the optimisation period. These periods and the relationship between them is outlined below:

- Initial contractual term – The period over which the transaction price for each contract is recognised.
- Auto renewal period – On conclusion of the initial contractual term, customers enter into auto renewal periods which are typically twelve months in length. Under the terms of the contract the customer has no material right to enter into these renewal periods and consequently have been determined as representing a new contract under IFRS 15.
- Optimisation period – The period assessed by management on inception of the contract over which the revenues are recognised, representing the duration of time during which the most significant optimisation and functional enhancement of the software is undertaken. Where this period is greater in length than the initial term of the contract, the revenues recognised across the contractual term are capped at the total value of the contract.

#### *Assessment of performance obligations*

On inception of each contract, the Group assesses whether ongoing contractual obligations, charged as software maintenance, represent a separately distinct performance obligation and promise from either the licence or subscription fees. If not distinct, the software licence and maintenance fees form part of a combined performance obligation. If the licence/subscription is distinct it is recognised separately from the other performance obligations at the time of the delivery of the licenced software. In assessing whether a licence is distinct from the software maintenance, the Group considers the scope of maintenance services being provided which extends to the significant continuing requirement to:-

- optimise functionality within the software;
- optimise performance of the software; and
- provide technical and functional enhancements to ensure continued user regulatory compliance

For all existing contracts, it is determined that the software licence/subscription and maintenance fees form part of a combined performance obligation. The transaction price agreed in the licence and maintenance contract is therefore allocated in full to this combined performance obligation with the selling price determined by way of the fixed annual licence or subscription fees paid annually in advance.

## APTITUDE SOFTWARE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2020

#### Revenue recognition (continued)

##### *How the combined performance obligation is recognised*

Where the software licence and maintenance fees meet the criteria of a combined performance obligation, the Company determines for each contract the most appropriate method of recognising revenue. This assessment was completed with reference to paragraph 35 of IFRS 15, in which it was determined that the criteria within Paragraph 35(a) had been met in respect of recognising the combined performance obligation over time. This is through the customer simultaneously receiving the benefit of accessing and utilising the software from inception of the contract across the period due to the need for the software to adapt over time to the changing needs of the client and complexities of the regulatory environment.

##### *Method of revenue recognition in respect of the performance obligations*

In determining the most accurate measure of recognising revenue, the business concluded that this should be done in line with the development activity related to the relevant product. This development activity incorporates the effort incurred in optimising both the functionality and performance of the software whilst providing technical and functional enhancements.

Measurement of the development activity is completed by way of the input method, with management providing an initial estimate of the overall expected development hours to be incurred across the contract period. This estimate is then reviewed against actual hours incurred at the end of each reporting period.

Once the Company concludes on the revenue recognition profile, the business determines on a contract by contract basis the period over which the revenues are recognised. This period is defined as the optimisation period and represents the duration of time assessed by management during which the most significant optimisation and functional enhancement of the software is undertaken.

For both periods presented, all contracts assessed were considered to have a consistent development activity based on management's assessment of the overall development hours expected to be incurred across the optimisation period. This assessment was supported by the review against actual hours incurred at the end of each reporting period.

##### *Revenue recognition constraint*

Given the highly specialised nature of the software and demands of the customer, the implementation of this software (provided through a separate statement of work) is complex and frequently involves multi-phase roll outs which identify new requirements over an extended period of time. Consequently, the period prior to the successful integration of the Company's application with the customer's system (or Go-Live date), provides enhanced levels of contractual risk for the Company in respect of the licence and maintenance agreement. Under the terms of the contract, both parties have enforceable rights and obligations to terminate over the length of the agreement to the extent that the implementation of the software is not feasible.

Consequently, during the period from the Company initially licencing its software to the product being deployed into a live client environment, an ongoing assessment is performed by management on a contract by contract basis to determine if sufficient challenges exist that would cast doubt over future economic benefits being realised by the business. Where such challenges exist, the revenue recognised across the period is constrained to the value of any amount invoiced and paid prior to the end of the reporting date, with this being assessed as the consideration during the period up to deployment. Once the software is deployed, the amount of revenue recognised is adjusted so that it is proportional to the Company's development effort to date against the total expected development hours to be incurred across the contract period.

# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### for the year ended 31 December 2020

#### Revenue recognition (continued)

##### *Revenue recognition where the optimisation period is longer than initial term of the contract*

Where the optimisation period for a client is assessed by management as being greater than the initial term of the contract, being the minimum term of the signed contract before auto renewal, the revenues recognised across the initial term are equal to the total value of the contract.

##### *Entry into auto-renewal periods during the optimisation period*

Where a client's initial contract term is shorter than the optimisation period assessed by management, the client will enter auto renewal periods. Per IFRS 15, the Company has concluded that the entry into each auto renewal period represents a new contract due to the customer having no material right under the terms of the contract to enter into these renewal periods. Consequently, an assessment of whether the licence and maintenance services still represent a combined performance obligation is performed.

In assessing whether a licence is distinct from the software maintenance, the Company determined that the scope of maintenance services being provided aligns with the assessment made on inception of the contract and therefore for all existing contracts continues to form part of a combined performance obligation.

On completion of this assessment, the Company has determined that the development activity should continue to be utilised as the most appropriate method of recognising revenue across the auto-renewal period.

##### *Entry into auto-renewal periods post optimisation period*

The transfer of the combined performance obligation is considered complete once the optimisation period concludes at which point all clients have entered their auto renewal period. Per IFRS 15, the Company has concluded that the entry into each auto renewal period represents a new contract under which an assessment of whether the licence and maintenance services still represent a combined performance obligation is performed. This conclusion was underpinned by the customer having no material right under the terms of the contract to enter into these renewal periods.

In assessing whether the licence is distinct from the software maintenance, the Company considers the following:-

- the level of interrelation between the software licence and services provided;
- the continuing requirements of the client to receive highly functioning, serviced software; and
- the contractual terms and conditions set out in the annual renewal period and whether they are consistent with the initial term

For both the current and prior year, the Company has determined that the licence and maintenance services for all existing contracts entering their auto renewal period post optimisation period still represent a combined performance obligation.

On completion of this assessment, the Company determines for each contract the most appropriate revenue recognition method and has concluded that the development activity related to the relevant product should continue to be utilised.

The annual licence fee is then recognised across the auto renewal period based on the application of this method. In all current cases, the development activity is determined to be consistent across the auto-renewal period in accordance with paragraph B18 of IFRS 15.



# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### for the year ended 31 December 2020

#### *Product specific consultancy (implementation services)*

Consultancy services which relate to a project which includes the Company's software is contracted for on either a time and materials basis or fixed priced basis. Time and materials consultancy is recognised in the period it is performed in. Fixed price or shared risk work is recognised on a percentage completion basis after deferring a proportion of the overall revenue until the end of the relevant stage of the project. The percentage completed is determined with reference to effort incurred to date and effort required to complete the development or consultancy.

For any contract involving a client licencing one of the Company's products, an assessment is made by management at the year-end of the expected amount of any additional consultancy effort to be provided to satisfy certain contractual obligations without incremental charge. Where such effort is anticipated, an accompanying deferral is calculated based on the value of this time if charged to the client and is recognised through the deferral of revenues.

#### *Solution management services*

Solution management services go beyond the Company's software maintenance services to include services typically performed by the clients' own IT teams, including for example, the monitoring of system performance, user administration and release management. The client will commit to a monthly, quarterly or annual fee that covers an agreed level of services. Revenue from solution management services are recognised on a straight-line basis over the period of the services being provided.

#### *Support fees*

Support fees are billed to customers where the Company's software is used by a customer as part of an IT solution and that customer contracts with the Company for support relating to that IT solution. The customer will commit to a minimum monthly, quarterly or annual fee that covers an agreed level of support and then agrees additional fees for support used over and above the minimum commitment. Revenue from support contracts is recognised as the fees are earned.

#### **Commissions**

Software sales commission costs meets the definition under IFRS 15 of incremental costs of obtaining a contract. As a result, an asset is recognised at inception of the contract for the total value of commissions payable which will typically be amortised across the contract life of each customer.

#### **Non-underlying items**

Items that are both material in size and unusual and infrequent in nature are presented as non-underlying items in the income statement. The Directors are of the opinion that the separate recording of non-underlying items provides helpful information about the Company's underlying business performance. These items include post acquisition restructuring costs.

#### **Leasing**

At inception of a contract, the Company assesses whether a contract is, or contains a lease. 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. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involved the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### for the year ended 31 December 2020

#### Leasing (continued)

- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset if either:
  - The Company has the right to operate the asset; or
  - The Company designed the asset in a way that predetermines how and for what purpose it will be used.

On lease commencement date, the Company recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate adjusted for lease specific and asset specific terms where required. Generally, the Group uses its incremental borrowing rate as the discount rate adjusted for lease specific and asset specific terms where required.

Lease payments included in the measurement of the lease liability comprise:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- Lease payments in an option renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at the present value of the future minimum lease payments discounted at the incremental rate of borrowing. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment of whether it will exercise an extension or termination option.

If the contract includes options to break or terminate the lease which are at the right of the lessor, the Company measures the lease term based on the expectation that these will lapse unless it has been made aware at the time of adoption. If subsequently the lessor decides to exercise any of these options, the lease liability is then remeasured due to the change in future lease payments. When the lease liability is remeasured in the above circumstances, a corresponding adjustment is made to the carrying value of the right-of-use asset, or is recorded in the profit or loss if the carrying value of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets within "property, plant and equipment" and lease liabilities in "capital lease obligations".

#### Short term lease and leases of low-value assets

The Company has elected to take the exemption not to recognise right-of-use assets and lease liabilities for short-term lease of machinery that have a lease term of 12 months or less and leases of low-value assets. The Company defines leases of low-value assets as being any lease agreement where the total value of payments made across the lease term is less than £5,000. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### Investments

Investments in subsidiaries are stated in the financial statements of the Company at cost less any provision for impairment.

# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### for the year ended 31 December 2020

#### Foreign currency

Items included within the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in sterling, which is the Company's functional and presentational currency. Foreign transactions are translated into the functional currency at the exchange rate ruling when the transaction is entered into. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

#### Property, plant and equipment

Property, plant and equipment is shown at historic purchase cost less accumulated depreciation and adjusted for any impairment. Right-of-use assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term, full details of the initial recognition and ongoing measurement of these assets is provided within the leasing policy note on pages 22-23. Land is not depreciated. Costs include expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on assets so as to write off the cost of property, plant and equipment less their residual value over their estimated useful economic lives by equal annual instalments at the following rates.

Leasehold improvements	10 – 20 per cent (or the life of the lease if shorter)
Plant and machinery	20 – 50 per cent
Fixtures and fittings	20 per cent

Estimation of the useful economic life includes an assessment of the expected rate of technological developments and the intensity at which the assets are expected to be used. The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date.

#### Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is capitalised on the balance sheet and is subject to an annual impairment test. The carrying value of goodwill is cost less accumulated impairment. Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combinations in which the goodwill arose. Impairment reviews are carried out by the Board at least annually. Impairments to goodwill are charged to the income statement in the period in which they arise.

#### Impairment of non-financial assets

Assets that have an indefinite useful economic life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Any impairment of goodwill is not reversed.

# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### for the year ended 31 December 2020

#### Intangible assets

##### *Research and Development ("R&D")*

Research expenditure is expensed to the income statement as incurred. Costs incurred on internal development projects relating to new or substantially improved products are recognised as intangible assets from the date upon which all IAS 38 criteria have been satisfied. In assessing the IAS 38 criteria it is considered that because of the challenges presented by the complexity of underlying software development issues and the competitive nature of the markets in which we operate, the technical feasibility and future probability of development has only been satisfied once the product is deployed into a live client environment. Accordingly development costs have not been capitalised. The Company however continues to assess the eligibility of development costs for capitalisation on a project-by-project basis. Costs which are incurred after the general release of internally generated software, or costs which are incurred in order to enhance existing products by way of minor or major upgrades, or other changes in software functionality, does not satisfy the criteria in order to capitalise. Such expenditure is therefore recognised as an expense in the period in which it is incurred and is included within research and development expense in the income statement.

#### Cash and cash equivalents

Cash is defined as cash in hand and on demand deposits. Cash equivalents are defined as short term, highly liquid investments with original maturities of three months or less.

#### Share-based payments

The Company operates share-based compensation plans that are equity settled by the ultimate parent, Aptitude Software Group plc. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Company income statement over the vesting period with a corresponding adjustment to equity. The expense is included within operating costs. The charge taken to the income statement of the Company reflects only those options granted to employees of the Company with the remainder granted to employees employed under fellow subsidiary companies of the ultimate parent, Aptitude Software Group plc. Where these companies are also subsidiaries of the Company, these options are treated in a similar manner to capital contributions with an addition to investments.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium of the Groups ultimate parent, Aptitude Software Group plc, when the options are exercised.

Where the options granted have market based vesting conditions attached, the Group utilises the Monte Carlo pricing model. For all other option grants the Black Scholes pricing model is applied.

#### Interest income and expense

Interest is recognised using the effective interest method.

#### Pensions

The Company operates defined contribution retirement benefit plans in respect of its UK employees and for employees in certain overseas territories. Employee and employer contributions are based on basic earnings for the current year. The schemes are funded by payments to trustee-administered funds completely independent of the Company's finances. The expense is recognised on a monthly basis as accrued. The Company has no further payment obligations once the contributions have been paid.

# **APTITUDE SOFTWARE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **for the year ended 31 December 2020**

#### **Current and deferred income tax**

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### **Trade receivables**

Trade and other receivables are recognised initially at transaction price and to the extent that it is deemed necessary are subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Company assesses impairment on a forward-looking basis using the expected credit loss method and has applied the simplified approach which permits the use of the lifetime expected loss provision for all trade and other receivables.

The amount of any provision is recognised in the income statement within other operating costs.

#### **Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are generally settled on 30-day terms.

#### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **Provisions**

Provisions are created on the Company's leased properties where it has a legal obligation to return them to their fair condition at the end of their respective lease terms. The provision is measured at the present value of managements best estimate of the future expected repair costs required at the balance sheet date. The discount rate used to determine the present value reflects the current market assessments of the time value of money and the risks specific to the liability.

#### **Dividend distribution**

Dividend distribution to the Company's shareholder is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholder or in respect of interim dividends when they are paid.

#### **Dividend income**

Dividend income to the Company received from subsidiary investments is recognised in the Company's income statement in the period in which it is paid.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**Tax incentive schemes**

The Company is entitled to claim special tax deductions in relation to qualifying research and development expenditure. The Company accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

**Derivative financial instruments and hedging activities**

The Company holds derivative financial instruments to hedge its foreign currency risk exposure.

Derivatives are initially recognised and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. At the year-end the Company has designated its derivatives as a hedge of the cost of a highly probable forecasted transaction commitment ('cash flow hedge'). Gains or losses on cash flow hedges that are regarded as highly effective are recognised in other comprehensive income. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in other comprehensive income are transferred to the income statement in the same period as the underlying income or expenditure.

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting under IFRS 9, any change in assets or liabilities is recognised immediately in the income statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the income statement.

# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### for the year ended 31 December 2020

#### Financial Risk Management

The Company's trading and multi-national operations expose it to financial risks that include the effects of changes in foreign currency exchange rates, credit risk, liquidity and interest rates.

The Company manages these risks so as to limit any adverse effects on the financial performance of the Company.

#### (a) Market risk – Foreign exchange

The Company's major foreign exchange exposures are to the Polish Zloty, US Dollar, Canadian Dollar and Singapore Dollar. Company policy in this area is to eliminate foreign currency cash flows between the Aptitude Group companies once the size and timing of transactions can be predicted with sufficient certainty. Since April 2007 this has been achieved by hedging Polish Zloty cash outflows 12 months in advance by using forward foreign currency contracts. These have the effect of fixing the sterling amount of Polish Zlotys to be paid in the future. The average remaining life of the forward exchange contracts at 31 December 2020 was 6 months (2019: 6 months).

In addition, forward foreign currency contracts were also put in place from March 2017 to hedge a proportion of the Group's forecasted US dollar denominated service-related revenue less US dollar denominated cost over the next 12 months. These have the effect of fixing the sterling amount of US dollars to be received in the future from US dollar denominated service revenue less US dollar denominated costs. The average remaining life of the forward contracts at 31 December 2020 was 5 months (2019: 1 months).

#### (b) Market risk – Interest rate

The Company's only major interest rate exposure arises from interest earned on its cash balances. The Company's policy in this area is to maximise the return (subject to the constraints imposed by the need to limit credit and liquidity risk as detailed below).

#### (c) Credit risk

The Company's major credit risk exposures arise from its cash, trade receivable and amounts due from Group undertakings balances. The Company's policies in this area are:

- in respect of cash balances to ensure that deposits are always held across at least 2 financial institutions; and
- in respect of trade receivables, the client or prospective client's credit risk is assessed at the commencement of any new project with payment terms agreed which are appropriate. Regular receivable reports are provided to senior management and in addition credit insurance is maintained as appropriate for a number of trade receivable balances.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been Grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Where the company holds intercompany loan amounts due from fellow Company subsidiaries, IFRS 9 requires the measurement of expected credit losses. At the balance sheet date the Company holds amounts due from certain Group undertakings however this amount is netted off by amounts owed to other Group undertakings. Should these amounts be called upon, this would be settled by way of an intragroup loan agreement if required.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**Financial Risk Management (continued)**

The gross trade receivables amount included within the loss allowance calculation has been adjusted for elements which carry no expected credit loss; these being the upfront Annual Licence Fees and amounts covered by the Company's credit insurance. On that basis, the loss allowance as at 31 December 2020 for the Company was determined as follows for trade receivables:

Where the Company holds intercompany loan amounts due from fellow group subsidiaries, IFRS 9 requires the measurement of expected credit losses. These loans were determined to be stage 1 intercompany loans for the purposes of the IFRS 9 impairment model and consequently a twelve-month expected credit loss was calculated. On that basis, the loss allowance as at 31 December 2020 for the Company was calculated as being nil (2019: loss allowance of £19,000).

The company has no other significant concentrations of exposure to credit risk.

**(d) Liquidity risk**

The Company's major liquidity exposures arise from the need to settle its trade, employee and taxation liabilities as they fall due. Whilst the Company is comfortably able to finance all of these payments out of operating cash flows, policies are in place to further limit exposure to liquidity risk:

- surplus cash is never deposited for maturities of longer than 3 months; and
- uncommitted facilities will be entered into to support any specific expansion opportunities that arise.

Management monitors forecasts of the Company's liquidity reserve on the basis of expected cash flow. The Company's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these. The financing of operations is managed at a Group level by the Company's ultimate parent undertaking.

The table below analyses the Company's derivative financial instruments which will be settled on a gross basis into the relevant maturity Groups based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
<b>At 31 December 2020</b>			
Forward foreign exchange contracts			
- cash flow			
Outflow	(6,265)	–	–
Inflow	6,249	–	–
	<u>(16)</u>	<u>–</u>	<u>–</u>



**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**Financial Risk Management (continued)**

At 31 December 2019	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
Forward foreign exchange contracts			
- cash flow			
Outflow	(5,630)	–	–
Inflow	5,616	–	–
	<u>(16)</u>	<u>–</u>	<u>–</u>

**Fair value estimation**

**Financial instruments not measured at fair value**

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings, however, due to their short term nature and ability to be liquidated at short notice their carrying value approximates their fair value.

**Financial instruments measured at fair value**

The fair value hierarchy of the financial instruments measured at fair value is provided below.

	Level 2	
	2020 £'000	2019 £'000
Financial Assets		
Derivative financial assets (designated hedge instruments)	<u>62</u>	<u>4</u>
	<u>62</u>	<u>4</u>
Financial Liabilities		
Derivative financial liabilities (designated hedge instruments)	<u>133</u>	<u>120</u>
	<u>133</u>	<u>120</u>

The derivative financial liabilities have been valued using the market approach and are considered to be Level 2 inputs. There were no changes to the valuation techniques used in the year. There were no transfers between levels during the year.

**Capital risk management**

The Company's capital is managed at a Group level and is considered to be the equity of the ultimate parent's shareholders and includes the Group's tangible and intangible fixed assets and cash balances. The Company and Group's objectives when managing capital are to safeguard the Company and Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. We manage the capital structure based on the economic conditions and the risk characteristics of the Company. The Group's Board regularly reviews both the Group and Company's capital structure and net funds position. No changes were made to our objectives and processes during 2020 (2019: none).

Our general funding policy is to raise long term debt when required to meet the anticipated requirements of the Company and Group.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**for the year ended 31 December 2020**

**Critical accounting judgements and estimates**

**Accounting Judgements**

**(a) Recognition of revenue**

The policy for the recognition of software licences, maintenance and subscription fees is detailed on pages 19 to 22.

*Assessment of performance obligations*

For Annual Licence Fees, the Company determines for each contract whether ongoing contractual software maintenance or subscription fees represent a performance obligation that is distinct from the licence. For all existing contracts, it is determined that the ongoing contractual obligations form part of a combined performance obligation with the software licence.

For product specific consultancy, the Company also concludes for each contract whether this represents a separate, distinct performance obligation from the licence. For all existing contracts, the services being provided met the criteria of being a separate, distinct performance obligation on the basis that contractually the customer could choose to purchase the services elsewhere without significantly affecting the promises included in the licence and maintenance agreement.

*How the combined performance obligation should be recognised*

Once the Company concludes on the revenue recognition profile, the business determines on a contract by contract basis the period over which the revenues are recognised. This period is defined as the optimisation period and represents the duration of time assessed by management during which the most significant optimisation and functional enhancements of the software is undertaken. Where the optimisation period for a client is assessed by management as being greater than the initial term of the contract, the revenues recognised across the minimum term are equal to the total value of the contract.

*Revenue recognition constraint*

During the period from the Company initially licencing its software to the product being deployed into a live client environment, an ongoing assessment is performed by management on a contract by contract basis to determine if sufficient challenges exist that would cast doubt over future economic benefits being realised by the business. Where such challenges exist, the revenue recognised across the period is constrained to the value of any amount invoiced and paid prior to the end of the reporting date, with this being assessed as the consideration during the period up to deployment. Once the software is deployed, the amount of revenue recognised is adjusted so that it is proportional to the Company's development effort to date against the total expected development hours to be incurred across the contract period.

*Product specific consultancy deferral*

For any implementation service contract where the client is contracting on a time and materials basis, an assessment is made by management at the year-end of the expected amount of any additional consultancy effort to be provided to satisfy certain contractual obligations without incremental charge. Where such effort is anticipated, an accompanying deferral is calculated based on the value of this time if charged to the client and is recognised through the deferral of revenues.

## **APTITUDE SOFTWARE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **for the year ended 31 December 2020**

#### **Accounting Judgements (continued)**

##### **(b) Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The discount rate applied in the value in use calculation approximates to the Company's Weighted Average Cost of Capital.

The Company annually reviews the goodwill valuation based on various scenarios and each of these scenarios have different growth rate assumptions. The growth rate assumptions are in relation to periods covered by Board approved plans.

Impairments recognised during the year are charged against the carrying value of goodwill. Any impairment is recognised in the income statements in the period which it is deemed to arise.

##### **(c) Impairment of investments**

The Company also carries out regular impairment reviews on the value of investments held. Where the investment is held in a company which has an ongoing trade, the value is derived by a value in use calculation of the cash generating units. This is done on a similar basis to that used in the impairment of goodwill calculation as detailed above and is therefore subject to the same estimates by management. Where the investment is held in a company which is no longer trading, the value is derived from the carrying value of the net assets on the balance sheet of that entity.

##### **(d) Development costs**

The Company invests on a continual basis in the development of new and enhanced features in the product suite. There is a continual process of enhancements to and expansion of the overall product suite with judgement required in assessing whether the development costs meet the criteria for capitalisation. These judgements have been applied consistently year to year. In making this judgement, the Company evaluates, amongst other factors, whether there are future economic benefits beyond the current period, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, the likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to measure reliably the expenditure attributable to the project.

Judgement is therefore required in determining the practice for capitalising development costs. The accounting policy for research and product development is detailed on page 25 and in the current year there are no development expenses that have been capitalised (2019: nil). The total product management, research and development expenditure in the period is £2.1 million (2019: £1.8 million).

Given the challenges surrounding the complexity of underlying software development issues and the competitive nature of the markets in which we operate, technical feasibility and future probability of development has only been satisfied once the product is deployed into a live client environment. Accordingly, these development costs have not been capitalised.

Costs which are incurred after the general release of internally generated software, or costs which are incurred in order to enhance existing products by way of minor or major upgrades, or other changes in software functionality, do not satisfy the criteria in order to capitalise. Such expenditure is therefore recognised as an expense in the period in which it is incurred and included within research and development expense in the income statement.

# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### for the year ended 31 December 2020

#### Accounting estimates

##### (a) Recognition of revenue

###### *Method of recognising revenue*

Where the software licence and maintenance fees meet the criteria of a combined performance obligation, the Company determines for each contract the most appropriate method of recognising revenue in line with development activity related to the relevant product. Measurement of the development activity is completed by way of the input method, with management providing an initial estimate of the overall expected development hours to be incurred across the period. This estimate is then reviewed against actual hours incurred at the end of each reporting period.

The estimation of the development activity, principally the number of hours anticipated to be incurred, impacts all customer contracts and therefore as at 31 December 2020, the deferred income balance of £16.4 million (2019: £15.5 million) and accrued income balance £0.2 million (2019: £0.3 million) have been calculated pursuant to estimates. Sensitivity analysis was performed with management considering the impact of a reasonable proportional movement in the estimated development effort and determined that in all cases the impact on the assets and liabilities presented across both periods was not material.

###### *Fixed price projects*

Fixed priced development or consultancy projects also require estimates in respect of the percentage completion of each project. As at 31 December 2019 the Company had one ongoing fixed price project which concluded during the year and therefore the estimates applied were not considered to have a material impact on the carrying amount of any asset or liability presented in either period.

###### *Product specific consultancy deferral*

As outlined with the accounting judgments applied to the recognition of revenue, management make a deferral of revenue at the year-end of the expected amount of any additional consultancy effort to be provided to satisfy certain contractual obligations without incremental charge. Where such effort is anticipated, management estimate the amount required along with the accompanying value of this time if charged to the client. Sensitivity analysis was performed with management considering the impact of a reasonable proportional movement in the estimated consultancy effort and determined that in all cases the impact on the assets and liabilities presented across both periods was not material.

##### (b) Taxation

The actual tax the Company pays on its profits is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on past profits which are then recognised in financial statements. The Company believes the estimates, assumptions and judgements are reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the income statement.

Deferred tax assets and liabilities require management judgement in determining the amount to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**1. Revenue**

**(a) Geographical segments**

All revenue is attributable to the principal activity of the Company. The Company has two geographical segments for reporting purposes, the United Kingdom and the Rest of the World.

The following table provides an analysis of the Company's sales by origin and by destination.

	Sales revenue by origin		Sales revenue by destination	
	Year ended 31 Dec 2020	Year ended 31 Dec 2019	Year ended 31 Dec 2020	Year ended 31 Dec 2019
	£000	£000	£000	£000
United Kingdom	32,096	32,459	10,277	8,419
Rest of World	3,189	4,611	25,008	28,651
	<u>35,285</u>	<u>37,070</u>	<u>35,285</u>	<u>37,070</u>

**2 Revenue from contracts with customers**

**(a) Disaggregation of revenue from contracts with customers**

All of the revenue displayed in the table in note 1 is recognised over time in line with the Company's accounting policy and has been generated from contracts with customers.

For software related revenue, the Company receives payment for its licence and maintenance fees annually in advance of the performance obligations being satisfied. Service-related revenue is paid as and when either the services been provided or, in the case of fixed price projects in line with the payment schedule.

**(b) Assets and liabilities related to contracts with customers**

The Company has recognised assets and liabilities relating to contracts with customers. These amounts are classified as accrued and deferred income respectively for the purposes of this report and are displayed within notes 14 and 16 of this report.

*(i) Significant movements in accrued and deferred income*

Contract assets saw a marginal decrease of £48,000 to £237,000 as at 31 December 2020 as a result of the timing difference between when work is completed and invoiced.

Contract liabilities saw an increase of £972,000 to £16,428,000 as at 31 December 2020, principally due to the growth in software and subscription revenues during the year which has caused an uplift in the value of Annual Licence fees issued during 2020 in excess of that recognised.

*(ii) Revenue recognised in relation to deferred income*

The following table shows how much of the revenue recognised in the current reporting period relates to the release of the carried-forward deferred income balance on 31 December of the previous period:

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
	£000	£000
Revenue recognized that was included in the deferred income balance at 31 December of the previous period	<u>14,500</u>	<u>11,368</u>

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**2 Revenue from contracts with customers (continued)**

**(b) Assets and liabilities related to contracts with customers (continued)**

*(iii) Assets recognised from costs to fulfil a contract*

In addition to the contract balances disclosed above, the Company has also recognised an asset in relation to the commission costs of obtaining a contract. This is amortised on a straight-line basis over the term of the specific contract and presented within other long-term assets in the balance sheet.

	31 Dec 2020	31 Dec 2019
	£000	£000
Asset recognised from costs incurred to fulfil a contract at 31 December	1,186	1,377
Amortisation recognised as cost of providing services during the period	527	235

**3 Operating profit**

The following items are included in operating costs:

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
	£000	£000
<b>Underlying operating costs</b>		
Employee benefit expense (note 4)	15,442	14,901
Depreciation (note 9)	638	587
Other operating costs	10,241	11,938
	<u>26,321</u>	<u>27,426</u>
<b>Non underlying operating costs</b>		
Acquisition and associated restructuring costs	-	291
Overseas taxation provision	-	180
	<u>-</u>	<u>471</u>
	<u>26,321</u>	<u>27,897</u>

Profit from operations has been arrived at after charging:

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
	£000	£000
Net foreign exchange gain	(313)	(410)
Product management, research and development costs	2,144	1,826
Depreciation of property, plant and equipment (note 9)	638	587
Repairs and maintenance expenditure on property, plant and equipment	154	126

For 2020 the audit fee for the Company was borne by the ultimate parent company, Aptitude Software Group plc. A full breakdown of audit fees is disclosed in the financial statements of Aptitude Software Group plc which are publicly available.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**4 Employees and Directors**

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Employee benefit expense during the year		
Wages and salaries	13,060	12,350
Social security costs	1,562	1,520
Other pension costs (note 23)	587	523
Share based payment costs on share options (note 24)	233	508
	<u>15,442</u>	<u>14,901</u>

Average monthly number of employees (including Directors) for the Company:

	Year ended 31 Dec 2020 Number	Year ended 31 Dec 2019 Number
By location:		
United Kingdom	102	102
Rest of World	6	4
	<u>108</u>	<u>106</u>

Headcount at 31 December 2020 was 100 (2019: 107).

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Directors:		
Short-term employee benefits	299	336
Post-employment benefits	14	15
Share based payment costs on share options	30	159
	<u>343</u>	<u>510</u>

Average monthly number of Directors were 1 (2019: 1). Headcount at 31 December 2020 was 1 (2019: 2).

During the year the highest paid Director received aggregate emoluments of £299,000 (2019: £252,000) excluding long term incentive awards. The value of the Company contributions paid to a money purchase scheme in respect of the highest paid Director amounted to £14,000 (2019: £15,000).

The emoluments of P Wood were borne by Aptitude Software Group plc, a fellow group subsidiary. P Wood was remunerated for his services to the Aptitude Software Group plc Group as a whole and received no further separable remuneration for his services as Director to Aptitude Software Limited. Consequently, he has not been included in any of the tables displayed above.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**5 Income from shares in group undertakings**

	2020	2019
	£000	£000
Dividends received from group undertakings	401	388
	<u>401</u>	<u>388</u>

**6 Finance costs**

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
	£000	£000
Interest payable on capital lease obligations	(24)	(24)
<b>Total finance costs</b>	<u>(24)</u>	<u>(24)</u>

**7 Income tax expense**

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
	£000	£000
Analysis of charge in the year		
Current tax:		
– tax charge on underlying items	(310)	(1,580)
– adjustments to tax in respect of prior periods	236	(56)
<b>Total current tax</b>	<u>(74)</u>	<u>(1,636)</u>
Deferred tax (note 12):		
– tax credit on underlying items	92	(199)
– adjustments to tax in respect of prior periods	53	(15)
<b>Total deferred tax</b>	<u>145</u>	<u>(214)</u>
<b>Income tax expense</b>	<u>71</u>	<u>(1,850)</u>

UK corporation tax is calculated at 19.00% (2019: 19.00%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

UK corporation tax rates substantively enacted as part of the March 2021 Bill included an increase of the rate to 25% from 1 April 2023 with a retention of the current rate of 19% for years starting April 2020 to April 2022. The Finance Bill in 2016 had previously enacted a proposed reduction to 17% from 1 April 2020.



**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**7 Income tax expense (continued)**

The tax for the year is lower than (2019: higher than) the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are explained below:

	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000
Profit on ordinary activities before tax	<u>9,341</u>	<u>9,537</u>
Tax at the UK corporation tax rate of 19.00% (2019: 19.00%)	(1,775)	(1,812)
Effects of:		
Adjustment to tax in respect of prior year	289	(71)
Adjustment in respect of foreign tax rates	(9)	(15)
Non-taxable income	76	74
Expenses not deductible for tax purposes	(15)	(17)
Other	-	(134)
Research and development tax relief	618	-
Group relief	887	125
Total taxation	<u>71</u>	<u>(1,850)</u>

The total tax credit of £71,000 (2019: charge of £1,850,000) on Company profit before tax represents -0.76% (2019: 19.40%) of the Company profit before tax of £9,341,000 (2019: £9,537,000).

**8 Dividends**

	2020 pence per share	2019 pence per share	2020 £000	2019 £000
Dividends paid:				
Interim dividend	5.00	4.80	12,500	12,000
	<u>5.00</u>	<u>4.80</u>	<u>12,500</u>	<u>12,000</u>

**9 Property, plant and equipment**

	Right-of-use assets £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Company				
Cost				
At 1 January 2020	2,395	1,078	194	3,667
Additions	543	69	-	612
At 31 December 2020	<u>2,938</u>	<u>1,147</u>	<u>194</u>	<u>4,279</u>
Accumulated depreciation				
At 1 January 2020	2,040	754	89	2,883
Charge for the year	399	179	60	638
At 31 December 2020	<u>2,439</u>	<u>933</u>	<u>149</u>	<u>3,521</u>
Net book amount				
At 31 December 2020	<u>499</u>	<u>214</u>	<u>45</u>	<u>758</u>

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**9 Property, plant and equipment (continued)**

	Right-of-use assets £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
<b>Company</b>				
<b>Cost</b>				
At 1 January 2019	2,298	776	194	3,268
Additions	97	353	-	450
Disposals	-	(51)	-	(51)
<b>At 31 December 2019</b>	<b>2,395</b>	<b>1,078</b>	<b>194</b>	<b>3,667</b>
<b>Accumulated depreciation</b>				
At 1 January 2019	1,682	564	50	2,296
Charge for the year	358	190	39	587
<b>At 31 December 2019</b>	<b>2,040</b>	<b>754</b>	<b>89</b>	<b>2,883</b>
<b>Net book amount</b>				
At 31 December 2019	355	324	105	784

**10 Goodwill**

	2020 £000	2019 £000
<b>Company</b>		
<b>Cost</b>		
At 1 January and 31 December	17,508	17,508
<b>Net book amount</b>		
At 31 December	17,508	17,508

The Company tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

For the purposes of performing the goodwill impairment review, the Company have utilised the Board approved plans for the three-year period to 31st December 2023 followed by anticipated growth in operating profit of 10% per annum for the period 2024-2025. The growth rates applied were based on the Company's assessment of the future opportunities within the market.

The terminal growth rates for the period after 2025 are no greater than 2.25% per annum. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. Management performed an exercise to re-evaluate the discount rate applied to the CGU. Based on the results, the rate applied in 2020 increased to 12.5% (2019: 9.8%).

Sensitivity analysis was performed on the business with a reasonable proportional movement in any combination of the assumptions not resulting in an impairment.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**11 Investments in subsidiaries**

	2020 £000	2019 £000
<b>Cost</b>		
At 1 January	9,132	9,033
Share based payments – share options granted to employees of subsidiaries	(74)	99
<b>At 31 December</b>	<b>9,058</b>	<b>9,132</b>
<b>Net book amount</b>		
<b>At 31 December</b>	<b>9,058</b>	<b>9,132</b>

The recoverable amounts of the investments are determined by calculating a value in use for the appropriate subsidiary investment. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the subsidiary investments.

Where the investment is held in a company which is no longer trading, the value is derived from the carrying value of the net assets on the balance sheet of that entity.

The Directors consider the value of the investments to be supported by their underlying assets.

<b>Principal subsidiaries</b>	<b>Country</b>	<b>Activity</b>
Aptitude Software (Canada) Limited	Canada	Employment and Company Services
Aptitude Software Inc	USA	Software and Services
Aptitude RevStream Inc*	USA	Software and Services

\* Indirectly held by Aptitude Software Limited

The Company owns 100% of the ordinary share capital in the above subsidiaries.

The registered office of the Company's principal subsidiaries which is not that of the Company are detailed below:

<b>Subsidiary</b>	<b>Registered office</b>
Aptitude Software (Canada) Limited	1500 Royal Centre, 1055 West Georgia Street, PO Box 1117, Vancouver, British Columbia
Aptitude Software Inc.	CT Corporation System, 111 8 <sup>th</sup> Avenue, New York 10011
Aptitude RevStream Inc.	100 Marine Parkway, Suite 210, Redwood City, CA 94065

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**12 Deferred tax**

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2019: 19%) for balances expected to be recovered within 12 months and all subsequent periods.

	2020 £000	2019 £000
<b>Deferred tax</b>		
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	184	165
- Deferred tax asset to be recovered within 12 months	52	38
	<u>236</u>	<u>203</u>
Deferred tax liabilities:		
- Deferred tax liabilities to be settled within 12 months	-	-
	<u>-</u>	<u>-</u>
<b>Deferred tax asset</b>	<u>236</u>	<u>203</u>

**Net deferred tax**

	2020 £000	2019 £000
At 1 January	203	499
Total credit/(charge) to income statement for the year	102	(208)
Charge to equity	(69)	(97)
Changes in tax rate	-	9
<b>At 31 December</b>	<u>236</u>	<u>203</u>

	Accelerated capital allowances £000	Short term timing differences £000	Share based payments £000	Total £000
<b>Deferred tax asset</b>				
At 1 January 2019	-	94	427	521
Total credit/(charge) to income statement for the year	-	52	(212)	(160)
Exchange differences	-	21	(12)	9
Charge to equity	-	(15)	(82)	(97)
<b>At 31 December 2019</b>	-	152	121	273
Total credit/(charge) to income statement for the year	41	(14)	41	68
Charge to equity	-	-	(69)	(69)
<b>At 31 December 2020</b>	<u>41</u>	<u>138</u>	<u>93</u>	<u>272</u>
Amounts offset against deferred tax liability	-	(36)	-	(36)
<b>Net deferred tax asset at 31 December 2020</b>	<u>41</u>	<u>102</u>	<u>93</u>	<u>236</u>

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**12 Deferred tax (continued)**

Deferred tax liability

	Other timing differences	
	2020	2019
	£000	£000
At 1 January	(70)	(22)
Total charge to the income statement for the year	34	(48)
At 31 December	<u>(36)</u>	<u>(70)</u>
Amounts transferred to offset against deferred tax liability	<u>36</u>	<u>70</u>
Net deferred tax liability at 31 December 2020	<u>-</u>	<u>-</u>

**13 Other long-term assets**

	Year ended 31 Dec 2020	Year ended 31 Dec 2019
	£000	£000
Prepaid commission costs	<u>1,186</u>	<u>1,377</u>

On adoption of IFRS 15, the Company's assessment is that commission incurred on software licence sales meet the definition of incremental costs of obtaining a contract. An asset is therefore recognised at inception of the contract for the total value of commissions payable which is then amortised across the contract life of each customer.

**14 Trade and other receivables**

	Company 31 Dec 2020	Company 31 Dec 2019
	£000	£000
Trade receivables	2,350	5,226
Less: provision for impairment of receivables	-	(19)
Trade receivables – net	<u>2,350</u>	<u>5,207</u>
Amounts owed by Group undertakings	2,392	1,141
Other receivables	222	659
Prepayments	209	436
Accrued income	237	285
	<u>5,410</u>	<u>7,728</u>

Amounts due from Group undertakings are unsecured, interest free and repayable on demand.

Within the trade receivables balance of £2,350,000 (2019: £5,226,000) there are balances totaling £665,000 (2019: £1,580,000) which, at 31 December 2020, were overdue for payment. All of this balance (2019: £1,580,000) has been collected at 8 June 2021 (2019: 1 June 2020).

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**14 Trade and other receivables (continued)**

Movements on the provision for impairment of trade receivables are as follows:

	31 Dec 2020	31 Dec 2019
	£000	£000
At 1 January	19	83
Credit to the income statement	(19)	(64)
At 31 December	<u>-</u>	<u>19</u>

Movements in the provision for impaired trade receivables have been included in the income statement under other operating costs. No amounts were written off as unrecoverable to the income statement during the year (2019: £nil). Non-trade receivables do not contain any impaired assets.

Whilst the Company retains credit insurance in respect of certain balances, the maximum exposure to credit risk at the reporting date is the fair value of each receivable class mentioned above. No collateral is held as security against these assets.

**15 Cash and cash equivalents**

Cash and cash equivalents are denominated in the following currencies:

	31 Dec 2020	31 Dec 2019
	£000	£000
Sterling	2	2
Polish Zloty	8	10
US Dollar	1,244	1,204
Canadian Dollar	206	73
Cash at bank and in hand	<u>1,460</u>	<u>1,289</u>

The effective interest rate on short term deposits was 0% across both years presented.

**16 Trade and other payables**

	31 Dec 2020	31 Dec 2019
	£000	£000
Trade payables	337	637
Amounts owed to Group undertakings	1,661	2,849
Other tax and social security payable	1,075	1,080
Other payables	106	63
Accruals	2,855	2,316
Deferred income	16,428	15,456
	<u>22,462</u>	<u>22,401</u>

The amounts owed to Group undertakings are unsecured, interest free and repayable upon demand.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**17 Capital lease obligations**

The Company leases various offices and plant and machinery which, following the adoption of IFRS 16, met the criteria set out to be recognised as capital lease agreements.

	31 Dec 2020 £000	31 Dec 2019 £000
Amounts payable under capital lease arrangements		
Within one year	569	412
Within two to five years	19	-
<b>Total</b>	<b>588</b>	<b>412</b>
Less: future finance charges	(27)	(9)
<b>Present value of lease obligations</b>	<b>561</b>	<b>403</b>
Less: Amount due for settlements within 12 months (shown under current liabilities)	(543)	(403)
	<b>18</b>	<b>-</b>

The present value of financial lease liabilities is split as follows:

	31 Dec 2020 £000	31 Dec 2019 £000
Within one year	543	403
Within two to five years	18	-
<b>Total</b>	<b>561</b>	<b>403</b>

**18 Provisions**

	2020 £000	2019 £000
<b>Company</b>		
At 1 January	180	100
Charged to income statement	80	80
<b>At 31 December</b>	<b>260</b>	<b>180</b>

Provisions have been analysed between current and non-current as follows:

	31 Dec 2020 £000	31 Dec 2019 £000
Current	-	-
Non-current	260	180
	<b>260</b>	<b>180</b>

The Company provision of £260,000 (2019: £180,000) relates to the cost of the dilapidations in respect of its occupied leasehold premises.

All of the non-current provision is expected to unwind within 2 to 5 years.

**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**19 Financial instruments**

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts are:

	31 Dec 2020		31 Dec 2019	
	Assets	Liabilities	Assets	Liabilities
Company and Company	£000	£000	£000	£000
Forward exchange contracts – cash flow hedges	62	133	4	120
	<u>62</u>	<u>133</u>	<u>4</u>	<u>120</u>

**Total derivatives designated as hedging instruments**

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

**Currency derivatives**

As in previous years, forward foreign exchange contracts are used to hedge a proportion of both the Group's forecast Polish Zloty denominated costs and US dollar denominated service-related revenue less US dollar denominated cost over the next 12 months. The forward exchange contracts mature across the year.

The notional principal amounts outstanding at the balance sheet date are as follows:

	2020	2019
	£000	£000
Forward foreign exchange contracts – Polish Zloty	5,895	5,506
Forward foreign exchange contracts – US Dollar	<u>370</u>	<u>124</u>

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange contracts match the terms of highly probable forecast transactions (i.e. notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange contracts are identical to the hedged risk components. To test hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in the fair value of the hedged items attributable to the hedged risks. In these hedge relationships, the main sources of ineffectiveness are:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indices (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

At 31 December 2020, the fair value of the Company's currency derivatives is estimated to be a liability of approximately £71,000, (2019: £116,000), comprising £62,000 assets (2019: £4,000) and £133,000 liabilities (2019: £120,000), based on quoted market values.

The forward contracts are designated as effective as cash flow hedges in accordance with IFRS 9 'Financial Instruments'. The fair value has been recognised in other comprehensive income and presented in the hedging reserve in equity.

The ineffectiveness recognised in the income statement for the year ending 31 December 2020 was a loss of £50,000 (2019: loss of £26,000) split between a loss of £75,000 recognised in operating costs and a gain of £25,000 recognised in revenue (2019: loss of £14,000 in operating costs and £12,000 in revenue).

The income from hedging recognised in other comprehensive income during the year ending 31 December 2020 was £45,000 (2019: expense of £186,000).



**APTITUDE SOFTWARE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
for the year ended 31 December 2020

**20 Share capital**

	Number	2020 £000	Number	2019 £000
Issued and fully paid:				
Ordinary shares of 1p each				
At 1 January	250,000,000	2,500	715,400,000	7,154
Reduction of capital	-	-	(465,400,000)	(4,654)
At 31 December	250,000,000	2,500	250,000,000	2,500

In May 2019, the Company passed a special resolution to cancel and extinguish for no consideration 465,400,000 ordinary shares of 1p held by Aptitude Software Group plc with the amount by which the share capital is reduced credited to retained earnings.

**21 Share premium**

	31 Dec 2020 £000	31 Dec 2019 £000
At 1 January	-	1,081
Reduction of capital	-	(1,081)
	-	-

In May 2019, the Company passed a special resolution to cancel the share premium account with the amount being transferred to retained earnings.

**22 Other reserves**

	Derivatives hedge reserve £000
At 1 January 2019	53
Cash flow hedges	
– net fair value loss in the year	(169)
At 31 December 2019	(116)
Cash flow hedges	
– net fair value gain in the year	45
At 31 December 2020	(71)

# APTITUDE SOFTWARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### for the year ended 31 December 20

#### 23 Retirement benefit schemes

The Company operates defined contribution retirement benefit plans for qualifying employees in the UK. The assets of the plans are held separately from those of the Company in funds under the control of trustees.

The total expense recognised in the income statement of £587,000 (2019: £523,000) represents contributions payable to these plans by the Company at rates specified in the rules of the plans. As at 31 December 2020, contributions of £14,000 (2019: £15,000) due in respect of the 2020 reporting year had not been paid over to the plans and were included within accruals. The amounts were paid subsequent to the balance sheet date.

#### 24 Share based payments

A proportion of the Company's employees had been granted share options by the ultimate parent undertaking, Aptitude Software Group plc through its various Share Plans and consequently, the Company has recognised an expense which represents the equity-settled share-based payment transactions from the point of acquisition. Full details of the Groups various share plans are disclosed on pages 127-128 of Aptitude Software Group plc's 2020 Annual Report and Financial Statements.

The Company recognised total expenses of £233,000 (2019: £508,000) related to equity-settled share-based payment transactions during the year. After deferred tax, the total charge in the income statement was £299,000 (2019: £505,000). There was a deferred tax expense of £69,000 (2019: £107,000) and a corporation tax credit of £3,000 (2019: £1,006,000) taken directly to equity.

#### 25 Post balance sheet event

Since the year end, new country by country guidance took effect in respect of the United Kingdom's withdrawal from the European Union. The withdrawal represents a non-adjusting event for the purposes of these financial statements and, even if it had represented an adjusting event the Directors believe the impact of this would have been immaterial, this is based on the conclusions set out within the Strategic Report.

In addition, the Company continues to be affected by the global restrictions implemented by governments in response to the COVID-19 outbreak detailed within the Strategic Report. This impact remains unchanged since the year end.

#### 26 Immediate and ultimate parent undertaking

The immediate and ultimate parent undertaking and controlling party is Aptitude Software Group plc, a company incorporated in England. Aptitude Software Group plc is also the parent undertaking of the smallest and largest Group of undertakings to consolidate these financial statements. The financial statements of Aptitude Software Group plc are available from Old Change House, 128 Queen Victoria Street, London, EC4V 4BJ.