Registered number: 06221457

SAGE PEOPLE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2022

Introduction

The Directors present their Strategic Report for Sage People Limited (the “Company") for the year ended 30 September 2022. The directors of The Sage Group plc., the ultimate parent company, set the strategy for the whole Sage group of companies (“Sage”, or the “Group"), including Sage People Limited. This is set out within the Sage Group plc. Annual Report and Accounts for the year ended 30 September 2022 (the “Plc Annual Report and Accounts”), which does not form part of this report. The business has a clearly defined strategy to respond to the changes taking place in technology and in the markets in which it operates in a way that leverages the strengths of the business model and delivers organic revenue and margin growth.

Principal activity

Sage People Limited provides cloud HR software to mid-size companies, enabling them to acquire, manage and retain their people. HR software is a fast-growing market, with the move to cloud very well established and still accelerating.

Around 28% of the revenue is from customers headquartered outside the UK, with end users in over 30 countries.

Fair review of business

The Company incurred a loss on ordinary activities before taxation of £3,205,000 (Restated 2021: £8,912,000) on turnover of £21,796,000 (Restated 2021: £21,961,000).

Future developments

The external commercial environment is expected to remain competitive during the next financial year. Despite recognising losses in the current period, the Directors remain confident that the Company will be able to accelerate its growth in the future by utilising the distribution channels and other resources of The Sage Group plc.

Principal risks and uncertainties

The Global Risk Management Framework has been built to identify, evaluate, analyse, manage and mitigate those risks which threaten the successful achievement of our business strategy and objectives, within acceptable tolerances. Risks are owned and managed at a Global level and are formally reviewed on a quarterly basis.

Risk is inherent within our business activities, and the Group as a whole continues to prioritise and develop its risk management capability in recognition of this. Timely identification of risks, combined with their appropriate management and escalation, enables the Group to successfully run each business and deliver strategic change, whilst ensuring that the likelihood and/or impact associated with such risks is understood and managed within our defined risk appetite.

Currently there are twelve principal risks which are monitored and reported against at a Global level which also apply to the Company.

- Understanding Customer Needs
- Execution of Product Strategy
- Developing and Exploiting New Business Models
- Route to Market
- Customer Experience
- Third Party Reliance
- People and Performance
- Culture

- Cyber Security & Data Privacy
- Data Strategy
- Readiness to Scale
- Environmental, Social & Governance

The background, management and mitigation process are disclosed in the Plc Annual Report and Accounts.

Financial instruments

Financial risk management

The Company's operations expose it to a variety of financial risks that include credit risk and interest rate risk. The Company does not use derivative financial instruments to manage interest rate risk and as such, no hedge accounting is applied.

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure with any counterparty is subject to a limit.

The treasury function is managed at a Global level. The credit risk on liquid funds is considered to be low, as the Audit Committee approved Global Treasury Policy restricts the value that can be invested in each approved counterparty to minimise the risk of loss. All counterparties must meet minimum credit rating requirements.

Interest rate risk

The Company's exposure to interest rate risk is managed by the Group treasury function. The Company holds no external borrowings so is only exposed to interest rate fluctuations on intercompany borrowings, whose rates are set by the treasury function.

Key performance indicators

The directors of The Sage Group plc. manage and measure the Group's operations on a regional and segmental basis. For this reason, the Directors believe that analysis using other key performance indicators, in addition to the revenue and profit set out above, for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company's business. The key performance indicators used by the directors of The Sage Group plc. to manage and measure the performance of the Group are discussed within the Plc Annual Report and Accounts.

Section 172(1) statement

As per Section 172(1) of the Companies Act 2006 ("Section 172(1)"), a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a. the likely consequences of any decision in the long term;
b. the interests of the company's employees;
c. the need to foster the company's business relationships with suppliers, customers and others;
d. the impact of the company's operations on the community and the environment;
e. the desirability of the company maintaining a reputation for high standards of business conduct; and
f. the need to act fairly as between members of the company.

This statement describes how the Directors have had regard to the matters set out above when performing their duty to promote the success of the Company for the benefit of its members as a whole, having regard to the interests of its stakeholders and the wider society.

The Directors are responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure that their obligations to the Company's stakeholders, including its shareholder, are met. The Company follows Sage's policies and procedures, including those relating to standards of business conduct, colleagues, society and other stakeholders. However, in considering items of business, the Company makes autonomous decisions based on each transaction's own merits, after due consideration of the long-term sustainable success of the Company, Section 172(1) factors where relevant, and the stakeholders impacted. Board meetings are held as and when required to discuss matters of business. In the year ended 30 September 2022 the Directors approved, amongst others, the following decision:

The approval of entry into a loan agreement with Sage Treasury Company Limited for general financing purposes. The Board considered that entry into the loan agreement would promote the long-term success of the Company for the benefit of its members as a whole and its wider stakeholders.

As is typical for a company which is part of a large, listed group, the Directors fulfil their duties partly through a governance framework determined at Group level that delegates day-to-day decision-making to Sage's management. Such delegation forms part of Sage's robust governance structure which encompasses the principles of Section 172(1) so that they ultimately become embedded within the business and everything Sage does as a Group.

The Directors recognise that the Company has a wide range of stakeholders and balancing their respective needs and expectations is important. The decision-making process is structured to enable the Directors to evaluate the merit of proposed business activities in view of competing priorities and the likely consequences of decisions on our stakeholders over the short, medium and longer term. The Directors are committed to effective engagement with all stakeholders of the Company and engagement through delegation to its management teams. The values and behaviours upheld when engaging with stakeholders are consistent across Sage, irrespective of which member of the Group is communicating with any and all of Sage's stakeholders.

After due consideration, the Directors have determined the Company's key stakeholders to be largely consistent with those set out in the Plc Annual Report and Accounts.

Colleagues

Colleagues want to work for a company that values them, and that provides them an opportunity to be themselves and thrive. They expect the Company to address societal issues from diversity and inclusion to the future of work. Sage colleagues are proud of the work we do in our communities through our Sustainability and Society strategy and Sage Foundation.

The Directors recognise that colleagues are a key resource and the life blood of the Company. Every day they serve our customers through their innovation, integrity and passion. Engagement with the Company's employees during the year ended 30 September 2022 included, amongst other things, Sage TV broadcasts, presentations of strategy, quarterly performance updates, bi-annual colleague 'Pulse' surveys, ongoing 'Always Listening' channels and other feedback channels around moments that matter. Diversity, equity and inclusion remains an area of focus at Sage. The Directors are committed to fostering a culture of diversity, equity and inclusion and promoting a healthy and supportive corporate culture by setting the tone from the top.

Customers

Our customers and business partners are focused on (i) running and growing their business; (ii) having products that keep their business compliant; (iii) quality customer service; and (iv) having greater visibility into their business and deriving actionable insights from their data. Improving efficiencies and productivity remain priorities, but they are also increasingly interested in the wellbeing of their staff and the environment and their role in protecting it.

Customers are at the heart of the Company's business and the Directors recognise that fostering business relationships with them is essential to the long-term sustainable success of the Company. They are the small and mid-sized businesses which are the growth engine of the global economy, and the accountants and other professionals who rely on Sage to help them deliver a great service to their clients, whatever their size. Engagement with our customers is conducted through Sage management activities and ongoing meetings and dialogue.

Shareholder

The Directors consider the long-term impact of corporate actions and decisions on and for the benefit of the Company's direct and indirect shareholders. Engagement with other Sage Group undertakings, including the Company's shareholder is conducted through internal Sage management activities and ongoing meetings and dialogue. The Company's ultimate parent is The Sage Group plc.

Suppliers

In addition to the above stakeholders, it is recognised that suppliers are also relevant to the Company's activities. The Directors have regard for and engage with such groups to the extent that they are affected by, and themselves affect, the operations of the Company. The Company's suppliers are significant to the Company, and therefore the Company seeks to develop and foster business relationships with them to maximise value and efficiency. The Company engages with its suppliers through a thorough supplier onboarding process and procurement life-cycle (including to appropriately manage data privacy and security matters) through Sage's governance model.

The Company also operates and engages with its suppliers in accordance with Sage's Supplier Code of Conduct, which all suppliers are required to follow, and which defines Sage's expectations of responsible business and behaviour underlying the strategic focus on customer needs, in line with the high standards of business conduct that Sage strives to promote. It is essential that our suppliers hold similar values to us, promote ethical business practices and conduct their business in accordance with applicable laws and regulations. That's why the principles set out in the Supplier Code of Conduct are shared principles; we follow them in our business and we expect our suppliers to as well. By working together to promote good practices, we can ensure these principles are reflected in both Sage's, and our supply chain's ways of working.

Society

The Directors recognise that Sage, including the Company, is committed to managing the Group's use of resources proactively to minimise environmental impact and investing in education, technology, and environmental change to give individuals, small and mid-sized businesses and our planet the opportunity to thrive. Sage has made good progress on the Group's Sustainability and Society strategy during FY22 and has strengthened executive oversight and responsibility with the inclusion of ESG targets (one on climate, one on products and one on DEI) in leadership incentives.

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2022

The Directors of the Company also support Sage's culture and commitment to doing business the right way. Sage's culture and commitment are demonstrated through the work of the Sage Foundation, which combines charitable giving and supporting colleague engagement with non-profit organisations delivering change.

This report was approved by the board and signed on its behalf.

DocuSigned by:

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Mark Parry
Director

Date: 23 January 2023

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2022

The Directors present their report and the financial statements for the year ended 30 September 2022.

Results and dividends

The Directors do not recommend payment of a dividend (2021: nil). The loss after taxation for the year is £3,205,000 (2021 Restated: £8,912,000).

Directors

The Directors who served during the year were:

Victoria Louise Bradin (resigned 27 June 2022)
Christopher Ewen
Jonathan Kirkup
Paul Struthers
Mark Parry (appointed 27 June 2022)

Indemnity provisions

As at the date of this report, indemnities (which are qualifying third party indemnity provisions under the Companies Act 2006) are in place under which the Company has agreed to indemnify the Directors of the Company and the former Directors of the Company who held office during the year ended 30 September 2022, to the extent permitted by law and by the Company's articles of association, in respect of all liabilities incurred in connection with the performance of their duties as a director of the Company or its subsidiaries. Copies of these indemnities are available for review at the registered office of the Company.

Information included in the Strategic Report

Information on the future developments and financial instruments is disclosed in the Strategic Report in accordance with Section 414C(11) of the Companies Act 2006.

Research and development activities

The Directors regard the investment in research and development as integral to the continuing success of the business and ensuring our products remain a strong player in this sector. Details of total spend in research and development are included within note 5 to the financial statements.

Going concern

The Directors have robustly tested the going concern assumption in preparing the financial statements ensuring that the Company can continue to pay its liabilities as they fall due. This included reviewing the Company’s cash position, net current asset position and obligations under debt arrangements with other Sage Group companies.

Based on the above and having closely reviewed the current performance and forecasts, the Directors remain satisfied that the Company has adequate resources to continue its operations for a period of 12 months from the date of this report. However, given the high level of uncertainty a letter of support from the Company’s ultimate parent, the Sage Group plc, has been provided for a period of 12 months from the date of this report, to enable the Company to meet its liabilities as and when they become due, as a means to provide the Directors with further confidence that the going concern basis of preparation is appropriate.

Disclosure of information to the auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Post balance sheet events

There have been no significant subsequent events identified at the date of this report which would impact the Company.

This report was approved by the board and signed on its behalf.

DocuSigned by:

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Mark Parry
Director

Date: 23 January 2023

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2022

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 ‘Reduced Disclosure Framework’. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGE PEOPLE LIMITED

Opinion
We have audited the financial statements of Sage People Limited for the year ended 30 September 2022 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 September 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. 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.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors
As explained more fully in the Directors' Responsibilities Statement set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGE PEOPLE LIMITED

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (United Kingdom Generally Accepted Accounting Practice), the relevant tax compliance regulations principally relating to those issued by HMRC and the EU General Data Protection Regulation (GDPR).
- We understood how the Company is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, as well as consideration of the results of our audit procedures to either corroborate or provide contrary evidence which was then followed up.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud; and assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered significant estimates and judgements in the financial statements and performance targets and their propensity to influence on efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, including areas impacting the key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of management and those responsible for legal and compliance matters and journal entry testing with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business.

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

Use of our report

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

DocuSigned by:

Ernst & Young LLP

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JI Gordon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 January 2023

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	2022 £000	*As restated* 2021 £000
Revenue	4	**21,796**	21,961
Cost of sales		**(6,147)**	(6,878)
Gross profit		**15,649**	15,083
Selling and administrative expenses		**(18,151)**	(23,585)
Operating loss	5	**(2,502)**	(8,502)
Finance income	8	**-**	18
Finance costs	9	**(703)**	(428)
Loss before income tax		**(3,205)**	(8,912)
Loss for the financial year		**(3,205)**	(8,912)
Total comprehensive loss for the year		**(3,205)**	(8,912)

The notes on pages 16 to 37 form part of these financial statements.

BALANCE SHEET
AS AT 30 SEPTEMBER 2022

	Note	2022 £000	*As restated* 2021 £000
Non current assets			
Investments	11	**-**	-
Property, plant and equipment	12	**92**	136
Customer acquisition costs		**3,745**	3,309
		3,837	3,445
Current assets			
Trade and other receivables	13	**15,963**	15,993
Cash and cash equivalents		**886**	1,524
		16,849	17,517
Total assets		**20,686**	20,962
Current liabilities			
Trade and other payables	14	**(31,207)**	(31,025)
Provisions	15	**-**	(33)
Deferred income	16	**(18,592)**	(16,014)
Total current liabilities		**(49,799)**	(47,072)
Non-current liabilities			
Deferred income non-current	16	**(34)**	-
Total liabilities		**(49,833)**	(47,072)
Net liabilities		**(29,147)**	(26,110)

BALANCE SHEET (CONTINUED)
AS AT 30 SEPTEMBER 2022

	Note	2022 £000	*As restated* 2021 £000
Shareholders' equity			
Ordinary shares	17	**6**	6
Share premium		**17,937**	17,937
Other reserves		**11,581**	11,581
Retained earnings		**(58,671)**	(55,634)
		(29,147)	(26,110)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 23 January 2023.

DocuSigned by:

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Mark Parry
Director

The notes on pages 16 to 37 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Ordinary shares £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 October 2020 (as previously stated)	**6**	**17,937**	**11,581**	**(46,842)**	**(17,318)**
Loss for the year (as restated per note 2.25)	-	-	-	(8,912)	(8,912)
Employee share option scheme	-	-	-	120	120
Total comprehensive loss for the year (restated)	-	-	-	(8,792)	(8,792)
At 1 October 2021 (restated)	6	17,937	11,581	(55,634)	(26,110)
Loss for the year	-	-	-	(3,205)	(3,205)
Employee share option scheme	-	-	-	168	168
Total comprehensive loss for the year	-	-	-	(3,037)	(3,037)
At 30 September 2022	6	17,937	11,581	(58,671)	(29,147)

The notes on pages 16 to 37 form part of these financial statements.

Retained earnings include £421,000 (2021: £253,000) of non-distributable reserves.

1. General information

Sage People Limited (the "Company") is a company incorporated and domiciled in England, it is a private company limited by shares and the Company's registered address is C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle-Upon-Tyne, NE28 9EJ.

2. Accounting policies

2.1 Basis of preparation of financial statements

The Company's ultimate parent undertaking, The Sage Group plc., includes the Company in its consolidated financial statements. The consolidated financial statements of The Sage Group plc. are prepared in accordance with International Accounting Standards and are available to the public and may be obtained from the address given in note 20. The Company is therefore exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the UK Companies Act 2006.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

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

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

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Great British Pounds, which is the Company's functional and presentation currency. All amounts are presented in Great British Pounds (GBP) and are rounded to the nearest £'000.

The Directors have robustly tested the going concern assumption in preparing the financial statements ensuring that the Company can continue to pay its liabilities as they fall due. This included reviewing the Company's cash position, net current asset position and obligations under debt arrangements with other Sage Group companies.

Based on the above and having closely reviewed the current performance and forecasts, the Directors remain satisfied that the Company has adequate resources to continue its operations for a period of 12 months from the date of this report. However, given the high level of uncertainty a letter of support from the Company's ultimate parent, the Sage Group plc, has been provided for a period of 12 months from the date of this report, to enable the Company to meet its liabilities as and when they become due, as a means to provide the Directors with further confidence that the going concern basis of preparation is appropriate.

The principal accounting policies, which have been applied consistently throughout the year, are set out below.

2. Accounting policies (continued)

2.2 Financial reporting standard 101 - reduced disclosure exemptions

In these financial statements, the Company, as a qualifying entity under FRS 101, has applied the exemptions available under the standard in respect of the following disclosures:

• The requirements in paragraph 38 in IAS 1 Presentation of Financial Statements to present comparative information in respect of:
a. Paragraph 79(a)(iv) of IAS 1;
b. Paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
• The requirements of paragraph 10(d), 10(f), 16, 38A-38D, 40A-40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
• A Cash Flow Statement and related notes, as required by IAS 7 Statement of Cash Flows;
• The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
• Disclosures in respect of transactions with wholly owned subsidiaries, as required by IAS 24 Related Party Disclosures;
• The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
• The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total.
• Disclosures in respect of capital management, as required by paragraphs 134 to 136 of IAS 1 Presentation of financial statements;
• The effects of new but not yet effective IFRSs, as required by paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors;
• Disclosures in respect of the compensation of Key Management Personnel, as required by paragraph 17 of IAS 24 Related Party Disclosures; and
• Disclosures of transactions with a management entity that provides key management personnel services to the Company, as required by paragraph 17 of IAS 24 Related Party Disclosures;
• The requirements of paragraphs 130(f)(ii), 130(f)(iii) 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

As the consolidated financial statements of The Sage Group plc. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

• IFRS 2 Share-based Payments in respect of group settled share-based payments, as required by paragraphs 45(b) and 46 to 52; and
• Certain disclosures required by paragraphs 91 to 99 of IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

2.3 Foreign currency translation

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into sterling at the rate prevailing at the dates of the transactions. All differences on exchange are taken to the statement of comprehensive income.

2. Accounting policies (continued)

2.4 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Identification of performance obligations

When the Company enters into an agreement with a customer, goods and services deliverable under the contract are identified as separate performance obligations to the extent that the customer can benefit from the goods or services on their own and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services do not meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified.

Determination of transaction price and standalone selling prices

The Company determines the transaction price it is entitled to in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. Contract terms generally are monthly or annual and customers either pay up-front or over the term of the related service agreement.

The transaction price is allocated between the identified obligations according to the relative standalone selling prices (SSPs) of the obligations. The SSP of each obligation in the contract is determined according to the prices that the Company would obtain by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis. See “Judgements in applying accounting policies” in note 3 for details.

Timing of recognition
Revenue is recognised when the respective obligations in the contract are delivered to the customer and payment remains probable.

– Where the Company’s performance obligation is the grant of a right to continuously access a cloud offering for a certain term, revenue is recognised based on time elapsed and thus rateably over the term.
– Maintenance and support revenue is typically recognised based on time elapsed and thus rateably over the term of the support arrangement. Under the standardised maintenance and support services, the Company’s performance obligation is to stand ready to provide technical product support and unspecified updates, upgrades and enhancements on a when-and-if-available basis. The customers simultaneously receive and consume the benefits of these services.
– Professional services and training revenue are typically recognised over time. Where the Company stands ready to provide the service (such as access to learning content), revenue is recognised based on time elapsed and thus rateably over the service period. Consumption-based services (such as separately identifiable professional services and premium support services, messaging services, and classroom training services) are recognised over time as the services are utilised, typically following the percentage-of-completion method or rateably.

Identification of the contract with the customer

When the Company sells goods or services through a business partner, a key consideration is determining whether the business partner or the end user is the Company’s customer. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of the Company's subscription products and support services, this is usually

2. Accounting policies (continued)

2.4 Revenue (continued)

assessed based on whether the business partner has responsibility for payment, has discretion to set prices and takes on the risks and rewards of the product or service from the Company.

Principal versus agent considerations

When the Company has control of third-party goods or services prior to delivery to a customer, then the Company is the principal in the sale to the customer. As a principal, receipts from customers and payments to suppliers are reported on a gross basis in revenue and cost of sales. If the Company does not have control of third-party goods or services prior to transfer to a customer, then the Company is acting as an agent for the other party and revenue in respect of the relevant obligations is recognised net of any related payments to the supplier and reported revenue represents the margin earned by the Company. Whether the Company is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Company and its supplier. This takes into account whether the Company bears the price, inventory and performance risks associated with the transaction.

Practical expedients

While the majority of contracts have a term of three years, the invoices are raised on a yearly basis, therefore any financing component is not considered when determining the transaction price.

2.5 Incremental costs of obtaining customer contracts

The incremental costs of obtaining customer contracts are capitalised under IFRS 15. Contract acquisition costs primarily consist of sales commissions earned by the Company's sales force.

The capitalised assets are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Company expects to benefit from future renewals as a result of incurring the costs. The amortisation period is currently determined as seven years. Amortisation of the capitalised costs of obtaining customer contracts is reported within selling and administrative expenses.

2.6 Cost of sales

Cost of sales includes the third party costs of providing professional services to customers and hosting costs. All other operating expenses incurred in the ordinary course of business are recorded in selling and administrative expenses.

2.7 Leases

The Company recognises lease assets and lease liabilities on the balance sheet for most of its leases to account for the right to use leased items and the obligation to make future lease payments. Lease liabilities are measured at the present value of future lease payments over the lease term. The lease term is determined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if the option is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if the option is reasonably certain not to be exercised. Lease payments normally include fixed payments (including in substance fixed payments), a deduction for any lease incentives receivable and variable lease payments that depend on an index or a rate. In the event that a lease includes an exercise price for a purchase option that is reasonably

2. Accounting policies (continued)

2.7 Leases (continued)

certain to be exercised, or a termination penalty that is reasonably certain to be incurred, these too are included in lease payments as are any amounts expected to be paid under any residual value guarantees. Variable lease payments that do not depend on an index or a rate are not included in the lease liability but are recognised as an expense when incurred.

Lease payments are discounted using the incremental borrowing rate applicable to the lease at the lease commencement date, as the rate implicit in the lease cannot normally be readily determined. Lease assets are recognised at the amount of the lease liability, adjusted where applicable for any lease payments made or lease incentives received before commencement of the lease, direct costs incurred at the commencement of the lease and estimated restoration costs to be incurred at the end of the lease.

Right-of-use assets are presented within property, plant and equipment and depreciated on a straight-line basis over the shorter of their useful life and the lease term. Their carrying amounts are measured at cost less accumulated depreciation and impairment losses. Lease liabilities are presented within current and non-current borrowings. Over the lease term, the carrying amounts of lease liabilities are increased to reflect interest on the liability and reduced by the amount of lease payments made. A lease liability is remeasured if there is a modification, a change in the lease term or a change in lease payments. The costs of these leases are recognised in the statement of comprehensive income split between the depreciation of the lease asset and the interest charge on the lease liability. Depreciation is presented within selling and administrative expenses and interest charges within finance costs.

This policy applies mainly to the Company’s leases for properties. For short-term leases with a lease term of 12 months or less and leases of low value items, the Company has elected to apply the exemptions available under the standard. For these leases, rentals payable are charged to the statement of comprehensive income on a straight-line basis as an operating expense presented within selling and administrative expenses. Where rent payments are prepaid or accrued, their balances are reported under prepayments and accruals respectively. The low value exemption has been applied to most of the Company’s leases of IT and other office equipment.

The Company leases properties under non-cancellable lease agreements. Leases of properties have a range of lease terms, up to a maximum of 15 years. Property leases include various contractual terms, most commonly variable lease payments and termination and extension options.

2.8 Finance income

Interest income is recognised in profit or loss using the effective interest method.

2.9 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2. Accounting policies (continued)

2.10 Taxation

The taxation expense for the year represents the sum of current tax payable and deferred tax. The expense is recognised in the statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is measured at the amount expected to be recovered from or paid to the taxation authorities, calculated using tax rates that have been enacted at the end of the reporting period.

The Company is are able to relieve its tax losses by surrendering them to other group companies within the UK corporation tax group, where capacity to utilise these losses exists.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences and carried forward tax credits or tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period. The carrying amount of deferred income tax asset is reviewed at each balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

2.11 Investments

Fixed asset investments are stated at cost less provision for any diminution in value. Any impairment is charged to profit or loss as it arises.

2.12 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation on property, plant and equipment is provided on a straight-line basis to write down an asset to its residual value over its useful life as follows:

Leasehold improvements	- Over period of the lease
Right of use assets	- Over period of the lease
Fixtures and fittings	- 7 years
Computer equipment	- 3 years

2. Accounting policies (continued)

2.13 Impairment of property plant and equipment

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.14 Financial instruments

Financial assets and financial liabilities are recognised in the Company’s balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised (i.e., removed from the Company’s balance sheet) when the rights to receive cash flows from the asset have expired; or when the Company has transferred those rights and either has also transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but no longer has control of the asset. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

2. Accounting policies (continued)

2.15 Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit losses.

The Company uses the term “trade receivables” for contract receivables. These are recognised when the right to consideration is unconditional. Typically, for performance obligations satisfied over time, judgement is required in determining whether a right to consideration is unconditional. In such situations, a receivable is recognised for the transaction price of the non-cancellable portion of the contract when the Company starts satisfying the performance obligation.

When revenue recognised in respect of a customer contract exceeds amounts received or receivable from the customer a contract asset is recognised.

The carrying amounts of trade and other receivables are reduced by allowances for expected credit losses using the simplified approach under IFRS 9. The Company uses a matrix approach to determine the allowance. The default rates applied are based on the ageing of the receivable, past experience of credit losses and forward-looking information. An allowance for a receivable’s estimated lifetime expected credit losses is first recorded when the receivable is initially recognised, and subsequently adjusted to reflect changes in credit risk until the balance is collected. In the event that management considers that a receivable cannot be collected, the balance is written off.

For amounts owed by group undertakings that are trade receivables, the Company applies the simplified approach using a provision matrix as for external trade receivables. For other amounts, the Company applies IFRS 9’s general approach under which a provision for 12-month expected credit losses is recognised unless the credit risk associated with the receivable is deemed to have increased significantly since its initial recognition, in which case lifetime expected credit losses are recognised.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of the Company’s cash management are included in cash and cash equivalents where they have a legal right of set-off and there is an intention to settle net, against positive cash balances, otherwise bank overdrafts are classified as borrowings.

2.17 Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. Accounting policies (continued)

2.18 Provisions for liabilities

A provision is recognised only when all three of the following conditions are met:

• The Company has a present obligation (legal or constructive) as a result of a past event;
• It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
• A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the present value of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, i.e. the present value of the amount that the Company would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

2.19 Deferred income

The Company uses the term “deferred income” for a contract liability. Contract liabilities primarily reflect invoices due or payments received in advance of revenue recognition. Deferred income is unwound as related performance obligations are satisfied.

2.20 Post-employment benefits

Obligations under defined contribution schemes are recognised as an operating cost in the statement of comprehensive income as incurred.

2.21 Equity

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

2.22 Share based payments

The Sage Group plc. issues equity-settled share-based payments to certain employees of the Company. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed by the Company on a straight-line basis over the vesting period, based on the Group’s estimate of the shares that will eventually vest allowing for the effect of non-market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models. The expected life used in the model has been adjusted based on Group’s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group also provides certain employees of the Company with the ability to purchase The Sage Group plc.’s ordinary shares at a discount to the current market value at the date of the grant. The Company records an expense, based on the Group's estimate of the discount related to shares expected to vest, on a straight-line basis over the vesting period.

The Company is not charged by The Sage Group plc. for its allocation of the share-based payment charge for its employees and the Company records a non-distributable credit to equity.

2. Accounting policies (continued)

2.23 Dividends

Dividends are recognised through equity when approved by the Company's Directors.

2.24 Research and development

Research and development expenditure is recognised as an expense in the year in which it is incurred.

2.25 Prior year comparative information

The prior year financial statements have been restated to decrease revenue and deferred income by £782,000 to £21,961,000 and £14,450,000 respectively due to a data error in calculating the deferred revenue at 30 September 2021. The reported loss for the year and the net liabilities at 30 September 2021 increased by £782,000 to £8,912,000 and £26,110,000 respectively.

3. Judgements in applying accounting policies

The following are the key judgements and assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amount of the assets and liabilities within the next year.

Revenue recognition

Some of the Company's revenue is generated from sales to partners rather than to end users. The key judgement is determining whether the business partner is a customer of the Company. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of the Company's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices and takes on the risks and rewards of the product or service from the Company. The key criteria in this determination is whether the business partner has taken control of the product. Where the business partner is a customer of the Company, discounts are recognised as a deduction from revenue. Where the business partner is not a customer of the Company and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment.

An additional area of judgement is the recognition and deferral of revenue on on-premise subscription offerings, for example the sale of a term licence with an annual maintenance and support contract as part of a subscription contract. In such instances, the transaction price is allocated between the constituent performance obligations on the basis of standalone selling prices (SSPs).

Judgement is required when estimating SSPs. The Company has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or the residual approach is used.

Under the residual approach, the SSP for the offering is estimated to be the total transaction price less the sum of the observable SSPs of other goods or services in the contract. The Company uses this technique in particular for its on-premise subscription offerings.

Incremental costs of obtaining customer contracts

3. Judgments in applying accounting policies (continued)

Judgement is required in determining the amounts to be capitalised, particularly where the commissions are based on cumulative targets. The Company capitalises such cumulative target commissions for all customer contracts that count towards the cumulative target but only if nothing other than obtaining customer contracts can contribute to achieving the cumulative target. The capitalised assets are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Company expects to benefit from future renewals as a result of incurring the costs. Typically, either the Company does not pay sales commissions for customer contract renewals or such commissions are not commensurate with the commissions paid for new contracts and are not capitalised. Consequently, the Company amortises sales commissions paid for new customer contracts on a straight-line basis over the expected contract life including probable contract renewals.

Judgement is required in estimating these contract lives. In exercising this judgement, the Company considers respective renewal history adjusted for indications that the renewal history is not fully indicative of future renewals.

Recoverability of trade and other receivables

Trade and other receivables (including amounts owed by group undertakings) to which IFRS 9's general approach to recognising expected credit losses applies requires determination of whether the amounts are recoverable based on whether the other party is able to repay. This is performed by assessing the probability of default and a provision is recognised for any shortfall. Where a balance attracts interest, the amount to be repaid is discounted at the applicable interest rate.

The carrying value of amounts owed by group undertakings at 30 September 2022 was £4,974,000 (2021: £5,248,000) and no impairment loss has been recognised (2021: £nil).

4. Revenue

An analysis of revenue by class of business is as follows:

	2022	*As restated* 2021
	£000	£000
Software subscription revenue	**21,097**	18,858
Other revenue	**699**	3,103
	21,796	21,961

Analysis of revenue by country of destination:

	2022	*As restated* 2021
	£000	£000
United Kingdom	**15,402**	15,444
Rest of Europe	**4,225**	4,021
Rest of the world	**2,169**	2,496
	21,796	21,961

5. Operating loss

The operating loss is stated after charging/(crediting):

	2022	2021
	£000	£000
Research and development expense	**8,852**	9,105
Research and development tax credit	**(505)**	(213)
Customer acquisition amortisation expense	**754**	552
Depreciation of property plant and equipment	**44**	175
Net foreign exchange gains	**(3)**	(8)
Auditor's remuneration	**30**	29
Operating lease costs	**-**	34

6. Employees

Staff costs were as follows:

	2022	2021
	£000	£000
Wages and salaries	**10,933**	12,746
Social security costs	**1,325**	1,511
Other pensions costs	**719**	818
Equity-settled share-based payments	**168**	120
	13,145	15,195

The average monthly number of employees, including the Directors, during the year was as follows:

	2022	2021
	No.	*No.*
Research and development	**70**	92
Field sales	**3**	4
Sales support/customer service	**46**	50
Training	**3**	5
Marketing	**8**	12
Finance	**14**	3
IT	**1**	7
Administration	**1**	4
	146	177

The Directors did not receive any emoluments during the year in respect of their services to the Company (2021: £nil).

7. Post-employment benefits

The majority of the Company's employees are members of defined contribution schemes. The Company pays contributions into separate funds on behalf of the employees and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions of £719,000 (2021: £818,000) in respect to the current year are included in the statement of comprehensive income. Contributions of £113,000 (2021: £120,000) were outstanding at the balance sheet date.

8. Finance income

	2022 £000	2021 £000
Interest receivable from group companies	-	18
	-	18

9. Finance costs

	2022 £000	2021 £000
Loans from group undertakings	551	70
Bank fees	9	5
Net foreign exchange losses	143	353
	703	428

10. Taxation

	2022 £000	2021 £000
Current tax on loss for the year	-	-
	-	-
Total current tax	-	-
Deferred tax		
Total deferred tax	-	-
Taxation on loss on ordinary activities	-	-

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2021 - higher than) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022 **£000**	*As restated* 2021 £000
Loss on ordinary activities before tax	**(3,205)**	(8,912)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	**(609)**	(1,693)
Effects of:		
Expenses not deductible for tax purposes	**21**	(40)
Other timing differences	**(5)**	11
Group relief surrendered for no payment	**589**	1,722
Imputed interest	**4**	-
Total tax charge for the year	**-**	-

Factors that may affect future tax charges

The main UK corporation tax rate will increase from 19% to 25% from 1 April 2023.

The Company has unrecognised deferred tax assets relating to short term and fixed asset timing differences, as well as historic losses that together have a tax value of £2,156,000 (2021: £2,164,000). The deferred tax assets have not been recognised as the Company is not expected to have suitable taxable profits in the foreseeable future against which to offset the deferred tax assets.

11. Investments

The following table details the Company's subsidiary undertaking which is held directly.

Name	**Registered office**	**Class of shares**	**Holding**
Sage People, Inc.	251 Little Falls Drive, Wilmington, New Castle, DE, 19808, United States	Ordinary	100 %

12. Property, plant and equipment

	Computer equipment £000	Fixtures and fittings £000	Total £000
Cost or valuation			
At 1 October 2021	**338**	**268**	**606**
Disposals	**(311)**	**-**	**(311)**
At 30 September 2022	**27**	**268**	**295**
Depreciation			
At 1 October 2021	**330**	**140**	**470**
Charge for the year on owned assets	**6**	**38**	**44**
Disposals	**(311)**	**-**	**(311)**
At 30 September 2022	**25**	**178**	**203**
Net book value			
At 30 September 2022	**2**	**90**	**92**
At 30 September 2021	8	128	136

The depreciation charge in the year has been charged through selling and administrative expenses.

The total cash outflow for leases in the period was £nil (2021: £138,000).

13. Trade and other receivables

	2022 £000	2021 £000
Trade receivables	**10,554**	10,761
Less: provision for impairment of receivables	**(153)**	(471)
Trade receivables - net	**10,401**	10,290
Amounts owed by group undertakings	**4,974**	5,248
Other debtors	**-**	1
Prepayments and accrued income	**407**	222
Contract assets	**181**	232
	15,963	15,993

Amounts owed by group undertakings are non-interest bearing and due for payment on demand.

14. Trade and other payables

	2022 £000	2021 £000
Trade payables	**197**	91
Amounts owed to group undertakings	**28,207**	27,532
Accruals	**1,960**	2,326
Other taxation and social security	**602**	882
Other creditors	**241**	194
	31,207	31,025

Amounts owed to group undertakings are unsecured and interest free and repayable on demand.

15. Provisions

	Restructuring £000
At 1 October 2021	**33**
Utilised in year	**(33)**
At 30 September 2022	**-**

Restructuring provisions related to redundancy costs utilised fully within current financial period.

16. Deferred income

In all material respects current deferred income at 30 September 2021 was recognised as revenue during the year.

	2022 £000	*As restated* 2021 £000
Deferred income	**(18,592)**	(16,014)
1 to 2 years	**(31)**	-
2 to 5 years	**(3)**	-
	(18,626)	(16,014)

17. Shareholder's equity

	2022 £000	2021 £000
Allotted, called up and fully paid		
6,203,532 (2021 - 6,203,532) Ordinary shares of £0.001 each	**6**	6

The share premium represents the excess paid for ordinary share capital above its nominal value.

Other reserves represent the reserves created on the issue of share options.

Retained earnings represents all accumulated gains and losses of the Company since its inception, less dividends paid.

18. Share-based payments

The Company recognises a share-based payment expense based on an allocation from its parent company of the fair value of the awards granted, and an equivalent credit directly in equity as a capital contribution. The below is a description of the Group share based payment awards in the year:

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to Executive Directors after the preliminary declaration of the annual results. Under the Performance Share Plan, 1,036,987 (2021: 452,380) awards were made during the year.

Awards for 2019 and 2020

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted 70% on the achievement of a revenue growth target and 30% on the achievement of a Total Shareholder Return (TSR) target.

The revenue growth target is based on compound annualised recurring revenue growth. Where annualised recurring revenue growth is between prescribed target ranges, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

For 2019 awards, where the Group's annualised recurring revenue growth is between 6.2% and 7.7% or 7.7% and 8.5%, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro rata basis between 14% and 56% or between 56% and 70% respectively.

For 2020 awards, where the Group's annualised recurring revenue growth is between 5.6% and 7.0% or 7.0% and 7.7%, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro rata basis between 14% and 56% or between 56% and 70% respectively.

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 6% and 24%, and where TSR is between upper quartile and upper decile, TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2019 and 2020 is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.
Awards were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil.

Awards for 2021

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 70% on the achievement of revenue targets and 30% on the achievement of a TSR target.

The revenue targets are based on compound annualised recurring revenue growth and Cloud Native annualised recurring revenue over the performance period. Where annualised recurring revenue is between prescribed target ranges, the extent to which the revenue performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

Where the Group's annualised recurring revenue growth is between 6.0% and 8.5% or 8.5% and 10.0%,

18. Share-based payments (continued)

the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro rata basis between 7% and 28% or between 28% and 35% respectively.

Where the Group's Cloud Native annualised recurring revenue is between £600m and £750m or £750m and £900m, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro rata basis between 7% and 28% or between 28% and 35% respectively.
The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 6% and 24%, and where TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2021 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.
Awards were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil.

Awards for 2022

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 55% on the achievement of a financial performance target, 30% on the achievement of a TSR target, and 15% on the achievement of ESG targets.

The financial performance target is based on the achievement of Sage Business Cloud (SBC) Penetration targets for the final year of the performance period. Where SBC Penetration is between prescribed targets, the extent to which the financial performance condition is satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

Where the Group's SBC Penetration is between 75% and 80% or 80% and 85%, the extent to which the financial performance condition is satisfied will be calculated on a straight-line pro rata basis between 11% and 44% or between 44% and 55% respectively.

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 6% and 24%, and where TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2022 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

The performance targets relating to ESG are based on the achievement of targets relating to i) the aggregate number of volunteering hours recorded through the Sage Foundation during the performance period, ii) the aggregate number of individuals supported through Sage's Sustainability and Society strategy during the performance period, and iii) Sage's ESG Strategy Impact at the end of the performance period. Where aggregate volunteering hours and aggregate individuals supported are between prescribed targets, the extent to which the ESG performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

Where the Group's Volunteering hours are between 400,000 and 500,000 or 500,000 and 600,000, the extent to which the volunteering hours performance condition is satisfied will be calculated on a straight-line pro rata basis between 0.75% and 3.0% or between 3.0% and 3.75% respectively.

18. Share-based payments (continued)

Where the Group's individuals supported number is between 22,000 and 27,000 or 27,000 and 32,000, the extent to which the individuals supported performance condition is satisfied will be calculated on a straight-line pro rata basis between 0.75% and 3.0% or between 3.0% and 3.75% respectively.

Sage’s ESG Strategy Impact will be measured by i) its alignment to the Sustainability Accounting Standards Board’s (SASB’s) standards, ii) its achievement of Global Reporting Initiative’s (GRI’s) sustainability reporting standards (GRI CORE and GRI COMPREHENSIVE are the two levels to which Sage can align), and iii) achievement of a top 10% ranking in at least 3 ESG rating schemes.

Given an achievement of full SASB alignment, achieving GRI CORE would result in the performance condition being 1.5% satisfied, while achieving GRI COMPREHENSIVE would result in the performance condition being 6% satisfied. Where the ESG Strategy Impact is between GRI CORE and GRI COMPREHENSIVE, the extent to which the ESG performance condition is satisfied will be calculated on a straight-line, pro-rata basis within this defined range of 1.5%–6%.

Given an achievement of full SASB alignment and GRI COMPREHENSIVE, achieving a top 10% ranking in at least 3 ESG rating schemes would result in the performance condition being 7.5% satisfied. Where a top 10% ranking is between zero and 3 ESG rating schemes, the extent to which the ESG performance condition is satisfied will be calculated on a straight-line, pro-rata basis within this defined range of 6%–7.5%.

Awards were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil.

The Sage Group Restricted Share Plan

The Group’s Restricted Share Plan is a long-term incentive plan issued to senior management across the Group. These contingent share awards are usually made only with service conditions. Executive Directors are not permitted to participate in the plan and shares are either purchased in the market or treasury shares are utilised to satisfy vesting awards. During the year, 10,816,324 (2021: 7,499,399) awards were made. These awards only have service conditions and their fair values are equal to the share price on the date of grant, ranging from 667 to 783p.

Share options

The Save and Share Plan is a savings-related share option scheme for employees of the Group and is available to employees in the majority of countries in which the Group operates. The UK plan is an HMRC-approved savings-related share option scheme. The fair value of the options is expensed over the service period of three years on the assumption that 30% of options will lapse over the service period as employees leave the Group. In the year, 1,628,909 (2021: 1,920,653) options were granted under the terms of the Save and Share Plan.

As the consolidated financial statements of The Sage Group plc. include the equivalent disclosures, the Company has taken the exemption under FRS 101 available in respect of certain disclosures required by IFRS 2 Share-based Payments.

19. Financial instruments

As the consolidated financial statements of The Sage Group plc. include the equivalent disclosures, the Company has taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures. The disclosures below cover statutory balances in relation to Amounts owed by / to group undertakings that are not covered in The Sage Group plc. consolidated financial statements.

Fair value measurement of financial assets and financial liabilities

Amounts owed by group undertakings and amounts owed to group undertakings are initially measured at fair value and are subsequently measured at amortised cost. The Directors consider that the carrying amounts of the financial assets and financial liabilities recognised in the financial statements approximate their fair values.

20. Immediate and ultimate parent company

The Company's immediate parent undertaking is Sage Holding Company Limited, a company registered in England and Wales.

The ultimate parent undertaking and ultimate controlling party is The Sage Group plc., a company registered in England and Wales. The Sage Group plc. is the largest and smallest group to consolidate these financial statements. Copies of the group financial statements can be obtained from the registered office at C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle-Upon-Tyne, NE28 9EJ.