

VITALITY CORPORATE SERVICES LIMITED

# VitalityHealth

Annual Report and Financial Statements

For the year ended 30 June 2020



## Vitality Corporate Services Limited

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## **Vitality Corporate Services Limited**

### **DIRECTORS AND OFFICERS**

#### **Directors in office at the date of the signing of the financial statements**

Adrian Gore  
Andrew Foster  
Neville Koopowitz  
Stephen Sarjant\*  
Andrew Crossley\*  
Wolf Becke\*  
Rosemary Hilary\*  
Nicholas Caplan\*  
Alastair Lyons\*  
Joanne Shaw\*  
Nicholas Read (appointed 22 July 2020)

\*Independent Non-Executive

#### **Company Secretary at the date of the signing of the financial statements**

Jennifer Thorn

#### **Registered office**

3 More London Riverside  
London  
SE1 2AQ

#### **Registered number**

05933141

#### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London  
SE1 2RT

## Vitality Corporate Services Limited

### STRATEGIC REPORT

The directors present their Strategic Report, Report of the Directors and the audited financial statements for the year ended 30 June 2020.

Vitality Corporate Services Limited ("the Company") is a private company limited by shares, incorporated and domiciled in the United Kingdom with a registered address of 3 More London Riverside, London SE1 2AQ. The Company is one of eight companies that, along with the holding company, make up the Discovery Holdings Europe Limited group of companies ("Vitality", "Vitality Group", "the Group"). Within Vitality there are three sub-groups, "VitalityHealth", "VitalityLife" and "VitalityInvest". The Company sits within the VitalityHealth sub-group along with 2 other companies.

#### Principal activities and business review

The principal activity of the Company is to provide administrative, distribution and management services for the VitalityHealth insurance and VitalityHealth trust products sold by Vitality Health Limited ("VHL") and previously sold by Vitality Health Insurance Limited (trading as "VitalityHealth"), for the VitalityLife products underwritten by The Prudential Assurance Company Limited and Vitality Life Limited ("VLL") (trading as "VitalityLife") and for the products underwritten by Vitality Life Limited (trading as "VitalityInvest"). Vitality Health Insurance Limited has been de-authorized as an insurance company and has now been run off. The Company also provides a program of wellness benefits to individuals who are policyholders of VitalityHealth, VitalityLife and VitalityInvest.

The Company owns 50% of Healthcare Purchasing Alliance Limited ("HPA"). HPA is responsible for supporting VitalityHealth and Aviva Health UK Limited with the procurement of healthcare with most large hospitals, primarily around contracting. HPA's registered office is 8 Surrey Street, Norwich, Norfolk, NR1 3NG.

The Company owns 100% of Vitality Healthy Workplace Limited ("VHWL"), a company limited by shares incorporated and domiciled in the United Kingdom with a registered address of C/O Vitality Health 4<sup>th</sup> Floor, 70 Gracechurch Street, London, EC3V 0XL. The investment was previously a joint venture between Nuffield Health and the Company, however on 7 March 2019 the Company acquired Nuffield Health Limited's interest in the joint venture and became the sole shareholder.

The Company is regulated by the Financial Conduct Authority (FCA).

The profit before tax for the year ended 30 June 2020 was £8,201k (2019: £572k). Management and distribution expenses were recharged using a cost apportionment model at a margin of cost plus five per cent for the Vitality products sold by VHL and VLL for the year ended 30 June 2020, generating income of £275,946k (2019: £273,554k). Expenses such as interest costs and investment management fees were recharged at cost. In the year, the Company generated £172k of fees related to the trust business (2019: £nil).

The net assets of the Company at 30 June 2020 were £43,611k (2019: £38,000k).

#### Future outlook

The Company will continue to provide administrative, distribution and management services for the VitalityHealth, VitalityLife and VitalityInvest branded products. These services are expected to continue to grow as the customer base of VitalityHealth, VitalityLife and VitalityInvest grows.

On 7 September 2018, the Company entered into a contractual joint venture. The venture is expected to launch a new Vitality branded financial services product during 2021, but has not been publicly announced at the time of signing the financial statements for the year ended 30 June 2020.

**STRATEGIC REPORT (CONTINUED)**

**Future outlook (continued)**

On 11 March 2020, the World Health Organisation declared COVID-19 a global pandemic. The global response to COVID-19 continues to evolve rapidly and has included mandates from various levels of governments across the world to mitigate the spread of the virus. The adverse impact on global commercial activity from the COVID-19 pandemic has contributed to significant volatility in financial markets.

While the directors continue to monitor developments closely, their current assessment is that there will be a limited adverse impact on the Company in the future. This is primarily as a result of the limited impact it is expected to have on the underlying businesses that the Company provides services to. VitalityHealth, VitalityLife and VitalityInvest have demonstrated strong operational resilience during the pandemic and in a post COVID-19 environment, the issues of health, wellness and resilience are likely to be fundamental and these businesses are well placed to capitalize on their shared value business models in the markets they operate in.

On 23 June 2016 the United Kingdom European Union membership referendum resulted in a vote for the UK to leave the European Union. As a result the UK left the EU on 31 January 2020. A transition period is now in place until 31 December 2020 during which time the UK must comply with all EU rules and laws. Virtually nothing will change for businesses or for the public. There will be changes after the transition period, whether or not an agreement is reached on the new relationship between the UK and the EU. As VHL and VLL only sell and underwrite policies to UK residents this result is not expected to significantly impact the services that the Company provides to VHL and VLL. However, given the uncertainty within the UK economy driven by the UK leaving the EU, this continues to have unclear impacts on the private medical insurance market and the private life insurance market.

**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 key business risks and uncertainties affecting the Company are considered to relate to credit risk, which arises from the provision of services relating to VitalityHealth, VitalityLife and VitalityInvest. However, this risk is considered minimal. The Company actively manages and monitors its credit exposure on an ongoing basis and where possible limits significant transactions to counterparties with high credit ratings and/or those that operate in a regulated environment. The level of credit risk with individuals or unincorporated bodies is minimised where possible.

**Financial risk management**

The Company manages its various financial risks as outlined in Note 3 to the financial statements (including the capital management policy).

**Key performance indicators (KPIs)**

There are no key performance indicators as the Company's primary activity is to act as the service company for VitalityHealth, VitalityLife and VitalityInvest. The Company has remained solvent throughout the year and has adequate capital resources to meet its liabilities and capital requirements imposed by the FCA.

**Environmental matters and social and community issues**

The Company recognises its responsibilities with regard to environmental matters, including the impact of the Company's business activities on the environment, and actively works towards reducing this impact. Further information on environmental reporting is contained in the Report of the Directors.

**STRATEGIC REPORT (CONTINUED)**

**Environmental Reporting**

The Validity Group supports the Company’s drive to manage the environmental impact of the businesses. Three key environmental objectives have been set:

- Reduce and monitor direct environmental footprint;
- Drive behaviour change by creating awareness and educating employees; and
- Understand the impact of climate change on the businesses.

Direct environmental footprint

The direct environmental impact of the Company’s operations is relatively low since there is no manufacturing element to the business, however, the urgency of action on climate change is recognised and the need for responsible environmental policies.

The Company is committed to reducing their direct environmental footprint. This has happened in a number of places, for example:

- Increased usage of video conferencing facilities to reduce the travel carbon footprint of the businesses;
- Encouraging members to “go green” and reduce the level of paper used by Validity; and
- Improvements to premises such as LED lighting in the offices.

Each year, the Validity Group have reported some high level components of facilities and other carbon impacts such as electricity usage, whole gas for heating and the petrol used by company vehicles (for the Validity nurses), and these have been included in the annual Discovery Sustainable Development report.

The following table shows the current year’s direct carbon emissions for the Validity Group. It has not been possible to collate this data for each of the Companies as Validity Corporate Services Limited enters into all such supply contracts on behalf of all the Companies within the Validity Group.

	<b>2019/2020 kWh</b>	<b>2019/2020 tCO2e</b>	<b>2019/2020 tCO2e per employee</b>
Electricity Consumption (kWh)	1,858,939	433	0.215
Gas Consumption (kWh)	1,107,902	204	0.101
Business Travel – Land (kWh)	707,390	175	0.087
<b>Total</b>	<b>3,674,231</b>	<b>812</b>	<b>0.403</b>

This report was compiled by energy consultants Briar Consulting Engineers Limited. The 2019 UK Government Environmental Reporting Guidelines and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) were followed to ensure the minimum SECR requirements were met and exceeded where possible. The energy data was collated from energy invoices, meter reads, mileage records and benchmarks. The benchmark used was from the CIBSE TM46 Energy Benchmarks for a typical office; it states that electricity consumption is 95kWh/m<sup>2</sup>, with gas consumption for heating being 120kWh/m<sup>2</sup>. The majority of the energy data was supplied by providing energy invoices and meter reads per site. This energy data was converted to carbon emissions using emission factors provided by the Department of Business, Energy & Industrial Strategy that relate to the beginning of each respective reporting year. The associated emissions are divided into the combustion of fuels and the operation of facilities (scope 1), purchased electricity (scope 2) and the in-direct emissions that occur because of company activities (scope 3). Emissions for vehicle consumption were derived from mileage records and account for all fuel consumed by company cars, grey fleet and hire cars, known as Business Travel - Land to VCSL.

## Vitality Corporate Services Limited

### STRATEGIC REPORT (CONTINUED)

#### Environmental Reporting (continued)

The Vitality Group is working towards ensuring it is compliant with the Government's Energy Saving Opportunity Scheme (ESOS). This will further strengthen reporting around the direct environmental footprint, and need a carbon footprint based commitment that employees and members can support.

The Vitality Group are also supporting a wider Discovery Group Climate Change Strategy that is under development. This aims to:

- Assess potential climate-related risks to the Vitality Group and formulate appropriate mitigating strategies;
- Set ambitious targets for environmental impact reductions;
- Improve and increase reporting and disclosure of climate-related policies and positions;
- Improve integration of environmental, social and governance (ESG) matters in investment decisions; and
- Seize opportunities to impact society in a positive way through innovative climate-related initiatives and products.

#### Employee education and awareness

The Vitality Group has set up a staff engagement team in order to identify opportunities to improve Vitality's environmental footprint, and also support the education and awareness of this important topic to wider staff. There have already been a number of initiatives in this area, for example a "Go Green" internal communications campaign to promote a reduction in plastic at onsite restaurants and using the bins correctly to encourage recycling.

During the upcoming financial year 2020/21 there is a much wider green strategy and campaign being planned, that will incorporate further staff education, awareness and engagement in managing Vitality Group's environmental footprint. This will tie in with a broader market facing green strategy linked to the Vitality reward programme to encourage members to actively manage their own impact on the environment.

#### Understanding the impact of climate change

The Company's Board takes an active interest in ensuring the potential impact from climate change is properly assessed and managed within the business. This includes an annual assessment of climate risk within the Company's Own Risk and Solvency Assessment ("ORSA").

For both Vitality Health and Vitality Life, the related liability risks are considered to be limited. The impact of climate change is already included in the emerging risk process, and this recognises that climate may impact on the disease burden of the UK, and subsequently on the nature and incidence of PMI claims. The Company is able to re-price contracts and change cover provided as these risks emerge since it a short-term insurer. The Company has limited exposure to oil companies and to sovereign debt of "oil states" within its investment portfolios. This reduces the risk of climate related investments becoming stranded assets.

#### **Principal decisions made (S.172)**

The examples below show how the Board of Directors considered and had regard to the Group's key stakeholders when considering and making decisions whilst performing their duties under Section 172 of the Companies Act 2006.

The Vitality Group Board makes decisions that impact the Vitality UK Group of Companies including VCSL. The VCSL Board meets to discuss the operational and reserved matters that are specific to VCSL. There is a

## Vitality Corporate Services Limited

### STRATEGIC REPORT (CONTINUED)

#### Principal decisions made (S.172) (continued)

crossover of the Board membership of Directors between the Vitality UK Group Board and the VCSL Board. As a result the principal decisions outlined below include those relating directly to VCSL as well as the wider Group.

#### Operations

The Vitality Group Board approved the appointment of Neville Koopowitz as the Group CEO. The Vitality Group Board also approved the restructure of the Vitality Group, transferring the full beneficial ownership of Vitality Health Insurance Limited from Discovery Holdings Europe Limited to Vitality Life Limited. This restructure aligned the corporate structure to the One Vitality vision and the Composite Model strategy. The One Vitality Vision's purpose is to create a seamless customer experience; the integration of the Health, Life and Invest customer, advisor and retention services. The aim of the Composite Model is to align the existing corporate structure within the Vitality Group to operate as a single complete business, which has multiple businesses at its core; which will drive operational efficiency, improve alignment between Vitality's products and promote the shared value model. The Vitality Group Board approved the restructure which would overcome any concerns that the separate legal entities were operating in silos.

The budget to deliver the new Members' App and the Vitality website to further enhance the customer journey and experience was also approved. The Directors of VCSL had previously raised the importance of having a seamless customer experience for both the Members' App and the Vitality website, and the approval of the budget addressed this matter.

The shareholder of the Vitality Group will benefit from the increased efficiencies delivered by the corporate restructure and One Vitality vision. Governance changes were considered and approved by the Vitality Group Board supporting the One Vitality vision.

#### Regulatory/legal & compliance

The Vitality Group has elected to report against the Wates Principles of governance for large private companies which is disclosed in the financial statements of VCSL as this is the entity that employs all staff for the Group.

The Vitality Group Board considered and approved the Group CEO's succession plan, which gave certainty and security to the issue of succession.

As part of the annual cycle of items for consideration, the following were approved by the respective Boards of the Company:

- The Company's management responsibility maps;
- Annual regulatory submissions and year-end financial statements;
- The approval of the Company's Own Risk and Solvency Assessment ("ORSA"); and
- Chief Actuary Statements for Vitality Health.

These items above gave regard to the requirements stipulated by the regulators, a stakeholder of the Vitality Group.

#### Distribution

The Vitality Board considered the different distribution channels and Vitality's relationships with its strategic advisers. Advisers are key stakeholders to the businesses of the Vitality Group, and the Vitality Group Board were appraised of the different distribution channels.

## Vitality Corporate Services Limited

### STRATEGIC REPORT (CONTINUED)

#### Principal decisions made (S.172) (continued)

The Board of VCSL considered the launch of The Healthy Workplace Product which offers rewards to the uninsured population of corporates in return for engaging in healthy behaviours. The product ensures that the Vitality proposition reaches a wider audience than solely insurance customers.

#### Remuneration

The External Remuneration Committee ("the ERC"), a sub-committee of the Vitality Group Board, approved the score for the bi-annual corporate bonus; taking into account the balanced scorecard which includes, but is not limited to, governance, customer service, internal gender diversity targets, profit and sales. A governance rating is applied which is determined by the Independent Directors who chair the Risk, Audit & Actuarial Committees. In accordance with regulatory guidance, these independent Directors also determine the Solvency II's staff remuneration and incentives.

The ERC approved all aspects of remuneration relating to the Group CEO and his direct reports. The employees' annual salary increase was also approved.

#### Social matters

Vitality's Data Ethics Standard was approved by the Vitality Group Board which ensures the Company is acting ethically, particularly since there are ever more advancements in analytics and use of big data within the business. The Data Ethics Standard has been designed to ensure compliance with the General Data Protection Regulation at all times and is positioned to demonstrate that the businesses makes appropriate considerations to the subject, data use, ethics and act responsibly, noting that ethical governance is a process, not a checklist and is embedded in everything Vitality does.

The Ethics Report was also approved by the Vitality Group Board covering the standards the businesses currently have in place and the monitoring/reporting that has been completed, such as employee training, whistleblowing, treating customers fairly and equality, diversity and inclusion. This includes the results of the annual risk culture survey for senior leaders. The report highlighted that senior leaders have a good understanding of risks within the businesses, that they are identified swiftly with robust processes in place for their escalation for the consideration by Executive Management and further escalation to the Boards of the Vitality Group if necessary.

The organisation believes that ethical and well-governed organisations create trust with stakeholders. The Boards of the Vitality Group seek to influence all stakeholders to consider more responsible business practices that are good for members, employees and society. The Social, Corporate and Ethical Responsibility Standard was considered by the Group Board during the year and approved by the Risk Committee.

Vitality's modern slavery statement was approved by the Vitality Group Board as part of the existing annual process. The statement and supporting policy ensures compliance with the UK Modern Slavery Act 2015.

The Vitality Group Board considered Vitality's climate change risk and its exposure to climate change. For the Company the liability-side risks are considered to be limited, and whilst good progress is being made to better understand the Vitality Group's exposure to climate change risk, it was noted that this is an emerging area of expertise, and the approach will continue to mature over the next 1-2 years.

#### Conflicts

See Wates Principles above.

*Suppliers*

Throughout the financial year, Vitality programme partners are reviewed by the Board of VCSL to ensure that members are experiencing a range of benefits and rewards from supplier partners.

New additions to the supplier partners during the year were:

- (1) Amex with the launch of the Vitality Amex Credit Card, the first UK Healthy Credit Card, offering enhanced cash back to members with more than one insurance policy;
- (2) a new Healthy Food partner, Waitrose, allowing in-store as well as online purchases of healthy food reaching a large proportion of the customer base;
- (3) new travel partners such as Virgin Atlantic and Expedia, giving members a discount off travel further incentivising members to engage with the Vitality programme which benefits their health and leads to increased engagement in the Vitality programme; and
- (4) a new coffee partner, Caffè Nero and the new provider of discounted trainers to customers, Runners Need offering further enhancements for members.

The Company's Board approved the renewal of the Tata Consultancy Services contract, which is a major outsourcing partner, providing IT development and functional support. The renewal of the agreement ensured the consolidation of services with efficiencies gained across areas such as development, operations, infrastructure with the appropriate KPIs embedded into the contract.

*Covid-19 response*

During these unprecedented times, the Vitality Group Board was appraised of the measures taken to protect employees, members and advisers. The following was highlighted to the Vitality Group Board:

- All employees of the Vitality Group were able to work from home whilst ensuring that members were not impacted by this shift in the working pattern; with front-line staff being able to handle members' calls from secure network connections at home. Employees were also supported by the provision of a Coronavirus Hub with a range of resources to guide and support employees during the pandemic, including wellbeing at home and free access to a virtual schooling programme and other related tools; Product enhancements were made to Private medical cover products and the Vitality programme to ensure their relevance in light to the changed circumstances. This included a Covid-19 cash back benefit for Health members who contracted the virus and were hospitalized;
- The Vitality programme was adapted to take into account the closure of cinemas, gyms and coffee houses. Vitality@home was launched offering a range of activities and benefits that could be accessed from home such as free access to Peloton and Jenni's (online physical workouts), discounts on wearables, rewards at home such as online movie codes from Rakuten, and Caffè Nero coffee being delivered to members' homes;
- All members were given access to virtual GPs. The member care Hub (giving members' access anytime to the digital platform to search and find and book treatment) was fast tracked. In addition, the Company ensured that members could access virtual consultations with medical specialists;
- Members were kept up to date with regular communication and a Covid-19 FAQ page, and ensured that customers kept engaged with relevant content delivered by Vitality's ambassadors on social media channels; and

## Vitality Corporate Services Limited

### STRATEGIC REPORT (CONTINUED)

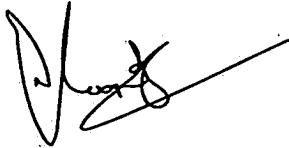
#### Principal decisions made (S.172) (continued)

- Provisions were made for members who were suffering from financial difficulties during the pandemic, by offering financial flexibility to continue premiums during these difficult times.

The Vitality Group Board was also appraised of the work undertaken to support the Financial Advisers, with the launch of the Vitality speaker series supporting advisers with relevant content, the Vitality academy helping advisers stay up to date with industry knowledge, market trends whilst ensuring that they received the necessary support from Distribution channels.

The Vitality Group Board also agreed that whilst the Vitality Group focused its efforts on dealing with the issues the businesses faced as result of the pandemic, Board meetings and Board sub-committee meetings and assurance work would be streamlined and would be primarily focusing on key business issues, and COVID-19 updates.

On behalf of the Board



**Neville Koopowitz**

Director

Vitality Corporate Services Limited (Reg No: 05933141)

30 September 2020

## **Validity Corporate Services Limited**

### **REPORT OF THE DIRECTORS**

#### **Directors**

Apart from Nicholas Read the directors listed on page 3 were in office for the whole financial year and up to the date of signing the financial statements.

The following individual was appointed as a Director of the Company during the year:

Nicholas Read                      22 July 2020

The following individual resigned as a Director of the Company during the year:

Herschel Mayers                    22 April 2020

The directors are not subject to retirement by rotation.

#### **Directors' Indemnities**

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its directors.

#### **Going Concern**

Going concern has been evaluated by the directors of the Company who have concluded that it is reasonable to expect the Company to remain in business for a period of not less than 12 months from the date of signing of the financial statements, on the basis of continued support from the shareholders of the Company.

In performing this evaluation the directors of the Company have considered the board approved business plan to support the solvency and liquidity requirements of the business for the next 12 months as well as the going concern assessments of the underlying businesses that the Company provides services to.

There are no significant factors arising from COVID-19 which would cause the directors to reconsider the application of the going concern principle or the value of financial statement components at the reporting date. See the Strategic report on page 4 for the Company's future outlook, which sets out the basis on which the directors consider that COVID-19 will only have a limited adverse impact on the business in the future.

#### **Results and dividend**

No dividend was paid or proposed in the year ended 30 June 2020 (2019: £nil).

The results for the year ended 30 June 2020 are set out on page 32, within the statement of comprehensive income.

#### **Financial risk management**

The Company manages its various financial risks as outlined in note 3 to the financial statements (including the Capital Management policy).

## Vitality Corporate Services Limited

### REPORT OF THE DIRECTORS (CONTINUED)

#### Future developments

See the Strategic report on page 4 for the Company's future outlook.

#### Political donations and political expenditure

No contributions were made for political purposes in the year (2019: £nil).

#### Wates Principles

For the financial year ended 30 June 2020, under The Companies (Miscellaneous Report) Regulations 2018, the Vitality Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council in December 2018). The Wates Principles have been applied to all Companies within the Vitality Group. One Statement of Corporate Governance arrangements has been prepared to cover all companies, as the arrangements are consistent across the Vitality Group. There have not been not been any departures from the Wates Principles as detailed within this Statement.

Set out below is how the Principles have been applied over the past year.

##### *Principle 1 – Purpose and Leadership*

Vitality aims to be the best at offering comprehensive and award-winning Health and Life insurance cover and positively different investments to its members.

- Vitality's core purpose is to make people healthier and to enhance and protect their lives.
- Vitality believes in the idea of 'shared value'. A unique approach to insurance, based on the scientifically proven principles of behavioural economics.
- Vitality helps members take a more active role in managing their own wellness, which can encourage the development of healthy long-term habits that are good for them, good for the business and good for society.

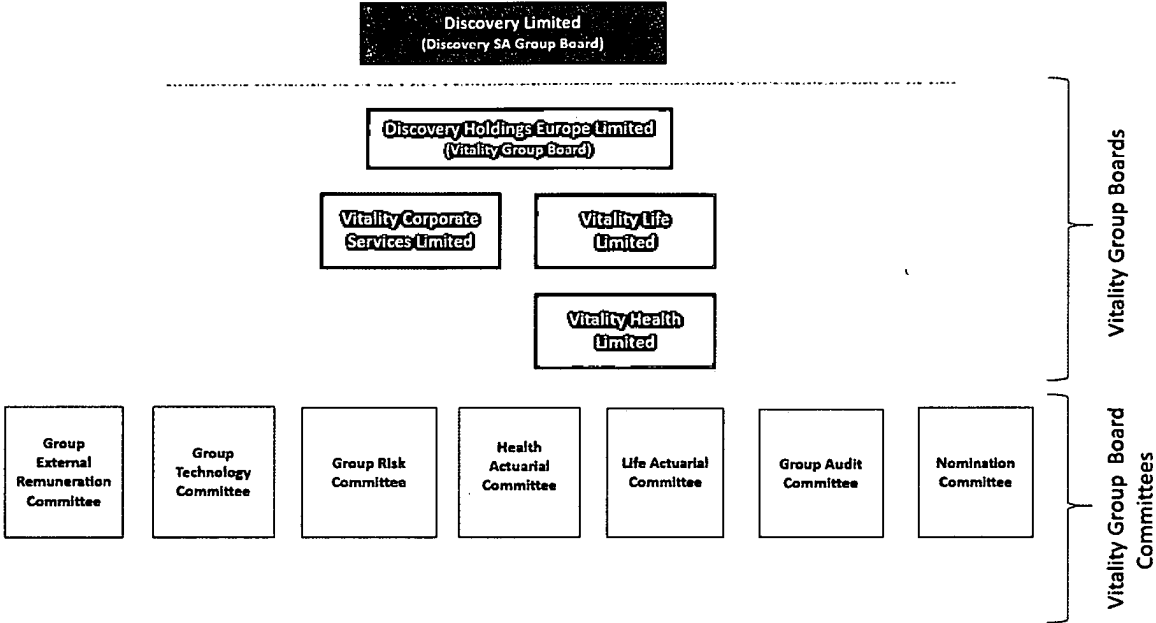
Vitality has a Leadership Charter that sets out the aspirational behaviours and attitudes that Vitality wish to display as leaders. It serves as a guide for all managers within the organisation.

In 2018, VitalityLife and VitalityInvest set a five year ambition to "Be the best Life Insurer and a thriving investment provider in the UK". VitalityHealth set its ambition to "Be the best health insurer in the UK, generating a million additional years of life for members by 2021 through the shared value insurance model".

REPORT OF THE DIRECTORS (CONTINUED)

Principle 2 – Board Composition

Vitality Boards and Committees



The Group Board is composed of the Chair who is the founder of the Discovery Group in South Africa, and a combination of Independent Non-Executive Directors, Discovery Non-Executive Directors and the Vitality Group CEO. The subsidiaries of the Group include the regulated insurance entities, namely VHL, VLL and VCSL. All of these three regulated entities have a combination of Independent Non Executive, Discovery Non-Executive and Executive Directors on their Boards, with independent chairs with all having a majority of Independent Non-Executive Directors on each Board.

The duties of the Boards are executed partially through a number of Board Committees (as noted on page 12). The Executive Committees for VHL and VLL ensure that organisational values, business strategy and culture of the businesses align.

There is a Group Board diversity policy. Accordingly, the principle of fairness is central to the Vitality Group’s values, and it is recognised that diversity is good for business and reputation.

Diversity takes many forms including gender, ethnicity, religion, nationality, sexual orientation, age, as well as less cited manifestations, such as diversity of experience, personality preferences and thinking styles. This awareness has shaped and will continue to shape the Boards of the Vitality Group, as well as the workforce.

Board appointments are made on merit by assessing candidates against measurable objective criteria (knowledge, skills, experience, and independence) and with a view to promoting diversity of thinking, insights and challenge to support sound decision making.

The Nomination Committee, a sub-committee of the Group Board, regularly reviews and assesses the compositions of the Boards of the Vitality Group and recommends appointments of new Directors. The Nomination Committee also oversees the evaluation of the performance and effectiveness of the Boards of the Vitality Group and considers the balance of skills, experience, independence and knowledge of the respective Boards, and the diversity of its composition.

**REPORT OF THE DIRECTORS (CONTINUED)**

As part of this, the Group Board has set a specific objective to have at least 3 female Board members across the Vitality Group, and to take opportunities to increase the number of female Board Members over time where that is consistent with other skills and diversity requirements.

A first external evaluation covering the VHL and VLL Boards was carried out at the end of 2017 and presented to the Group Board in January 2018. Following this, an internal Board evaluation encompassing all Boards was conducted in November 2018, and presented to the Group Board in January 2019.

The Group Board considered that taking into account the number of Board meetings annually and the full review which had been carried out in 2018, a mid-term review should be conducted for 2019 with a full review taking place towards the end of 2020.

The mid-term review focused on the areas that were highlighted for discussion or improvement from the 2018 full internal review including, but not limited to, timetabling of the Board days across the Vitality Group, facilitating strategic debate with particular emphasis on the Group Board, ensuring there was appropriate focus on the individual companies within the Vitality Group and that each company was covering its responsibilities and the effective convening of Board committees. The review also considered the Board packs, the effective use of Board summaries, and the sign posting of papers.

*Principle 3 – Director Responsibilities*

The Group Board, as set out in its Terms of Reference, takes collective responsibility for:

- Ensuring that the businesses have an effective system of internal control and management of business risks and are conducted in accordance with the regulators' principles for business;
- Ensuring that adequate records are maintained to the satisfaction of the Group Board of Directors;
- Ensuring that the statutory required minimum solvency margin is maintained for the companies at all times;
- Ensuring that the Risk and Compliance function and internal and external auditors are capable of undertaking their duties;
- The delegated responsibility of VCSL's distribution activities, with general oversight being delegated to the Risk Committee;
- An integrated system of planning and budgeting is established within each business to ensure that the Group Board can efficiently and effectively achieve its strategic objectives;
- The composition of the Group Board and the companies are reviewed, and recommendations for amendments are made to the Shareholder to reflect current and future business requirements of the Vitality Group;
- Ensuring that the companies' values and priorities are established and known throughout the Vitality Group;
- Ensuring that collectively each Board within the Vitality Group is able to provide sound and prudent management of its particular businesses, with appropriate documentary evidence of its ability to provide this management;
- For reviewing and approving risk management policies that the businesses must adhere to and any material changes to them; and
- Ensuring that there is an adequate succession plan in place for the Vitality Group, and that the Vitality Group are meeting the agreed upon diversity objectives.

Each subsidiary Board in the Vitality Group has its own distinct Board responsibilities which are detailed in their Board Terms of Reference that are in addition to the duties set out in S.172 of the Companies Act 2006.

## Vitality Corporate Services Limited

### REPORT OF THE DIRECTORS (CONTINUED)

The Board of VCSL oversees:

- the implementation of the Vitality Wellness Programme, including the Company's relationships with its existing Vitality partners, consideration and approval of new Vitality partners and Vitality products, customer engagement and any reputational issues relating to the Vitality Programme;
- the implementation and oversight of the Healthy Workplace and Essentials products;
- Britain's Healthiest Workplace;
- the beneficial interest in Healthcare Purchase Alliance Limited, such oversight being delegated to the Board of VHL; and
- Operational employee issues.

The Boards of VHL and VLL have responsibility for:

- ensuring that the statutory required minimum solvency margin is maintained at all times; and
- approval of the Health, Life and Invest business plans, ORSA, strategy, accounts, annual reports, regulatory returns, risk appetite and capital requirements.

The Vitality Group schedules six meetings each year for each company (with other ad hoc meetings when required). One Board meeting is held in South Africa which incorporates a Board Strategy Day with Group Executive Committee members participating.

The Directors, Board Committee members, controlled function holders and other members of the leadership team complete an annual conflicts of interest questionnaire. An overview of any potential conflicts of interest are approved by the Group Board annually. Where there are any potential conflicts, measures are put in place to appropriately manage them.

#### Chairperson

The role of each of the Chairs of the Companies is to lead their respective Board and ensure that they function effectively. The Chairs are authorised to seek, at the Vitality Group's expense, appropriate professional advice internally and externally when he/she considers this necessary to discharge his/her responsibilities. He/she has access at all times to the Vitality Group Company Secretaries and the Legal Directors, the external auditors and to independent actuarial advice.

#### Group Vitality CEO

The role of the Vitality Group CEO is to manage the day to day activities of the Vitality Group. There are four Managing Directors of the businesses who are responsible for the day to day operational running of the business lines. In fulfilling his executive role, the Vitality Group CEO acts within the authority delegated to him by the Group Board.

#### Executive Directors

Executive Directors have day-to-day management responsibilities in addition to their responsibilities as members of the Boards of the Vitality Group. Their responsibilities as members of the Boards of the Vitality Group are separate from their management responsibilities.

#### Non-Executive Directors

The role of the Non-Executive Directors is to participate fully in the functioning of the Boards of the Vitality Group, advising, supporting and challenging management as appropriate.

#### Committees

The Vitality Group delegates authority for the day to day management of the companies to the Executive Committees. The Group Executive Committee is chaired by the Vitality Group CEO.

**REPORT OF THE DIRECTORS (CONTINUED)**

Certain governance responsibilities are delegated to other Board Committees. These Board Committees are: Audit, Risk, Actuarial, Remuneration, Nomination and Technology.

- The Audit Committee reviews financial reporting internally and externally. The committee oversees the performance of the external auditors. The committee reviews and approves the combined assurance plans covering Compliance, Risk and Internal Audit to ensure that the assurance functions activities are coordinated and operating effectively.
- The Risk Committee oversees the risk and compliance framework. The committee recommends to the Board risk appetites and monitors them on a regular basis. The committee reviews and recommends risk policies to the Board and supports the embedding of an open risk culture across the businesses. The committee also oversees VCSL's sales channels.
- The Actuarial Committee reviews matters of an actuarial nature, to give comfort to the Boards, Risk and Audit Committees that the contents of reporting of an actuarial nature have been properly considered. The committee supports the Risk Committee by reviewing the methodologies and assumptions underlying the quantitative elements of the ORSA. The committee supports the Audit Committee by reviewing the methodologies and assumptions used to determine the technical provisions. The committee also reports annually on the performance of the Chief Actuaries and Actuarial Function to the Group Board and Remuneration Committee as appropriate.
- An overview of the Remuneration Committee is referenced under Wates Principle number 5.
- An overview of the Nomination Committee is referenced under Wates Principle number 2.
- The Technology Committee considers the businesses future service trends and demands on technology. The committee reviews overarching technology and process strategy, architecture and roadmaps (including core technology and vendor choices and delivery roadmaps). The committee endorses the approach to research and innovation and technology IPR along with reviewing and approving IT operations and technology policies. The committee reviews technology strategy and associated budget and expenditures for the business segments. The committee considers and, as appropriate, makes recommendations to the Boards regarding significant and/or strategic technology investments which support the companies strategies. The committee monitors and evaluates existing and future trends in technology that may affect strategic plans, including monitoring of overall industry trends. The committee reviews major technology risk exposures, including information security, cybersecurity and fraud risks, and the steps management takes to monitor and control such exposures. Periodically the committee provides a report to the Risk Committee on the conclusions of such reviews.

**Board Information**

The Boards of the Validity Group receive regular and timely information on all key aspects of the businesses. This information includes; financial performance, customer metrics, cyber, people, risk reporting, the Validity programme, distribution, strategic alignment to the business plans, initiatives, opportunities, product launches, market conditions and the clinical environment, such as updates relating to medical care.

Financial information is currently externally audited by Pricewaterhouse Coopers LLP on an annual basis. Financial controls are audited by the internal audit function. Internal audit reports are considered by the Audit Committee along with Compliance Monitoring. The Chair of the Audit Committee provides an update to the Group Board at each Board meeting.

The Conduct Committee receives reporting from the businesses with regard to the full spectrum of conduct matters which is considered against agreed tolerance metrics. Key Risk Indicators are in place and are reported to the Risk Committee. The Chair of the Risk Committee provides an update to the Group Board at each Board meeting.

***Principal 4 – Opportunity and Risk***

Validity offers innovative member value, superior solutions and aspirational products with market leading service and by utilising the Shared-Value model with the Validity Programme at the centre. This results in

## Validity Corporate Services Limited

### REPORT OF THE DIRECTORS (CONTINUED)

engaged members with improved life expectancy which in return offers enhanced member, shareholder and employee returns.

The Validity Group sets out how it approaches risk management in its Enterprise Risk Management “ERM” Framework. This framework is agreed by the Group Board. The Principal Risks have been disclosed in the Strategic Report.

The ERM ensures the businesses:

- Align risk appetite and strategy – The Boards of the Validity Group and senior management consider the organisation’s risk appetite when evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks;
- Optimise risk response decisions – ERM provides the rigor to identify and select among alternative risk responses; risk avoidance, reduction, sharing, and acceptance in the most optimal and cost efficient manner;
- Reduce operational surprises and losses – By gaining enhanced capability to identify potential events and establish responses;
- Identify and manage multiple risks – The businesses face a myriad of risks affecting different parts of the organisation. ERM facilitates an effective response to the interrelated impacts as well as the integrated responses to multiple risks; and
- Optimise Capital Allocation – By obtaining robust risk information, the management of the organisation is able to effectively assess the overall capital needs and enhance capital allocation.

The Group Chief Risk Officer ensures that the framework is implemented throughout the organisation and is responsible for the design and implementation of Governance activities and the implementation of the ERM framework across the organisation, regular review of the framework, underlying policies, and review of compliance of the businesses with these principles and minimum standards set out in this framework. The Group Chief Risk Officer reports regularly to the Risk Committee and the Policy Sub-Committee on compliance with this framework.

The core components of the framework are:

#### Risk Strategy

The Validity Group’s Risk strategy is to implement an effective risk governance process that is practical, pragmatic and proportionate to the businesses. It ensures that the achievement of each business’ strategy and annual business plans can be achieved within risk appetite, through understanding and managing risk that it is exposed to effectively.

#### Risk Taxonomy

A Risk Taxonomy which manages risk within the Validity Group. The organisation has adopted a taxonomy that classifies various risks, the “Risk Taxonomy”, into similarly grouped classes or categories. In this structure, the broader risk categories or risk themes are grouped into eight level 1 risks. Under each of these level 1 risks, sits a more detailed catalogue of specific sub-risks.

#### Risk Appetite

A risk appetite and risk appetite statement are set and agreed for each of the businesses to operate within. Performance against the risk appetite statement is reported to the Risk Committee, and then reported to the Group Board where there are any risks outside of appetite, along with activity taken to bring it back into appetite, or reasons for risk accepting the breach of appetite.

Risk Policies are in place and set the minimum risk management process standards for each risk class. These are in line with regulatory expectations and provide a set of high level minimum operating standards across

**REPORT OF THE DIRECTORS (CONTINUED)**

the Vitality Group. These standards are designed to recognise the business benefits inherent in operating a well-controlled organisation. These policies define the internal control framework the implementation of which is evidenced through Risk Registers and Risk & Control Self Assessments.

Vitality has adopted the “three lines of defence” governance model as a key principle of operation. The model promotes transparency, accountability and consistency within the risk management process through the clear identification of roles and separation of business management from governance and control structures.

The overall responsibility for execution of the risk management processes and practices in the day-to-day management of the business rests with the Chief Executive Officer and Managing Directors of the organisation and their respective businesses who represent the first line of defence. The role of the second line of defence, the Group Governance function under the leadership of the Group CRO, is to support the executives in managing risks and embedding risk considerations into daily operations. The second line reports to the Boards, providing an independent view of the risk management practices and controls environment in the business for risk including Regulatory Compliance, legal (legislative requirements) and Company Secretariat to ensure that the appropriate governance activity is scheduled, completed and documented in line with the UK Corporate Governance Code. Regulatory returns (e.g. ORSA, RSR, SFCR) and communications are made in a timely and accurate manner, and appropriate relationships are maintained with the appropriate bodies on an ongoing basis (FCA & PRA). The third line of defence comprises the assurance functions, i.e. internal and external audit, which provide an independent and balanced view of the effectiveness of the 1st and 2nd line functions. Internal Audit delivers an annual audit plan that is agreed by the Audit Committee, and provides assurance over the effectiveness of the control environment across the business. They additionally carry out an annual Internal Financial Control audit on the controls that support the financial statements. The findings from all internal audit reviews are reported to the Audit Committee. External Audit performs an assessment of the accuracy and reasonability of the relevant calculations contributing to public and regulator disclosures, and also report their findings to the Audit Committee.

*Principal 5 - Remuneration*

The Group Board is ultimately responsible for the remuneration policy, with the support of the Remuneration Committee which is mandated to assist the Group Board in fulfilling its responsibilities. The overarching purpose of the Remuneration Committee is to consider, agree and recommend to the Group Board remuneration policy and philosophy for the organisation that is aligned with its long term business strategy, its business objectives, its risk appetite, values and long term interests of the businesses and recognises the interests of relevant stakeholders.

The Remuneration Policy is designed to align with Vitality’s ambitions of:

- attracting, retaining and motivating high calibre employees;
- encouraging and rewarding employees to achieve or exceed the business objectives;
- aligning the economic interest of employees with those of the shareholder;
- providing an environment that encourages innovative thinking and extraordinary performance;
- bringing consistency, transparency and equity to pay principles; and
- fostering Vitality’s owner-manager culture.

The guiding principles of the Remuneration Policy are as follows:

- To succeed, Vitality must have the right people in the right positions and so strive to offer total reward that is competitive relative to the market;
- Rewarding performance is at the heart of Vitality’s remuneration philosophy, and all employees are encouraged to set and achieve ambitious goals which are aligned with the objectives of the organisation. Exceptional performance is recognised and rewarded;

**REPORT OF THE DIRECTORS (CONTINUED)**

- It is recognised that remuneration is not the only reason why employees join and stay at Vitality, but it is of significant concern if it is not right or equitable;
- Vitality strive for internal and external equity and have mechanisms in place to enable top performers to earn differentiated remuneration;
- Vitality have adopted a Total Cost to Company approach to remuneration which comprises a fixed cash portion and benefits (private medical cover, death in service cover and pension fund membership) ;
- Short term incentive schemes are designed to create consistency and fairness but incorporate sufficient flexibility to respond to different business needs. All schemes incorporate rigorous objective setting and measurement;
- Long term incentives create a sense of ownership in the organisation, and specific schemes are designed for new business lines (to encourage an entrepreneurial mind set) and retention; and
- The total rewards offering includes both financial and non-financial components.

The Remuneration Committee approves the bi-annual corporate bonus for all employees, all aspects of remuneration relating to the Vitality Group CEO, and his direct reports. It also approves the employees' annual salary increase and matters such as pensions and long term incentive schemes.

It ensures that all incentives plans comply with relevant legislation, codes of conduct and good remuneration practice. It ensures adherence to Solvency II regulations including oversight of individual remuneration for Solvency II identified staff or defined Material Risk Takers. It monitors the application of the Remuneration Policy to ensure that policies and principles are being consistently and effectively applied.

The Remuneration Committee also has oversight of gender pay initiatives and the Job levelling program which was undertaken.

The Remuneration Committee has the benefit of an external remuneration expert who attends and advises at each committee meeting.

*Principle 6 – Stakeholders*

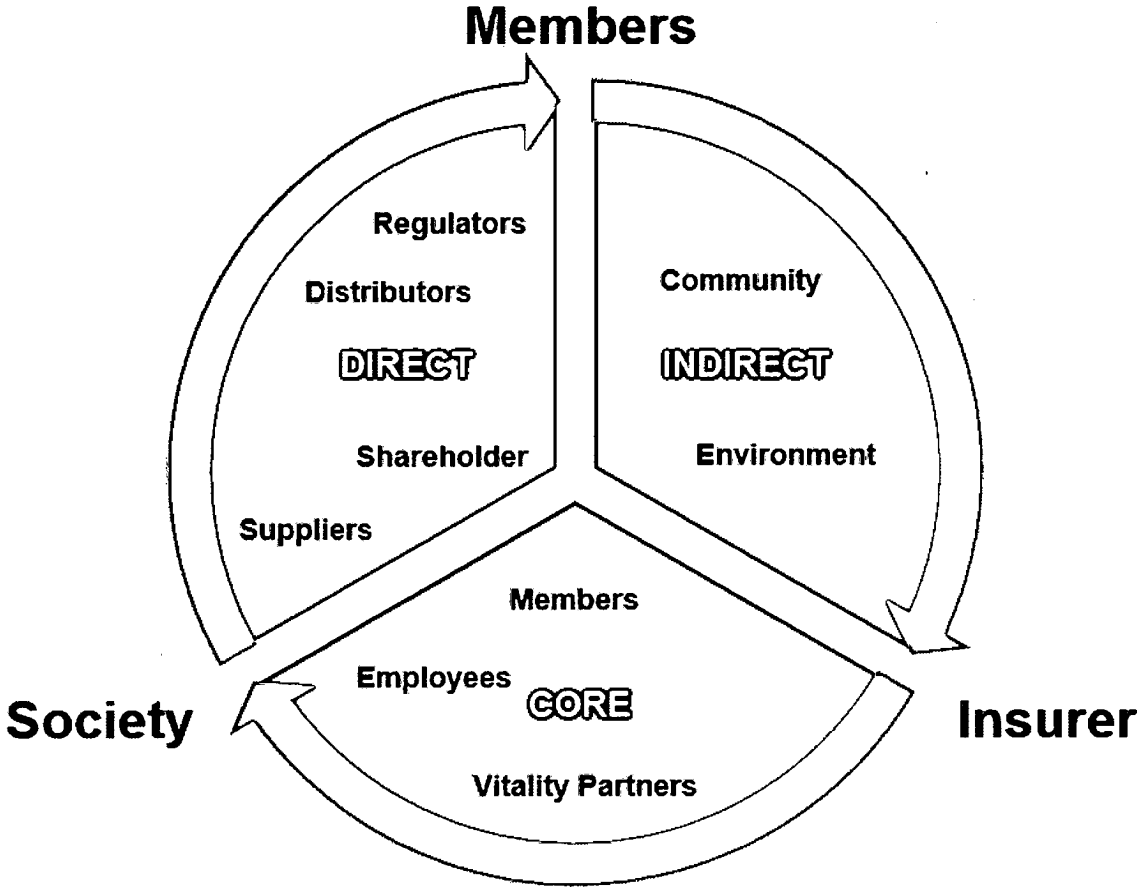
Under S.172 of the Companies Act 2006 the Boards of the Vitality Group are required to demonstrate how they have given regard to the wider group of stakeholders. When decisions are taken to the Board and Board Committees of the Vitality Group, supporting papers set out:

- the anticipated impact to customers (referred to as members);
- the aim in the short and the long run;
- the potential change experienced by suppliers, and/or Vitality Programme partners;
- the possible effect on employees;
- the anticipated impact on the community and environment;
- the possible effect on business conduct;
- the anticipated effect on Discovery Limited, the ultimate and sole shareholder of the Vitality Group; and
- whether the proposal is in line with the purpose “to make people healthier and to enhance and protect their lives”.

Further detail on the principal decisions made by the Boards and Board Committees of the Vitality Group are contained on page 22.

The Boards of the Vitality Group seek to consider and effectively manage wider stakeholder relationships through good governance and communication in order to deliver the purpose of the Vitality Group and to protect its brand and reputation. The Boards seek to align group strategic objectives with their purpose whilst considering outcomes for the shareholder, members, employees, suppliers, distribution channels, reward partners and clinical providers.

Stakeholders and Shared Value Model



Suppliers

A strategic approach to Sourcing gives the Vitality Group the competitive edge in the market. The approach to Sourcing has been designed to match the pace of the businesses and to always strive for commercial innovation from suppliers. From a cost management perspective the businesses ensure they are getting full value for money by securing sustainable value during negotiations and careful management of the number of suppliers worked with. Customers benefit through careful selection of only those suppliers which meet stringent levels of quality and delivery. The Vitality Group meets regulatory obligations by having a thoroughly governed and consistent approach to supplier selection and contracting. There is a framework for clear oversight and accountability for developing healthy relationships with suppliers, which involves initial and ongoing analysis on suppliers to measure criticality to the business and ensure the correct level of governance is in place. A supplier code of conduct has been formulated which must be adhered to and is included within any contractual arrangement. The Vitality Group takes pride in its suppliers and so each year hosts a Supplier Awards ceremony to update them on the current business strategy and importantly recognise providers for their outstanding contributions.

Outsourcing Committee

The Outsourcing Committee exists to provide senior management with oversight of all outsourcing activity carried out by the Vitality Group. This includes any outsourcing carried out by the Discovery Group in South Africa.

Outsourcing is fully defined in the Outsourcing Policy, at a high-level it is explained as:

## Vitality Corporate Services Limited

### REPORT OF THE DIRECTORS (CONTINUED)

*“An arrangement of any kind between Vitality and a third party service provider by which that service provider performs a function or activity that would otherwise be reasonably undertaken by Vitality itself.”*

The Outsourcing Committee aims to ensure that any such outsourcing is performed in accordance with the standards set in the Outsourcing Policy. Meeting these standards enables the organisation to fully meet the specific obligations set out in the FCA’s Handbook and the Solvency II Directives.

Specifically the Outsourcing Committee will examine the suitability of new outsourcing arrangements, the performance and risk profile of current arrangements and the management of terminating relationships.

In addition to the above primary objective, the Outsourcing Committee will also review any Vitality Benefit Partners and Third Party Suppliers who are considered materially important to the Vitality Group. Such reviews will be carried out in the same manner as the Outsourcing Service Provider reviews.

#### Employee engagement

The Vitality Group is home to a diverse employee population. Its employees work at five sites: four in the United Kingdom and one in South Africa.

“Great people” and “liberating the best in our people” are values that are held dear. The Vitality Group knows that attracting, developing, motivating and retaining top calibre employees will help the businesses to succeed in their purpose to make people (members and employees alike) healthier, and enhance and protect their lives. The Vitality Group knows that an engaged workforce is good for employees, good for business, and good for society.

Vitality is committed to treating people fairly in all aspects of their working lives, and to ensuring that our people-related policies and practices are free of discrimination. Specifically in relation to disabled employees, the HR Policy states that “If you have a condition that is considered a disability under the provisions of the Equality Act, we will work with you to consider any reasonable adjustments which may make it more feasible for you to continue in your role and in your employment with Vitality”. This Policy starts at the recruitment stage, and also covers training, career development and promotion for disabled employees. The Policy also applies to any disabilities that arise during our staff members employment.

#### Employee surveys

The eNPS survey is a key measure of employee sentiment. The Vitality Group ran this survey for the first time at the end of 2019, and will supplement it with a more detailed survey. In future the eNPS survey will be administered in December. The eNPS survey is a two question survey where employees are asked to rate the extent to which they would recommend Vitality as a place to work, and products and services. A full survey covering employee experience (circa 50 questions) will be run later in the year.

The eNPS results are a measure in the bonus corporate scorecard. The results of the November 2019 eNPS survey are detailed below. Survey results were disaggregated by business and office location, and shared with senior leadership teams.

REPORT OF THE DIRECTORS (CONTINUED)

**WHAT IS eNPS?**

By asking on a scale of 1-10 how likely are you to recommend...

a) VitalityHealth as a company to work for  
b) VitalityHealth's product and services

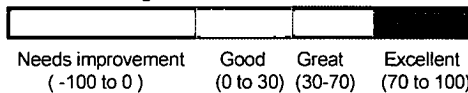
...we can determine an employee Net Promoter Score (eNPS)

**eNPS = % Promoters - % Detractors**

The range can therefore be from -100 (all respondents are detractors) to +100 (all respondents are promoters). A score of 0 is considered positive, a score of 50 is excellent.

Overall we achieved “great” scores:  
**+34 (place to work) & +44 (products & services)**

eNPS score guide

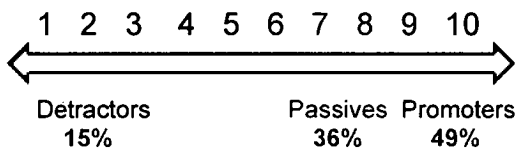


On a scale of 1-10 ...

How likely is it that you would recommend Vitality as a place to work?

**+34** eNPS score

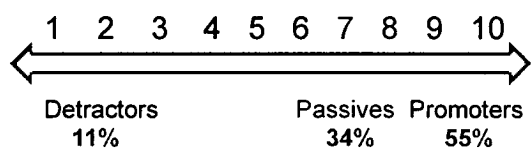
(46% response rate)



How likely is it that you would recommend Vitality's products and services?

**+44** eNPS score

(46% response rate)



## Vitality Corporate Services Limited

### REPORT OF THE DIRECTORS (CONTINUED)

The pulse check will be repeated in June and November to:

1. See how and where sentiment has changed;
2. Provide valuable intelligence into the current sentiment of staff, against the backdrop of the Covid-19 pandemic and fundamental changes in the way the Vitality Group works; and
3. Help shape the employee engagement agenda for the next 12 months.

#### Employee wellbeing

The ambition of the Vitality Group is to be a corporate role model for employee wellness. The wellbeing strategy comprises five pillars: physical wellbeing, mental wellbeing, financial wellbeing, lifestyle, and social wellbeing.

#### *Physical health*

The Vitality Group continuously encourage employees to lead an active lifestyle through various campaigns, such as the Vitality Running World Cup, and the annual “Steptember” competition. Onsite run clubs and sports teams also play a role.

#### *Mental health*

The Vitality Group have more than 70 mental health champions and first-aiders across the four sites, who participate in quarterly refresher workshops. This year a mental health toolkit for managers was published and an online mental self-help programme was launched.

#### *Financial health*

The partnership with Salary Finance gives employees access to debt consolidation services and financial management advice. The Vitality Group has also:

- Provided Income protection cover for all employees;
- Signed up to the Insuring Women’s Futures employee pledge to promote awareness about financial choices; and
- Partnered with London and Country to offer employees a mortgage advice service.

#### *Lifestyle*

The Vitality Group has revamped the Bournemouth on-site restaurant, and introduced free healthy breakfasts for all staff. A digital stop smoking programme is being trialed, Quit Genius and a weight loss programme is being planned.

#### *Social wellbeing*

The focus here is on sound relationships with line managers and colleagues, measured through the employee survey, as well as volunteering opportunities through a partnership with Unicef. During the second half of 2020 a new corporate social responsibility programme will be launched with a sustainability theme.

#### Employee roadshows

Company-wide and divisional roadshows provide opportunities to socialise and embed the Vitality Group’s core purpose, values, and ambition; to give business updates; and to solicit employee feedback. Since the implementation of measures to control Covid-19, the Group CEO and executives have held several divisional and company-wide livestream events to provide business updates and answer employees’ questions.

## Vitality Corporate Services Limited

### REPORT OF THE DIRECTORS (CONTINUED)

#### *Employee engagement during the pandemic*

To keep employees engaged and connected whilst working from home, employees have been provided with regular updates, and created online hubs to host relevant and varied content, including:

- Answers to frequently asked questions;
- Tips on working remotely, and on dealing with “Zoom fatigue”;
- Advice for managers on how to stay connected with their teams; and
- A Wellbeing at Home hub housing practical advice and useful resources.

During the pandemic, Wellbeing Live was launched – a series of virtual HIIT classes, mindfulness sessions, cook-offs and workshops run by the in-house wellness team. The classes can also be accessed after the event on VITL (Vitality’s intranet).

The “Home but Not Alone campaign” boost spirits and morale, and included a quiz night hosted by the CEO, and hobby master classes led by employees. A Feel Good Hub features tips and ideas on how to keep entertained during the lockdown.

In addition, the Vitality Group has provided parents with free access to online educational tools and support in partnership with CambriLearn.

For managers, daily ManagerMeTime was launched at the beginning of April – a “pick and mix” of 15-minute daily drop-ins. The aim is to create moments of light relief, and opportunities for managers to reset, reframe and refocus. The programme features weekly podcasts and “leader’s digest” articles, bite-size CBT sessions, virtual coffee matches, and seated yoga.

Personal Bests Hub was launched, with curated online learning resources on topics such as building emotional intelligence, embracing innovation, and making presentations count.

#### **NED engagement sessions**

This year a programme was launched to facilitate direct engagement between non-executive directors and employees with the aim of enabling open, free-flowing dialogue.

The first session took place in the London office in January 2020. NEDs met with the Data Science and Vitality at Work teams, and talked about the work they do. They also had an informal lunch with 13 randomly selected employees from all levels and functions.

The second session was scheduled for March 2020, but cancelled due to COVID-19 restrictions. The programme intended to feature an office walkabout, ad hoc conversations with employees, the opportunity to observe them at work and an informal lunch with staff.

Because of the pandemic, further virtual sessions are planned instead.

REPORT OF THE DIRECTORS (CONTINUED)

Other employee engagement initiatives and indicators

<b>VITL</b>	Our new intranet and communications platform enables top-down, bottom-up and peer communication – the Vitl platform enables team and community collaboration, and the creation of online communities for different employee).	The platform launched in September 2019. Phase one focused on encouraging people to access the site and its content, and 100% have (against an industry benchmark of 80%). VITL has had more than 350,000 visits. News, Policies and Employee Comms have had the most hits. Employees regularly post feedback on the site, which is acted on. Phase two is focusing on establishing online employee communities and collaboration spaces aimed at fostering innovation, collaboration and a sense of belonging.
<b>Diversity and inclusion</b>	Our diversity and inclusion strategy is data-driven	Data gathered in a diversity survey at the end of 2019 guides our diversity and inclusion strategy and plan.
<b>Leadership conference</b>	Vitality's top 150 managers participate in this conference	The last two-day conference took place in January 2019, and launched our inaugural Inspiring Excellence competition.
<b>CEO engagement</b>	The Group CEO has breakfasts with new starters, lunches / dinners with managers, and teas with long-servers	These sessions typically take place quarterly. Since the start of the COVID-19 pandemic the Group CEO has held regular staff briefing sessions for the entire staff base covering business performance and operational updates.
<b>HR inbox</b>	These emails alert the business to concerns and issues	Most queries relate to transactional issues, but the HR inbox also alerts the People team to employee concerns.
<b>Inspiring Excellence</b>	This programme provides employees with an opportunity to propose innovations	Vitality leaders were invited to identify and pioneer an innovation that addresses a business challenge or exploits an opportunity. Following a master class on unlocking innovation, leaders formed teams to prepare submissions. Several high calibre entries were received, and many of the ideas generated have been implemented.
<b>Social media</b>	The Vitality Facebook page is a barometer of sentiment We monitor and respond to Glassdoor reviews	100 employees have left reviews on our Glassdoor page. Our rating is currently 3.6, up from 2.6 when we began actively managing the page. Our Vitality Facebook page has over 800 members, who regularly share stories about how they keep healthy and happy.
<b>Interest groups</b>	The Women's Forum provides guidance on gender issues	This forum comprises senior women from all the businesses and sites, and meets quarterly.
<b>1-2-1s</b>	Each employee has at least two formal performance consultations annually with their line manager	Conversations include a review of performance in the previous six months, and setting of objectives for the next 6 months.
<b>Frontline coaching</b>	Line managers provide regular on-the-job coaching to frontline staff	Managers in Sales and Invest have attended workshops on effective coaching. A leadership development module for all people managers at the end of 2019 focused on building engagement through critical conversations.
<b>Union consultation</b>	We consult with the union in Bournemouth as necessary	We have a legacy agreement with Unite in our Bournemouth office. Less than 15% of employees are members of the union.
<b>Employee assistance programme</b>	Validium provides us with bi-annual reports on use of this programme	About 10% of employees have used this service.
<b>Grievance procedure</b>	We keep a close eye on grievances lodged, and their outcomes	Since July 2019 we have had 12 grievances: 1 was upheld, and 4 were partially upheld.
<b>Whistleblowing</b>	We monitor whistleblowing reports closely	We have a confidential whistleblowing helpline and email address, which received one report in the last 12 months from an anonymous employee who raised a diversity complaint. The complaint was investigated, and the findings will help frame part of the next compulsory training module on diversity and inclusion.

Shareholder

The Vitality Group is owned by Discovery Limited. There are shareholder representatives on all of the Boards of the Companies. The Boards of Vitality Group are responsible for managing the outcomes for a number of stakeholders which may not always align with each other across the organisation. These Boards oversee and govern the management of the businesses and make decisions on behalf of the Shareholder in order to deliver shareholder value. The individual Boards are responsible for protecting and managing the shareholders' interests in the Vitality Group.

**REPORT OF THE DIRECTORS (CONTINUED)**

Customers

Customer outcomes are governed by looking at:

- Products - Products and services developed, marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
- Marketing – Customers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
- Distribution – Direct and Intermediated where consumers receive advice from Vitality, the advice is suitable and takes account of their circumstances; and when intermediated sales are received that advice has been given;
- Servicing and Performance – Members are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect;
- Complaints – Members do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint; and
- Data Privacy – ensure that members' data is used appropriately, stored securely and deleted when requested.

## Vitality Corporate Services Limited

### REPORT OF THE DIRECTORS (CONTINUED)

#### Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and 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 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, 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.

#### Directors' confirmations

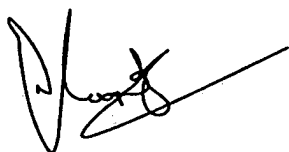
In the case of each director in office at the date the Directors' Report is approved:

- 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

The auditors, PricewaterhouseCoopers LLP, have been appointed by the Board as the Company's auditors in accordance with the elective resolution passed by the Company under the Companies Act 2006. They have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed by the directors.

On behalf of the Board



**Neville Koopowitz**

Director

Vitality Corporate Services Limited (Reg No: 05933141)

30 September 2020

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY CORPORATE SERVICES LIMITED**

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**Report on the audit of the financial statements**

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**Opinion**

In our opinion, Vitality Corporate Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 30 June 2020, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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**Reporting on other information**

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The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VALIDITY CORPORATE SERVICES LIMITED  
(CONTINUED)**

statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

***Strategic Report and Report of the Directors***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 30 June 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

**Responsibilities for the financial statements and the audit**

***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 28, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

***Auditors' 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 auditors' 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

***Use of this report***

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VITALITY CORPORATE SERVICES LIMITED  
(CONTINUED)**

**Other required reporting**

**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

A handwritten signature in black ink, appearing to read 'Thomas Robb', with a stylized flourish at the end.

Thomas Robb (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

30 September 2020

Vitality Corporate Services Limited

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2020**

	Note	Year ended 30 June	
		2020 £'000	2019 £'000
<b>Revenue</b>			
Revenue	4	312,597	309,921
Investment return	5	59	198
<b>Total revenue</b>		<b>312,656</b>	<b>310,119</b>
<b>Expenses</b>			
Administrative expenses	6	(304,105)	(309,411)
Finance costs	9	(350)	(136)
<b>Total expenses</b>		<b>(304,455)</b>	<b>(309,547)</b>
<b>Profit before tax</b>		<b>8,201</b>	<b>572</b>
Tax expense	11	(2,478)	(1,371)
<b>Profit / (loss) and total comprehensive profit / (loss) for the year</b>		<b>5,723</b>	<b>(799)</b>

The Company has no comprehensive income or expense other than the profit / (loss) for the year recognised in the statement of comprehensive income.

All amounts above are in respect of continuing operations.

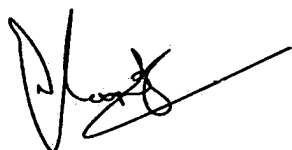
The notes on pages 36 to 69 are an integral part of these financial statements.

Vitality Corporate Services Limited

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2020

	Note	As at 30 June	
		2020 £'000	2019 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	18	6,133	5,731
Right-of-use assets	19	16,930	-
Intangible assets	17	40,172	37,520
Investment in subsidiary	10	2,050	2,050
Deferred tax asset	12	1,428	1,106
Trade and other receivables	14a	1,130	1,257
<b>Total non-current assets</b>		<b>67,843</b>	<b>47,664</b>
<b>Current assets</b>			
Inventory	16	913	1,058
Current income tax receivable	15	2,586	635
Trade and other receivables	14a, 15	39,084	48,252
Cash and cash equivalents	14b	4,441	5,389
<b>Total current assets</b>		<b>47,024</b>	<b>55,334</b>
<b>Total assets</b>		<b>114,867</b>	<b>102,998</b>
<b>Equity</b>			
Ordinary share capital	20	27,900	27,900
Preference shares	21	40,250	39,400
Accumulated deficit		(24,539)	(29,300)
<b>Total equity</b>		<b>43,611</b>	<b>38,000</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liabilities	19	16,440	-
<b>Total non-current liabilities</b>		<b>16,440</b>	<b>-</b>
<b>Current liabilities</b>			
Trade and other payables	14c	52,279	64,998
Lease liabilities	19	2,537	-
<b>Total current liabilities</b>		<b>54,816</b>	<b>64,998</b>
<b>Total liabilities</b>		<b>71,256</b>	<b>64,998</b>
<b>Total equity and liabilities</b>		<b>114,867</b>	<b>102,998</b>

The financial statements on pages 32 to 69 were authorised for issue by the board of directors on 30 September 2020 and were signed on their behalf



**Neville Koopowitz**

Director

Vitality Corporate Services Limited (Reg No: 05933141)

The notes on pages 36 to 69 are an integral part of these financial statements.

Vitality Corporate Services Limited

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2020**

	Ordinary share capital £'000	Preference shares £'000	Accumulated deficit £'000	Total equity £'000
<b>At 1 July 2018</b>	<b>27,900</b>	<b>40,800</b>	<b>(28,501)</b>	<b>40,199</b>
Preference share capital redemption	-	(2,000)	-	(2,000)
Preference share capital issuance	-	600	-	600
Loss and total comprehensive loss for the year	-	-	(799)	(799)
<b>At 30 June 2019</b>	<b>27,900</b>	<b>39,400</b>	<b>(29,300)</b>	<b>38,000</b>
Change in accounting policy (1)	-	-	(962)	(962)
<b>Restated total equity at 1 July 2019</b>	<b>27,900</b>	<b>39,400</b>	<b>(30,262)</b>	<b>37,038</b>
Preference share capital issuance	-	850	-	850
Profit and total comprehensive profit for the year	-	-	5,723	5,723
<b>At 30 June 2020</b>	<b>27,900</b>	<b>40,250</b>	<b>(24,539)</b>	<b>43,611</b>

(1) The Company adopted IFRS 16 *Leases* from 1 July 2019. In line with the transition options available, prior period comparatives have not been restated and the impact of the adoption has been shown as an adjustment to opening retained earnings. See notes 1, 19 and 25 for further information.

The notes on pages 36 to 69 are an integral part of these financial statements.

Vitality Corporate Services Limited

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2020

	Note	Year ended 30 June	
		2020 £'000	2019 £'000
<b>Cash flows from operating activities</b>			
Profit before tax		8,201	572
Adjustments for:			
Interest paid	9	350	-
Payment for group relief claimed	11	(2,782)	(46)
Research and development tax credit		(507)	(664)
Depreciation of property, plant and equipment	18	2,806	2,597
Depreciation of right-of-use assets	19	1,993	-
Amortisation of intangible assets	17	13,175	10,959
Sale / (purchase) of inventory	16	145	(1,058)
Movement in operating assets and liabilities	22	(2,540)	10,950
Income tax paid	11	(1,453)	(950)
<b>Net cash generated by operating activities</b>		<b>19,388</b>	<b>22,360</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	18	(3,373)	(3,701)
Investment in subsidiary	10	-	(2,000)
Decrease in loans to related parties	25	-	8,432
Investment in intangible assets	17	(15,827)	(11,563)
<b>Net cash used in investing activities</b>		<b>(19,200)</b>	<b>(8,832)</b>
<b>Cash flows from financing activities</b>			
Proceeds from preference shares	21	850	600
Principal element of lease payments	19	(1,986)	-
Redemption of preference shares	21	-	(2,000)
Decrease in loans from related parties	25	-	(8,432)
<b>Net cash used in financing activities</b>		<b>(1,136)</b>	<b>(9,832)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(948)</b>	<b>3,696</b>
Cash and cash equivalents at the beginning of the year	14b	5,389	1,693
<b>Cash and cash equivalents at the end of the year</b>	14b	<b>4,441</b>	<b>5,389</b>
<b>Supplemental disclosures on cash flow from operating activities</b>			
Investment return	5	59	198
Finance costs	9	(350)	(136)

The notes on pages 36 to 69 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020**

**1. Significant accounting policies**

**1.1 Basis of preparation**

The financial statements of Vitality Corporate Services Limited (the Company) for the year ended 30 June 2020 have been prepared on the going concern basis and in accordance with International Financial Reporting Standards (IFRS), as issued by the Accounting Standards Board (IASB) and endorsed by the European Union (EU), with interpretations issued by the IFRS Interpretations Committee (IFRS IC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

There are no significant factors arising from COVID-19 which would cause the directors to reconsider the application of the going concern principle or the value of financial statement components at the reporting date. See the Strategic report on page 4 for the Company's future outlook, which sets out the basis on which the directors consider that COVID-19 will have only a limited adverse impact on the business in the future.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

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

**1.2 Summary of significant accounting policies**

**(a) Basis of consolidation**

The Company is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate controlling party, Discovery Limited, a company registered in the Republic of South Africa, whose financial statements are publicly available and can be obtained from Discovery Limited, PO Box 786722, Sandton, South Africa.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(b) Investments and other financial assets and liabilities**

The Company follows IFRS 9 in respect of the classification and measurement of financial instruments. Further information is included in note 14.

***Investments and financial assets***

*(i) Classification*

The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit and loss ("FVPL")); and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are recorded in profit or loss. The Company reclassifies financial assets only when its business model for managing those assets changes. The Company does not currently utilise the FV through OCI or the FVPL measurement categories.

*(ii) Recognition and derecognition*

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

*(iii) Measurement*

Financial assets are deemed to be held under one of three business models:

- Hold to collect, where the business objective is to hold the asset to collect the contractual cash flows;
- Hold to collect and sell, where the business objective is to hold the asset to collect the contractual cash flows and to sell the financial assets; and
- Other.

Unless specifically designated to be held at fair value through profit or loss, a financial asset is measured at amortised cost if it is held within a hold to collect business model and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Amortised cost is measured using the effective interest method. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income. The balances disclosed as loans and receivables in the Statement of financial position are held at amortised cost.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(b) Investments and other financial assets and liabilities (continued)**

Financial assets held within a hold to collect and sell business model are measured at fair value through OCI if the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company does not currently hold any such assets.

*(iv) Impairment*

The Company recognises lifetime expected credit losses at the point of initial recognition for trade and other receivables. These are assessed with reference to past default rates, also reflecting forward looking information such as local economic or market conditions. The Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See note 14 for further details.

For other financial assets a loss allowance is recognised for expected credit losses taking into account changes in the level of credit risk. Where credit risk is considered to be low, the loss allowance is limited to expected losses arising from default events that are possible within 12 months from the balance sheet date.

Impairment losses are charged to the statement of comprehensive income.

***Financial liabilities***

Financial liabilities are classified as either:

- Financial liabilities at amortised cost (trade and other payables and lease liabilities); or
- Financial liabilities at fair value through profit and loss (interest rate swaps, foreign exchange future/option contracts, convertible notes, contingent consideration, commodity contracts).

The Company measures financial liabilities at amortised cost unless either: it is held for trading and is therefore required to be measured at FVPL; or the Company elects to measure the liability at FVPL. All financial liabilities are measured at amortised cost. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of comprehensive income.

**(c) Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. The legally

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(c) Offsetting financial instruments (continued)**

enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or counterparty.

**(d) Subsidiaries**

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are accounted for at cost under IAS 27 *Separate Financial Statements*. On an annual basis an impairment assessment is undertaken and any impairment is recognised in the statement of comprehensive income.

**(e) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position include cash in hand, cash at banks and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are categorised for measurement purposes at amortised cost.

For the purpose of the statement of cash flows, cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts.

**(f) Inventory**

Inventory is stated at the lower of cost or net realisable value and consists of vouchers bought in bulk to be sold to members as part of the wellness benefit program. Net realisable value is the value of the vouchers purchased.

**(g) Income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. The current tax charge is based on taxable profits and losses for the year after adjustments in respect of prior years.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and the carrying amount in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(g) Income tax (continued)**

to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Current and deferred tax is recognised in the statement of comprehensive income.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority.

**(h) Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Purchases and sales of assets denominated in foreign currency are translated at the rates prevailing at the dates of the transactions. Exchange gains and losses are recorded within administrative expenses in the statement of comprehensive income.

**(i) Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful life of the assets. The estimated useful life of each asset class is:

Leasehold improvements	Up to a maximum of 20 years
Fixtures and fittings	Up to a maximum of 10 years
Computer equipment	Up to a maximum of 5 years

The assets' residual values and useful lives assets are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(j) Revenue**

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Company's activities.

Revenue is recognised according to the following steps:

1. Identify contracts with customers;
2. Identify the separate performance obligations;
3. Determine the transaction price of the contract;
4. Allocate the transaction price to each of the separate performance obligations; and
5. Recognise the revenue as each performance obligation is satisfied.

The Company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Company. Income from recharged expenses relating to the VitalityHealth and VitalityLife branded products is recognised in parallel with the recognition of the underlying expenses to be recharged.

Trust scheme income, Vitality product fee income, commission income and other income are all recognised upon the Company providing the related services.

**(k) Government grants**

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Company will comply with all conditions. Note 6 provides further information on how the Company accounts for government grants.

**(l) Intangible assets**

Intangible assets are recognised in the statement of financial position if it is probable that the relevant future economic benefits attributable to the asset will flow to the Company and its cost can be measured reliably. Internally developed software is capitalised as an intangible asset and amortised over its estimated useful life when it is either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of the assets. Impairment losses are calculated and recorded on an individual basis.

The estimated useful life of internally developed software currently being amortised is between 3 and 7 years.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(m) Trade and other payables**

Trade and other payables represent obligations to pay for goods and services that have been acquired in the ordinary course of business.

**(n) Provisions for liabilities and charges**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources or economic benefit will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation. Once a provision is recognised, it is measured at the amount that would be paid to settle the obligation. This includes discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, if this effect is material.

**(o) Employee share based payments**

The Company operates cash settled share-based compensation plans under which the Company receives services from employees as consideration for awards of cash payments. The fair value of the employee services received in exchange for the awards granted is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the awards granted.

Non-market performance and service conditions are included in the assumptions about the number of awards that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Company revises its estimates of the number of awards that are expected to vest based on the non-market conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with corresponding adjustments to payables. As the primary employer of staff in the Vitality group, the Company also bears the costs of equity schemes made available to key management personnel of other companies in the Vitality group. These costs are recharged by the Company on an arm's length basis and are outside the scope of IFRS 2.

**(p) Employee defined contribution pension plan**

The Company operates a defined contribution pension plan and pays contributions to a privately administered pension insurance plan. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(q) Interest income**

Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the Company reduces the carrying amount to its recoverable amount.

**(r) Leases**

*This policy applies to the reporting of leases from 1 July 2019.*

**Identification of a lease**

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 uses the definition of a lease in IFRS 16 *Leases* ("IFRS 16").

Contracts where the service provider has a substantive right to substitute the asset for an alternative asset during the lease term is not regarded as a lease, but instead a service contract. Accordingly, these contracts are not accounted for in accordance with IFRS 16. For the Company, such contracts include items such as vending machines and printers.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The Company presents right-of-use assets in Right-of-use assets and Lease liabilities in the Statement of financial position.

The Company leases the following assets with a range of lease terms:

- Large offices	9 - 14 years
- Computer equipment	5 years
- Motor vehicles	3 years

**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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(r) Leases (continued)**

***Measurement***

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased. The incremental borrowing rate considers a base interest rate reflective of the jurisdiction in which the legal entity operates, the term of the lease arrangement and the nature of the assets.

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

- 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;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional 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.

Extension or termination options are included in a number of the building leases across the Company. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

***Right-of-use asset***

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 and remove the underlying asset or to restore the underlying asset, less any lease incentives received. The Company receives incentives such as reimbursements for installations or rent free periods.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(r) Leases (continued)**

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option.

In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

*Short-term leases and low value items*

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases of low value assets relate to those categories of assets which at inception of the lease typically have a value, if bought new, of no more than approximately £5k. For the Company, these categories include computer equipment such as desktops, laptops, monitors and related IT peripherals. Short-term leases are those leases with a lease term of less than 12 months.

***This policy applies to the reporting of leases prior to 1 July 2019.***

***Finance leases***

The Company classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership, based on the substance of the arrangement at inception of the lease.

Finance leases are capitalised at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the minimum lease payments. The Company allocates each lease payment between the liability and finance costs to achieve a constant rate of interest on the finance balance outstanding. The finance cost is recognised in profit or loss.

The assets acquired are depreciated over the useful life of the assets, unless it is not probable that the Company will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

***Operating leases***

The Company classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. Operating lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**1. Significant accounting policies (continued)**

**1.2 Summary of significant accounting policies (continued)**

**(r) Leases (continued)**

The Company recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

**1.3 Change in accounting policy and disclosures**

**(i) New standards, amendments and interpretations adopted during the year**

The Company has applied the following standards and amendments for the first time for their annual reporting period ended 30 June 2020:

- IFRS 16 *Leases*

The impact of the implementation of IFRS 16 is detailed in note 26 and in the accounting policy in note 1.2 (r).

**(ii) New standards, amendments and interpretations not yet effective or adopted**

The Company has not early adopted any accounting standards, amendments, or annual improvements issued but not yet effective. The accounting standards, amendments and annual improvements described below are those that are expected to have an impact on the Company's results and/or disclosures. Accounting standards, amendments and annual improvements not mentioned below are not expected to have a significant impact on recognised amounts.

*Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

The definition of material has been amended in both IAS 1 and IAS 8. This new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements". The new elements incorporated in the definition are: obscuring information; expected to influence decisions and that the users are the primary users of general purpose financial statements. These amendments are not expected to have a significant impact on the financial statements but could change the way information in the financials is presented. This is particularly relevant in the clarity of disclosures to not obscure information. In addition, the clarification of the users to determine what is material, could result in a more focused group being considered in making materiality judgements. The amendments are effective for The Company from 1 July 2020.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**2. Critical accounting estimates and judgements in applying accounting policies**

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are regularly reviewed in light of emerging experience and adjusted where required.

Other disclosures relating to the Company's exposure to risks and uncertainties include:

- Capital management Note 3
- Financial risk management and policies Note 3
- Sensitivity analyses disclosures Note 3

**2.1 Capitalised software development costs**

The estimates and assumptions surrounding the useful economic life of capitalised software development costs and the date at which amortisation commences is subject to a degree of judgment. The Company assesses the useful economic life and amortisation commencement date separately for each project being capitalised with reference to the nature and expected use of the asset. An annual impairment review is performed to assess the future economic benefit and recoverability of the related assets.

**2.2 Long-term incentive plan awards**

A further critical accounting estimate and is in respect of the amounts accrued in relation to cash-settled long term incentive plan awards. The value of these awards are dependent upon the embedded value of the VitalityHealth business and the value-in-force of the VitalityLife business. In deriving these values it is necessary to make certain assumptions about the future performance of the business. These assumptions were arrived at based on past experience, internal experience, market information and industry trends.

**2.3 Deferred tax asset**

The recognition of deferred tax assets are subject to a degree of estimation and judgement. The level of deferred tax asset recognised in the statement of financial position is determined with reference to the expected future taxable profits of the Company. The Company makes use of all available evidence when determining the future taxable profits. This evidence includes medium term business plans approved by the directors of the Company and discounted cash flow projections of the profits that are expected to emerge from the insurance policies underwritten by the Company. In assessing the availability and quantum of future profits the Company applies probability factors to determine a range of probable outcomes. The Company then applies judgement to conclude on where within this range the deferred tax asset is set.

There are no other estimates or assumptions that the directors believe have a significant risk of causing a material adjustment to the carrying amounts of asset or liabilities within the next financial year.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**3. Risk management policies**

**(a) Governance framework**

The Company's risk management policy ensures that the risks taken in meeting the Company's corporate, financial and regulatory objectives are identified and managed in accordance with the approved risk framework.

The Company takes and manages risks to achieve its corporate, financial and regulatory objectives. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form the Company risk profile.

The Company manages risks through a risk management framework, which allows for the identification, assessment, control and monitoring of risks. The Company has established effective risk management systems and controls within the framework for the following high-level categories of risk: credit, liquidity, market, operational and capital management.

**(b) Credit risk**

Credit risk is the risk incurred whenever the Company is exposed to loss if a counterparty fails to perform its contractual obligations, including failure to perform those obligations in a timely manner. The Company sets the acceptable level of credit risk through its credit risk policy.

The overriding requirement of the policy, which covers all assets beneficially owned by the Company, is that all assets are of sufficient quality and are sufficiently well diversified to represent appropriate backing for its liabilities, capital and reserves. The policy also requires compliance with all applicable legislation and regulation and sets further limits under specific types of financial instruments, as summarised below.

*Cash and cash equivalents*

Maximum exposure limits to external counterparties are set with reference to both short and long-term credit ratings issued by Standard & Poor's and Moody's.

*Other financial instruments*

All intermediaries are approved and regulated by the Prudential Regulation Authority and / or the Financial Conduct Authority. The Company's credit risk is concentrated in the United Kingdom.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**3. Risk management policies (continued)**

**(b) Credit risk (continued)**

The following table provides information regarding the carrying value of financial assets that have been impaired and the aging of financial assets that are past due but not impaired:

	Neither past due nor impaired £'000	Financial assets past due but not impaired				Total* £'000
		0-3 months £'000	3 – 6 months £'000	6 – 12 months £'000	> 12 months £'000	
<b>30 June 2020</b>						
Trade and other receivables	29,317	-	-	-	-	29,317
Cash and cash equivalents	4,441	-	-	-	-	4,441
<b>Total</b>	<b>33,758</b>	-	-	-	-	<b>33,758</b>
<b>30 June 2019</b>						
Trade and other receivables	34,456	-	-	-	-	34,456
Cash and cash equivalents	5,389	-	-	-	-	5,389
<b>Total</b>	<b>39,845</b>	-	-	-	-	<b>39,845</b>

\* Carrying value in the statement of financial position.

The following table analyses the financial assets bearing credit risk using Standard & Poor's ratings:

	Credit Rating										Total* £'000
	AAA		AA		A		BBB or lower		Unrated		
	%	£'000	%	£'000	%	£'000	%	£'000	%	£'000	
<b>30 June 2020</b>											
Trade and other receivables	-	-	-	-	-	-	-	-	86.8	29,317	29,317
Cash and cash equivalents	-	-	-	-	13.2	4,441	-	-	-	-	4,441
<b>Total</b>	-	-	-	-	<b>13.2</b>	<b>4,441</b>	-	-	<b>86.8</b>	<b>29,317</b>	<b>33,758</b>
<b>30 June 2019</b>											
Trade and other receivables	-	-	-	-	-	-	-	-	86.4	34,456	34,456
Cash and cash equivalents	-	-	13.6	5,389	-	-	-	-	-	-	5,389
<b>Total</b>	-	-	<b>13.6</b>	<b>5,389</b>	-	-	-	-	<b>86.4</b>	<b>34,456</b>	<b>39,845</b>

\*Carrying value in the statement of financial position

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**3. Risk management policies (continued)**

**(c) Liquidity or funding risk**

Liquidity risk is the risk that the Company, although solvent, does not have sufficient liquid financial resources available to meet its obligations as they fall due, or can secure them only at excessive cost.

The Company sets the acceptable level of liquidity risk through the Liquidity Risk Policy. The main features of the policy are:

- Liquidity risk is only incurred in the pursuit of the Company's corporate and financial objectives, and in particular its investment objectives;
- Limits on the volume of financial assets held which are both not quoted and not regularly traded on a recognised exchange;
- Limits on the volume of non-cash investments; and
- Establishing contingency funding plans to ensure adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. These amounts do not agree to the Statement of financial position amounts as these are the undiscounted contractual payments.

	<b>Contractual cash flows</b>			
	<b>Total £'000</b>	<b>&lt; 1 year £'000</b>	<b>1 – 5 years £'000</b>	<b>&gt; 5 years £'000</b>
<b>At 30 June 2020</b>				
Lease liabilities	20,443	2,875	10,158	7,410
Trade and other payables	52,279	52,279	-	-
<b>Total</b>	<b>72,722</b>	<b>55,154</b>	<b>10,158</b>	<b>7,410</b>
<b>At 30 June 2019</b>				
Trade and other payables	64,998	64,998	-	-
<b>Total</b>	<b>64,998</b>	<b>64,998</b>	-	-

**(d) Market risk**

Market risk is the risk that as a result of market movements the Company may be exposed to fluctuations in the value of its assets, in the amount of its liabilities or the income from its assets. Sources of general market risk include movements in interest rates and foreign exchange rates.

The Company sets the acceptable level of market risk through the market risk policy. The main features of the policy are:

- Market risk is only incurred in the pursuit of the Company's corporate and financial objectives, in particular, its investment objectives;

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**3. Risk management policies (continued)**

**(d) Market risk (continued)**

- Asset allocation and portfolio limit structures are established for each asset class; and
- Aggregate exposure limits that are in line with the regulatory requirements.

The following table illustrates the impact on the profit before tax and shareholders' equity of a change in market interest rates.

	<b>Impact on profit before tax</b>		<b>Impact on shareholders' equity</b> Corporation tax rate 19.00%, (2019: 19.00%)	
	<b>£'000</b>		<b>£'000</b>	
	<b>Interest rate movement</b>		<b>Interest rate movement</b>	
	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
<b>At 30 June 2020</b>	<b>49</b>	<b>(49)</b>	<b>40</b>	<b>(40)</b>
At 30 June 2019	40	(40)	32	(32)

The Company has an immaterial exposure to foreign exchange risk.

**(e) Operational risk**

Operational risk is defined as the risk of loss, or adverse consequences for the business, resulting from inadequate or failed internal processes, people and systems, or from external events. The Company sets an acceptable level of operational risk through the operational risk policy. The policy also requires compliance with applicable legislation and regulations.

A strategy to control the operational risk exposures identified is based on a combination of one or all of the following: modify operations such that there is no exposure to the risk; accept exposure to the risk and choose not to control the risk; or accept exposure to the risk and control the exposure by risk transfer or risk treatment.

The level of control and nature of the controls implemented is based on, amongst other things the:

- Potential cause and impact of the risk;
- Likelihood of the risk happening in the absence of any controls;
- Ease with which the risk could be insured against;
- Cost of implementing controls to reduce the likelihood of the risk occurring; and
- Operational risk appetite.

**(f) Capital management**

The objective of capital management is to ensure that an appropriate level of capital is maintained in comparison to the risks faced by the Company.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**3. Risk management policies (continued)**

**(f) Capital management (continued)**

The policies and processes in place are to review and report capital levels to management and to project future capital requirements on a monthly basis.

The Company is regulated by the FCA, and so is subject to an externally imposed capital requirement. The Company was in compliance with this requirement throughout the year.

**4. Revenue from contracts with customers**

	Year ended 30 June	
	2020 £'000	2019 £'000
Income from the recharge of expenses to other group companies	275,946	273,554
Vitality product fee income	33,525	35,922
Commission income	1,067	168
Other income	2,059	277
<b>Total Revenue</b>	<b>312,597</b>	<b>309,921</b>

During the year the Company had no activities outside the United Kingdom, and accordingly, no geographic split of information is disclosed in respect revenue from contracts with customers.

**5. Investment return**

	Year ended 30 June	
	2020 £'000	2019 £'000
<b>Interest income</b>		
Cash and cash equivalents	59	63
Interest on loans	-	135
<b>Total Investment return</b>	<b>59</b>	<b>198</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**6. Administrative expenses**

	Year ended 30 June	
	2020 £'000	2019 (restated) £'000
Staff costs and other employee related costs (note 7)	114,348	111,942
Contractor costs	12,113	9,877
Operating lease rentals – buildings	-	3,747
Operating lease rentals – other	-	337
Short-term leases (note 19)	2,781	-
Auditors' remuneration		
<i>For the audit of the Company and other group entities</i>	747	542
<i>Audit related assurance services</i>	250	184
<i>Non-audit related assurance services</i>	25	-
Depreciation of property, plant and equipment (note 18)	2,806	2,597
Amortisation of intangible assets (note 17)	13,175	10,959

The Company incurs the overall audit and non-audit fees on behalf of the Vitality Group and recharges them to the other Group companies. The Company did not recharge audit fees for Vitality Health Insurance Limited in the amount of £20k (2019: £16k). The element that represents the fees payable in respect of the audit of the Company is £84k (2019: £65k) and in respect of non-audit services is £25k (2019: £nil).

Payments received from the government for furloughed employees are accounted for under IAS 20 *Government Grants*. The amount of government grants has reduced Administrative expenses in the statement of comprehensive income. There are no unfulfilled conditions or other contingencies attaching to these grants. The Company did not benefit from any other forms of government assistance. See note 28 for details regarding a post balance sheet event related to the government grants received.

During the years ended 30 June 2020 and 2019 no intangible assets required impairment.

**7. Staff costs and other employee related costs**

The average monthly number of persons (including executive directors) employed by the Company during the year is summarised below:

	Year ended 30 June	
	2020 Average number	2019 Average number
<b>By activity</b>		
Customer services	827	693
Support services	803	763
Sales	386	388
<b>Total employees</b>	<b>2,016</b>	<b>1,844</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**7. Staff costs and other employee related costs (continued)**

The aggregate remuneration payable in respect of those employees was:

	Year ended 30 June	
	2020	2019 (restated)
	£'000	£'000
Wages and salaries	93,521	91,410
Long term incentive plan expense	6,269	7,328
Social security costs	10,832	9,789
Other pension costs	3,726	3,415
<b>Total staff and other employee related costs</b>	<b>114,348</b>	<b>111,942</b>

All staff costs incurred by the Company in respect of the VitalityHealth branded products are allocated and recharged to VHL. For the year ended 30 June 2020 the Company recharged staff costs and other employee related costs of £85,727k (2019: £80,174k) to VHL. An amount of £9,410k has been reclassified from staff and other employee related costs to administrative expenses in the prior year in the staff costs note disclosure only. All staff costs incurred by the Company in respect of the VitalityLife and VitalityInvest branded products are allocated and recharged to The Prudential Assurance Company Limited and VLL. For the year ended 30 June 2020 the Company recharged staff and employee related costs of £28,601k (2019: £31,768k) to the Prudential Assurance Company Limited and VLL. An amount of £467k has been reclassified from staff costs and other employee related costs to administrative expenses in the prior year in the staff costs note disclosure only.

Other pension costs relate to contributions to a defined contribution pension scheme available to all employees. At 30 June 2020 contributions of £506k (2019: £562k) were outstanding. At 30 June 2020 there were no prepaid contributions (2019: £nil).

**8. Long Term Incentive Plans**

The Company operates three long term incentive plans (LTIPs). Participants earn a cash bonus based on an allocation of phantom share options, the valuation of which is linked to the performance of VitalityLife and VitalityHealth, and more specifically to the Value of Inforce ("ViF") of VitalityLife and the embedded value ("EV") of VitalityHealth. The ViF and EV are determined at each balance sheet date as a valuation of the underlying business in VitalityLife and VitalityHealth. The valuation methodology is approved by the Remuneration Committee on an annual basis. The bonus is earned if the participant is employed on each vesting date. For options issued, the vesting date is two, three or four years after the options are granted. The bonus is calculated based on the difference between the option price and the exercise price. The bonus may not be carried forward.

The schemes have been classified as a cash-settled scheme and a liability has been recognised in line with IFRS 2.

## Vitality Corporate Services Limited

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 8. Long Term Incentive Plans (continued)

The following is a summary of the terms and conditions of the share options granted.

Date Granted	Option Price	Final Vesting Date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled or adjusted during year	Shares under option at end of year
01/09/2015	£154.13	01/09/2019	39,956	-	(39,956)	-	-
30/10/2015	£0.00	30/10/2019	28,021	-	(28,021)	-	-
20/11/2016	£0.00	20/11/2020	85,974	-	(42,987)	(8,838)	34,149
30/11/2017	£0.00	30/11/2021	134,688	-	(44,692)	(14,210)	75,786
06/12/2018	£0.00	06/12/2021	139,194	-	-	(21,933)	117,261
01/03/2020	£0.00	30/11/2023	-	135,043	-	(4,461)	130,582
			<b>427,833</b>	<b>135,043</b>	<b>(155,656)</b>	<b>(49,442)</b>	<b>357,778</b>

The long-term incentive plans are cash settled and therefore revalued at each reporting date.

During the year ended 30 June 2020, payments of £7,630k (2019: £2,728k) were made to satisfy the long-term incentive plan schemes where performance criteria and service was met.

At 30 June 2020, the total accrued in relation to cash-settled awards was £9,819k (2019: £12,233k) inclusive of employees national insurance. The charge to the Statement of comprehensive income during the year was £6,269k (2019: £7,328k) inclusive of employers national insurance.

#### 9. Finance costs

	Note	Year ended 30 June	
		2020 £'000	2019 £'000
Interest charges for lease liabilities	19	350	-
Interest expense		-	136
<b>Total Finance costs</b>		<b>350</b>	<b>136</b>

In the prior year financing costs represented interest charged by Discovery Holdings Europe Limited on loan balances, all of which were repaid during 2019.

#### 10. Investment in subsidiary

The Company owns 100% of Vitality Healthy Workplace Limited, a company limited by shares incorporated and domiciled in the United Kingdom with a registered address of C/O Vitality Health 4<sup>th</sup> Floor, 70 Gracechurch Street, London, England, EC3V 0XL. The investment was previously a joint venture between Nuffield Health and the Company, however on 7 March 2019 the Company acquired Nuffield Health Limited's interest in the joint venture and became the sole shareholder.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**10. Investment in subsidiary (continued)**

The principal activity of the subsidiary is the provision of an engaging health solution for UK businesses. The offering (“Healthy Workplace”) takes a holistic approach to employee health, providing a range of tools to help employers understand their employees’ physical and mental wellbeing needs and motivations. Healthy Workplace can help reduce absenteeism, improve productivity and give employers a whole workforce view of the health of their employees.

During the year ended 30 June 2019 the Company paid two separate amounts of £1,000k for 2,000,000 shares in Healthy Workplace Limited on 24 April 2019 and 7 June 2019. No shares were purchased during 2020.

**11. Tax expense**

	Year ended 30 June	
	2020	2019
	£'000	£'000
<b>(a) Current year tax expense</b>		
Current tax:		
Current year tax expense	(2,448)	(251)
Adjustment in respect of prior years	(352)	(213)
	<b>(2,800)</b>	<b>(464)</b>
Deferred tax:		
Deferred tax credit / (expense)	639	(524)
Adjustment in respect of prior years	(400)	(383)
Effect of tax change on opening balance	83	-
	<b>322</b>	<b>(907)</b>
<b>Total tax expense</b>	<b>(2,478)</b>	<b>(1,371)</b>

The tax assessed for the year is higher (2019: higher) than the standard rate of corporation tax in the United Kingdom for the year ended 30 June 2020 of 19% (2019: 19%). The difference is explained below:

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

11. Tax expense (continued)

	Year ended 30 June	
	2020	2019
	£'000	£'000
<b>(b) Reconciliation of tax</b>		
Profit before tax	8,201	572
Tax at 19% (2019: 19%)	(1,558)	(109)
Effects of:		
Permanent differences	(280)	(209)
Property, plant and equipment differences	(47)	(35)
Income not taxable	117	251
UK to UK transfer pricing adjustment	(203)	(1,670)
Group relief surrendered	-	999
Adjustment in respect of prior years	(752)	(597)
Transitional adjustment for IFRS 16	162	-
Re-measurement of deferred tax for changes in tax rates	83	(1)
<b>Total tax expense</b>	<b>(2,478)</b>	<b>(1,371)</b>

During the year ended 30 June 2020 the Company made £946k (2019: £500k) in corporate tax instalments for the 2019/2020 tax year.

12. Deferred tax asset

	As at and year ended 30 June	
	2020	2019
	£'000	£'000
<b>Deferred tax asset comprises:</b>		
Accelerated capital allowances	525	280
Short term timing differences	903	826
<b>Deferred tax asset at the end of the year</b>	<b>1,428</b>	<b>1,106</b>
<b>Movements in deferred tax asset comprises:</b>		
At the beginning of the year	1,106	2,013
Amounts credited / (charged) in the statement of comprehensive income	322	(907)
<b>Deferred tax asset at the end of the year</b>	<b>1,428</b>	<b>1,106</b>

A deferred tax asset of £728k (2019: £355k) is expected to be recovered within twelve months.

The recognition of the deferred tax asset is supported by the expected future profitability of the Company. The primary source of these profits is expected to be the income from the transfer pricing margin charged for processing expenses on behalf of VitalityHealth, VitalityLife and VitalityInvest.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**12. Deferred tax asset (continued)**

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As this change was substantively enacted as at the balance sheet date, its effects are included in these financial statements.

**13. Directors' emoluments**

The directors of Vitality are employed by the Company or by companies in the Discovery Limited group. There are no members of key management other than the executive directors. Other than as disclosed below, no director has received any incremental emoluments or other benefits for services to the Company. The remuneration in the year disclosed below represents the remuneration paid by the Company to the directors on behalf of Vitality for the periods they held a directorship with one or more Vitality group companies.

	Year ended 30 June	
	2020 £'000	2019 £'000
Aggregate emoluments in respect of qualifying services	3,201	3,407
Aggregate pension contributions to money purchase schemes	29	30
Aggregate amounts receivable under the Long Term Incentive Plan	884	2,484
<b>Total</b>	<b>4,114</b>	<b>5,921</b>
<b>Details of highest paid director</b>		
Aggregate emoluments in respect of qualifying services	1,061	931
Aggregate pension contributions to money purchase schemes	10	10
Aggregate amounts receivable under the Long Term Incentive Plan	398	1,208
<b>Total</b>	<b>1,469</b>	<b>2,149</b>

The remuneration shown above is in respect of 16 directors (2019: 14 directors), of the Company, VHL and VLL all of whom are remunerated by VCSL on behalf of the Group. The element of the remuneration that relates to VHL and VLL are reported in their respective financial statements. 3 directors are participating in the Long Term Incentive Scheme (2019: 3).

The total remuneration for directors is recharged to VHL and VLL based on each Director's role in the group and the companies that they are directors of. Other Group companies do not get recharged for any of the costs as the services that the directors provide to these companies are incidental to the services they provide to the Vitality Group.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**14. Financial assets and financial liabilities**

The Company holds the following financial instruments:

	Note	As at 30 June	
		2020 £'000	2019 £'000
<b>Financial assets</b>			
Financial assets at amortised cost			
Trade and other receivables	14a	29,317	34,456
Cash and cash equivalents	14b	4,441	5,389
<b>Total financial assets</b>		<b>33,758</b>	<b>39,845</b>
	Note	As at 30 June	
		2020 £'000	2019 £'000
<b>Financial liabilities</b>			
Financial liabilities at amortised cost			
Lease liabilities	19	18,977	-
Trade and other payables	14c	52,279	64,998
<b>Total financial liabilities</b>		<b>71,256</b>	<b>64,998</b>

The Company's exposure to various risks associated with financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

**(a) Trade and other receivables**

	As at 30 June	
	2020 £'000	2019 £'000
Amount receivable from related parties	26,618	31,890
Other receivables	2,699	2,566
<b>Trade and other receivables</b>	<b>29,317</b>	<b>34,456</b>
Less: current portion	28,187	33,199
Non-current portion	1,130	1,257

Included within other receivables is accrued income of £1,329k (2019: £1,471k) relating to the VitalityLife product sold by The Prudential Assurance Company Limited. A portion of this accrued income asset is long term and is expected to be received after 12 months and has therefore been classified as non-current. All other assets included within trade and other receivables are expected to be received within twelve months. The carrying amounts above reasonably approximate their fair values at the statement of financial position dates.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**14. Financial assets and financial liabilities (continued)**

**(b) Cash and cash equivalents**

	As at 30 June	
	2020 £'000	2019 £'000
Cash at bank and in hand	4,441	5,389
<b>Total cash and cash equivalents</b>	<b>4,441</b>	<b>5,389</b>

Some balances are subject to a variable interest rate. The average interest rate earned was 1.21% (2019: 1.79%).

**(c) Trade and other payables**

	As at 30 June	
	2020 £'000	2019 £'000
Amounts owed to related parties	1,782	1,961
Trade payables	50,497	63,037
<b>Total trade and other payables</b>	<b>52,279</b>	<b>64,998</b>

All trade and other payables are expected to be settled within 12 months. The carrying amounts above reasonably approximates their fair values at the Statement of financial position dates.

**15. Non-financial assets and non-financial liabilities**

The Company holds the following non-financial assets and non-financial liabilities:

	Note	As at 30 June	
		2020 £'000	2019 £'000
<b>Non-financial assets</b>			
Property, plant and equipment	18	6,133	5,731
Right-of-use assets	19	16,930	-
Intangible assets	17	40,172	37,520
Investment in subsidiary	10	2,050	2,050
Deferred tax asset	12	1,428	1,106
Trade and other receivables		10,897	15,053
Current income tax receivable	15	2,586	635
Inventory	16	913	1,058
<b>Total non-financial assets</b>		<b>81,109</b>	<b>63,153</b>

Trade and other receivables consists of prepaid expenses. The Company does not have any non-financial liabilities at 30 June 2020 or 2019.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**16. Inventory**

Inventory consists of vouchers purchased for £913k (2019: £1,058k) bought in bulk to be sold to members as part of the wellness benefit program.

**17. Intangible assets**

	<b>Capitalised software development costs £'000</b>
<b>Cost</b>	
At 1 July 2018	63,460
Additions in the year	11,563
<b>At 30 June 2019</b>	<b>75,023</b>
Additions in the year	15,827
<b>At 30 June 2020</b>	<b>90,850</b>
<b>Accumulated amortisation</b>	
At 1 July 2018	(26,544)
Amortisation in the year	(10,959)
<b>At 30 June 2019</b>	<b>(37,503)</b>
Amortisation in the year	(13,175)
<b>At 30 June 2020</b>	<b>(50,678)</b>
<b>Net book amount at 30 June 2019</b>	<b>37,520</b>
<b>Net book amount at 30 June 2020</b>	<b>40,172</b>

During the years ended 30 June 2020 and 2019 an impairment review was carried out which did not identify any impairment charges to be recorded.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

18. Property, plant and equipment

	Computer equipment	Fixtures and fittings	Leasehold improvements	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 July 2018	11,287	3,755	1,262	16,304
Additions in the year	2,059	676	966	3,701
<b>At 30 June 2019</b>	<b>13,346</b>	<b>4,431</b>	<b>2,228</b>	<b>20,005</b>
Additions in the year	2,231	555	587	3,373
Disposals in the year	(38)	-	-	(38)
<b>At 30 June 2020</b>	<b>15,539</b>	<b>4,986</b>	<b>2,815</b>	<b>23,340</b>
<b>Accumulated Depreciation</b>				
At 1 July 2018	(9,108)	(2,048)	(521)	(11,677)
Depreciation charge for the year	(1,521)	(713)	(363)	(2,597)
<b>At 30 June 2019</b>	<b>(10,629)</b>	<b>(2,761)</b>	<b>(884)</b>	<b>(14,274)</b>
Depreciation charge for the year	(1,508)	(796)	(502)	(2,806)
Disposals in the year	38	-	-	38
<b>At 30 June 2020</b>	<b>(12,099)</b>	<b>(3,557)</b>	<b>(1,386)</b>	<b>(17,042)</b>
<b>Net book amount at 30 June 2019</b>	<b>2,717</b>	<b>1,670</b>	<b>1,344</b>	<b>5,731</b>
Opening net book amount at 30 June 2019	2,717	1,670	1,344	5,731
Adjustment for change in accounting policy, see note 26	(165)	-	-	(165)
<b>Restated net book amount at 30 June 2019</b>	<b>2,552</b>	<b>1,670</b>	<b>1,344</b>	<b>5,566</b>
<b>Net book amount at 30 June 2020</b>	<b>3,275</b>	<b>1,429</b>	<b>1,429</b>	<b>6,133</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**19. Leased assets**

The table below summarized leased assets. For the financial year ended 30 June 2020 the information relates to those assets held in accordance with IFRS 16 where a right-of-use asset is recognised. For the financial year ended 30 June 2019 the information relates to those assets held as a finance lease in accordance with IAS 17.

	<b>As at 30 June 2020 £'000</b>
<b>Right-of-use assets</b>	
Buildings	16,805
Vehicles	36
Computer equipment	89
<b>Net book amount at 30 June</b>	<b>16,930</b>

	<b>As at 30 June 2020 £'000</b>
<b>Lease liabilities</b>	
Current	2,537
Non-current	16,440
	<b>18,977</b>

In the previous year, the Company only recognised lease assets and lease liabilities in relation to leases that were classified as finance leases under IAS 17 Leases. At 30 June 2019 the assets were presented in property, plant and equipment as part of computer equipment in the amount of £165k and the liabilities were presented as part of other liabilities in the amount of £299k. For adjustments recognised on adoption of IFRS 16 on 1 July 2019, see note 26.

The statement of comprehensive income shows the following amounts relating to leases:

	<b>Year ended 30 June 2020 £'000</b>
<b>Depreciation charge for right-of-use assets</b>	
Buildings	1,889
Vehicles	28
Computer equipment	76
	<b>1,993</b>
<b>Interest expense</b>	<b>350</b>
Expense relating to short-term leases (included in administrative expenses)	<b>2,781</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**20. Ordinary share capital**

	30 June 2020 Number of shares	30 June 2020 £'000	30 June 2019 Number of shares	30 June 2019 £'000
<b>Ordinary shares</b>				
<i>Authorised</i>				
Ordinary shares of £1 each	27,900,000	27,900	27,900,000	27,900
<i>Called up, issued and fully paid</i>				
Ordinary shares of £1 each	27,900,000	27,900	27,900,000	27,900

There is only one class of ordinary share, and all the shares issued have equal voting rights.

**21. Preference shares**

	30 June 2020 Number of shares	30 June 2020 £'000	30 June 2019 Number of shares	30 June 2019 £'000
<b>Preference shares</b>				
<i>Authorised</i>				
Preference shares of £1 each	40,250,000	40,250	39,400,000	39,400
<i>Called up, issued and fully paid</i>				
Preference shares of £1 each	40,250,000	40,250	39,400,000	39,400

The preference shares pay a non-cumulative dividend of 0.1% at the discretion of the Company. The preference shares are redeemable solely at the discretion of the Company.

The articles of association of the Company authorise a maximum value of preference shares of £12,000k. The articles of association allow this limit to be exceeded by resolution of the board.

During the year ended 30 June 2020, 850,000 preference shares were purchased by Discovery Holdings Europe Limited for which they paid £850k to the Company.

During the year ended 30 June 2019, the Company redeemed 2,000,000 preference shares for which the Company paid £2,000k in cash to Discovery Holdings Europe Limited.

During the year ended 30 June 2019, 600,000 preference shares were purchased by Discovery Holdings Europe Limited for which they paid £600k to the Company.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

22. Movement in operating assets and liabilities

	Year ended 30 June	
	2020	2019
	£'000	£'000
<b>Decrease / (increase) in operating assets:</b>		
Trade and other receivables	9,295	(2,001)
	<b>9,295</b>	<b>(2,001)</b>
<b>(Decrease) / increase in operating liabilities:</b>		
Trade and other payables	(11,835)	12,951
	<b>(11,835)</b>	<b>12,951</b>
<b>(Decrease) / increase in operating assets and liabilities</b>	<b>(2,540)</b>	<b>10,950</b>

For the year ended 30 June 2020 the movement in trade and other receivables excludes £1,951k (2019: £635k) in respect of the movement in the current income tax asset. The movement in trade and other payables excludes £nil (2019: £561k) in respect of the movement in the current income tax liability. For the year ended 30 June 2020 a non-cash movement of £585k for trade and other payables has been adjusted in the above table related to the adoption of IFRS 16.

23. Contingencies

The Company provides a program of wellness benefits to individuals who are policyholders of VitalityHealth, VitalityLife or VitalityInvest. This is an incentive program where customers earn points for undertaking healthy activities such as visiting the gym, giving up smoking, making healthy nutritional choices and undertaking health screenings. The accumulation of points achieves a Vitality status from Bronze through to Silver, Gold and Platinum. The program provides customers with access to discounts and rewards, including active rewards linked to short-term activity goals.

The Company expects to continue to incur costs related to the continued operation of the program of wellness benefits. This creates a form of possible obligation as the Company may incur costs in the future depending on the actions and decisions of customers, such as the healthy activities they undertake and the continuance of their insurance cover.

24. Operating lease commitments

The Company is committed to several commercial non-cancellable leases of different terms in respect of its office properties. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 30 June 2019
	£'000
Operating lease commitments:	
<i>Within one year</i>	2,965
<i>In the second to fifth years inclusive</i>	8,224
<b>Total operating lease commitments</b>	<b>11,189</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**25. Related party transactions**

<b>As at and year ended 30 June 2020</b>				
	<b>Sales to:</b>	<b>Purchases</b>	<b>Amounts owed</b>	<b>Amounts owed</b>
	<b>£'000</b>	<b>from:</b>	<b>to:</b>	<b>from:</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Immediate parent company	4,713	-	171	-
Other Vitality Group companies	271,407	3,653	158	24,420
Discovery group companies	563	7,594	1,453	2,198
Other related parties	3,952	593	-	-
	<b>280,635</b>	<b>11,840</b>	<b>1,782</b>	<b>26,618</b>

<b>As at and year ended 30 June 2019</b>				
	<b>Sales to:</b>	<b>Purchases</b>	<b>Amounts owed</b>	<b>Amounts owed</b>
	<b>£'000</b>	<b>from:</b>	<b>to:</b>	<b>from:</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Immediate parent company	8,279	137	-	-
Other Vitality Group companies	264,015	408	-	29,796
Discovery group companies	133	8,132	1,414	1,535
Key management	137	-	-	-
Other related parties	1,890	-	-	-
	<b>274,454</b>	<b>8,677</b>	<b>1,414</b>	<b>31,331</b>

Amounts shown as sales to Other Vitality group companies primarily relates to intercompany recharges for services rendered.

Purchases from other related parties have been incurred in the amount of £13k (2019: £21k) for services received from companies outside the Vitality group controlled by a Director of companies within Vitality. All transactions were on commercial and on arm's length terms.

During the year ended 30 June 2019, amounts owed from key management in respect of loans provided to a number of members of key management in respect of their equity ownership of the Company's immediate parent company, Discovery Holdings Europe Limited, were repaid, including accrued interest, and previously accrued interest at 3.25%.

During the year ended 30 June 2019 a loan of £8,432k from the Company's immediate parent company, Discovery Holdings Europe Limited, was repaid, including accrued interest, and previously accrued interest at 3.25%.

All transactions between key management and the Company during the year were on commercial terms which are equivalent to those available to all employees of the Company.

The Company does not show any investment in associate value in the statement of financial position at 30 June 2020 or 2019 for their 50% investment in Healthcare Purchasing Alliance ("HPA") as HPA has an immaterial amount of net assets at 30 June 2020 (2019: £nil). It is the Company's intention to hold investments in equity securities for more than twelve months. HPA's registered office is 8 Surrey Street, Norwich, Norfolk, NR1 3NG.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**26. Change in accounting policy**

IFRS 16 *Leases* replaces IAS 17 *Leases*, as well as the related interpretations. The core principle of IFRS 16 is that the lessee should recognise all rights and obligations arising from leasing arrangements in its Statement of financial position. The most significant change to the Company pertains to the accounting treatment for those leases that were classified as operating leases from the Company's perspective as the lessee.

IFRS 16 eliminates the classification of leases for lessees as either operating or finance leases as per IAS 17. Instead, IFRS 16 introduces a single lessee accounting model, where a right of use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of a low value. Where the Company is the lessee, it has elected, in accordance with IFRS 16, not to apply the lessee accounting model where the lease is a short-term lease. Short-term leases have a lease term of 12 months or less and does not include a renewal option. The rental payments for short-term leases are expensed on a straight-line basis over the lease term.

IFRS 16 does not introduce significant changes for lessors, or to those leases previously classified as finance leases from the lessee's perspective, and as a result the accounting policies for these transactions had no material change.

Adoption and transition on adoption of IFRS 16, the Company applied the modified retrospective approach to transition on 1 July 2019. This approach requires the cumulative effect of initially applying IFRS 16 as an adjustment to the opening reserves at 1 July 2019. As required by IFRS 16, the Company did not restate its comparative financial results. Accordingly:

- The Company's previously reported financial results up to 30 June 2019 are presented in accordance with the requirements of IAS 17; and
- From 1 July 2019 the Company's financial results are presented in terms of IFRS 16.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The incremental borrowing rate considers a base interest rate reflective of the jurisdiction in which the legal entity, the term of the lease arrangement and the nature of the assets.

ROU assets were measured retrospectively at the amount equal to the lease liability at the commencement of the lease, using the discount rate as determined on 1 July 2019 for the lease liability, and depreciated from commencement date up until 30 June 2019.

The resulting difference between the lease liability and the ROU asset as at 1 July 2019 is recognised as an adjustment to opening retained earnings. In addition, any previously recognised rights (e.g. prepaid rentals) or obligations (e.g. straight-line accruals) are also derecognised as adjustments to opening retained earnings on 1 July 2019.

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by IFRS 16:

- accounting for leases with a remaining lease term of less than 12 months as at 1 July 2019, as short-term leases, provided there was no option to extend the term. For short-term rentals, the lessee recognises the payments as an expense on a straight-line basis;
- the use of a single discount rate for a specified portfolio of leases that have reasonably similar characteristics;
- the exclusion of initial direct costs for the measurement of the ROU asset at the date of initial application; and

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**26. Change in accounting policy (continued)**

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Effective 1 July 2019, all leases, which either had a term not less than 12 months or not deemed a low value asset, were recognised as a ROU asset and a corresponding lease liability.

The Company leases the following assets with a range of lease terms:

- Large offices 9-14 years
- Computer equipment 5 years
- Motor vehicles 3 years

Leases of low value assets relate to those categories of assets which at inception of the lease typically have a value, if bought new, of no more than approximately £5,000. For the Company, these categories include computer equipment such as desktops, laptops, monitors and related IT peripherals.

Contracts where the service provider has a substantive right to substitute the asset for an alternative asset during the lease term is not regarded as a lease, but instead a service contract. Accordingly, these contracts are not accounted for in accordance with IFRS 16. For the Company, such contracts include items such as vending machines and printers.

Extension or termination options are included in a number of the building leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised.

Effect of changes in IFRS 16 on date of initial application at 1 July 2019:

	30 June 2019 previously reported	IFRS 16 Adjustments	1 July 2019 Restated
	£'000	£'000	£'000
<b>Assets</b>			
Property and equipment	5,731	(165)	5,566
Right-of-use assets	-	16,927	16,927
<b>Total impact on assets</b>	<b>5,731</b>	<b>16,762</b>	<b>22,493</b>
<b>Equity</b>			
Accumulated deficit	(29,300)	(962)	(30,262)
<b>Liabilities</b>			
Trade and other payables	64,998	(299)	64,699
Lease liabilities	-	18,474	18,474
<b>Total impact on liabilities</b>	<b>64,998</b>	<b>18,175</b>	<b>83,173</b>
<b>Total impact on equity and liabilities</b>	<b>35,698</b>	<b>17,213</b>	<b>52,911</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**26. Change in accounting policy (continued)**

	<b>1 July 2019</b>
<b>Reconciliation of lease liability</b>	<b>£'000</b>
Lease commitments as at 30 June 2019	11,189
Finance lease liabilities recognised at 30 June 2019	299
Add: finance lease liabilities recognised at 30 June 2019	8,711
Discounted using the Company's incremental borrowing*	(1,725)
<b>Lease liability as at 1 July 2019</b>	<b>18,474</b>

\* The ranges of incremental borrowing rates applied on transition was 1.92% - 4.43%.

**27. Parent and ultimate controlling party**

The immediate parent undertaking is Discovery Holdings Europe Limited, a company incorporated in the United Kingdom.

Discovery Holdings Europe Limited is 100.0% (2019: 100%) owned by Discovery Group Europe Limited.

The ultimate controlling party of Discovery Group Europe Limited is Discovery Limited, a company incorporated in the Republic of South Africa.

The ultimate controlling party of the Company and the smallest and largest group to consolidate these financial statements is Discovery Limited. The consolidated financial statements of Discovery Limited can be obtained from Discovery Limited, PO Box 786722, Sandton, South Africa.

**28. Post balance sheet event**

On 22 September 2020 the Company's Board reached a decision that the grant received by the Company under the Coronavirus Job Retention Scheme will be returned in full to HMRC. This decision was made on the basis that the impact of COVID-19 on the Vitality Group has not proven to be as significant as first anticipated when the grant was initially claimed.