Registered number: 01045967

SAGE (UK) LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

SAGE (UK) LTD

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2022

Introduction

The Directors present their Strategic Report for Sage (UK) Ltd (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 (UK) Ltd. This is set out within the 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 strength of the business model and delivers organic revenue and margin growth.

Principal activity

The principal activity of the Company is the development, sale, support and maintenance of computer software and associated services.

Fair review of business

The Company achieved a profit on ordinary activities before taxation of £88,514,000 (2021: £102,521,000) from revenue of £351,577,000 (2021: £346,351,000).

Future developments

The external commercial environment is expected to remain competitive during the next financial year. However, the Directors remain confident that the current level of performance will be maintained in the future.

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.

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.

- 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.

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 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. The Company does not use derivative financial instruments to manage interest rate risk and as such, no hedge accounting is applied.

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 shareholders, 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 decisions:

The approval of the payment of an interim dividend of £80,000,000 to its shareholders. In considering the approval of the dividend payment, the Board, amongst other factors, had regard for the Company's capital position, distributable reserves, the Company's key balance sheet items and the need to consider the consequences of decisions in the long term. The Board also considered the interests of its shareholders.

The approval of a corporate simplification project to simplify the Company's group of subsidiaries by eliminating certain entities. In considering the approval of the project, the Board had regard for the Company's shareholders and that the project would reduce on-going administrative costs. The Board further considered colleagues and noted that the subsidiaries proposed for elimination were non-employing entities.

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.

Shareholders

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 shareholders 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.

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:
Christopher Ewen
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Christopher Ewen
Director

Date: 21 December 2022

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 profit for the year, after taxation, amounted to £91,964,000 (2021 - £87,084,000).

Dividends of £80,000,000 were declared and paid during the year (2022: £430,000,000).

Directors

The Directors who served during the year were:

Victoria Louise Bradin
Jacqui Cartin
Christopher Ewen
Paul Struthers

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 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 competitive in this sector. Details of total spend in research and development are included within Note 5 to the financial statements.

Employment policy

The Company continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. This includes, where practicable, the continued employment of those who may become disabled during their employment, and the provision of training and career development and promotion opportunities, where appropriate. For further information please refer to the Plc Annual Report and Accounts available on Sage’s website at sage.com.

Engagement with colleagues

The Company has continued its policy of colleague involvement by making information available and consulting, where appropriate, with colleagues on matters of concern to them. Colleagues regularly receive updates on the financial and economic factors affecting the Group, and conversely the Group regularly seeks feedback from colleagues, including through pulse surveys. Many colleagues participate in Sage’s share option schemes and a long-term Performance Share Plan. Further details of colleague engagement and how the Directors have had regard to employee interests and the effect of that regard on principal decisions taken during the year ended 30 September 2022 are provided on page 2 of the Strategic Report of the Company as the Directors consider them to be of strategic importance.

Engagement with suppliers, customers and others

Details of engagement with stakeholders including suppliers, customers and others in a business relationship with the Copany and information on how the Directors have had regard to their interests and the effect of that regard on principal decisions taken during FY22 are provided on page 3 of the Strategic Report of the Company as the Directors consider them to be of strategic importance.

Greenhouse gas emissions, enegergy consumption and energy efficiency action

The Company is exempt from providing the information required by Schedule 7A to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) in respect of greenhouse gas emissions, energy consumption and action take to increase its energy efficiency in the UK, as the Company is included in the annual report and accounts of The Sage Group plc. for the year ended 30 September 2022 which include the required disclosures.

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 Directors 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.

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 through a forecasted period to 31 December 2023 (“the going concern assessment period”). 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, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence throughout the going concern assessment period. For this reason, they have adopted the going concern basis in preparing the financial statements.

Refer to note 2.1 for further information.

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:
Christopher Ewen
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Christopher Ewen
Director

Date: 21 December 2022

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 (UK) LTD

Opinion

We have audited the financial statements of Sage (UK) Ltd 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 26, 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 profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included the following:

- We understood the process undertaken by management to perform the going concern assessment;
- We obtained management's going concern assessment, including the cash flow forecasts for the going concern period to 31 December 2023 and assessed whether the period applied is appropriate;
- The Company has modelled a base case which is consistent with the assumptions used in the Company's approved budget for FY23; a sensitivity scenario which reduced revenue based on the customer churn and New Customer Acquisition (NCA) assumptions; and a reverse stress test to determine how much additional downside in revenue could be absorbed before a liquidity shortfall occurs;
- We assessed the reasonableness of all key assumptions, with a particular focus on NCA, churn, margin and working capital. This has been performed by:
- checking the arithmetical accuracy of management's model;
- assessing the historical forecasting accuracy of the Company by comparing actual revenue and operating profit to the prior year forecast;
- checking for consistency of the forecasts with other areas of the audit including the impairment assessment.
- We compared current trading performance to management's forecast by obtaining the latest available management accounts to identify any issues with current trading and cash flows;
- We recalculated the results of the sensitivity testing performed by management to determine the impact of reasonably possible fluctuations in key assumptions on the Company's available liquidity;
- We compared the reduction in revenue assumed in the sensitivity scenario presented by management to the revenue achieved in the financial year ended 30 September 2022;
- We recalculated the results of the reverse stress test to establish the level of change in revenue (churn) necessary to cause a liquidity shortfall and considered the likelihood of such a change.
- We reviewed the appropriateness of management's going concern disclosure in describing the risks associated with its ability to continue to operate as a going concern from the date of approval of the financial

statements to 31 December 2023.

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 to 31 December 2023.

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.

- 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
21 December 2022

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Note	**2022 £000**	2021 £000
Revenue	4	**351,577**	346,351
Cost of sales		**(10,072)**	(9,947)
Gross profit		**341,505**	336,404
Selling and administrative expenses		**(254,463)**	(233,430)
Operating profit	5	**87,042**	102,974
Income from shares in group undertakings		**4,705**	-
Amounts written off investments	12	**(1,770)**	-
Finance income	9	**230**	1,270
Finance costs	10	**(1,693)**	(1,723)
Profit before tax		**88,514**	102,521
Income tax credit/(expense)	11	**3,450**	(15,437)
Profit for the financial year		**91,964**	87,084
Total comprehensive income for the year		**91,964**	87,084

The notes on pages 17 to 44 form part of these financial statements.

SAGE (UK) LTD
REGISTERED NUMBER: 01045967

BALANCE SHEET
AS AT 30 SEPTEMBER 2022

	Note	2022 £000	2021 £000
Non current assets			
Investments	12	**52,150**	53,607
Goodwill	13	**95,479**	95,479
Other intangible assets	14	**562**	621
Property plant and equipment	15	**56,409**	64,577
Trade and other receivables - non-current	19	**14,019**	12,659
Deferred tax	16	**2,132**	2,437
		220,751	229,380
Current assets			
Fixed assets held for sale		**-**	9,700
Trade and other receivables	17	**185,341**	178,468
Cash and cash equivalents		**1,086**	2,068
		186,427	190,236
Total assets		**407,178**	419,616
Current liabilities			
Trade and other payables	18	**(52,966)**	(74,344)
Provisions	20	**(81)**	(3,108)
Deferred income	21	**(69,543)**	(69,061)
Lease liabilities	22	**(2,054)**	(2,023)
		(124,644)	(148,536)
Non current liablities			
Provisions	20	**(6,808)**	(6,808)
Deferred income	21	**(3,531)**	(4,895)
Lease liabilities	22	**(22,587)**	(24,462)
		(32,926)	(36,165)
Total liabilities		**(157,570)**	(184,701)
Net assets		**249,608**	234,915

SAGE (UK) LTD
REGISTERED NUMBER: 01045967

BALANCE SHEET (CONTINUED)
AS AT 30 SEPTEMBER 2022

	Note	**2022 £000**	2021 £000
Shareholders equity			
Ordinary shares and preference shares	23	**75,685**	75,685
Share premium		**1,892**	1,892
Other reserves		**231**	231
Retained earnings		**171,800**	157,107
		249,608	234,915

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 21 December 2022.

DocuSigned by:
Christopher Ewen
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Christopher Ewen
Director

The notes on pages 17 to 44 form part of these financial statements.

SAGE (UK) LTD

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

	Ordinary shares and preference shares	Share premium	Other reserves	Retained earnings	Total equity
	£000	£000	£000	£000	£000
At 1 October 2020	**75,685**	**1,892**	**231**	**497,862**	**575,670**
Profit for the year	**-**	**-**	**-**	**87,084**	**87,084**
Employee share option scheme	**-**	**-**	**-**	**2,161**	**2,161**
Total comprehensive income for the year	**-**	**-**	**-**	**89,245**	**89,245**
Dividends paid	**-**	**-**	**-**	**(430,000)**	**(430,000)**
At 30 September 2021	**75,685**	**1,892**	**231**	**157,107**	**234,915**
Profit for the year	**-**	**-**	**-**	**91,964**	**91,964**
Employee share option scheme	**-**	**-**	**-**	**2,729**	**2,729**
Total comprehensive income for the year	**-**	**-**	**-**	**94,693**	**94,693**
Dividends paid	**-**	**-**	**-**	**(80,000)**	**(80,000)**
At 30 September 2022	**75,685**	**1,892**	**231**	**171,800**	**249,608**

The notes on pages 17 to 44 form part of these financial statements.

Retained earnings include £6,222,000 (2021: £3,493,000) of non-distributable reserves.

1. General information

Sage (UK) Ltd (the “Company”) is 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 in conformity with the requirements of the Companies Act 2006 and are available to the public and may be obtained from the address given in note 26.

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.

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. All amounts are presented in Great British Pounds (GBP) and are round to the nearest £’000.

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

The UK Companies Act requires goodwill and intangible assets to be reduced by provisions for depreciation on a systematic basis over a period chosen by the Directors, its useful economic life. However, under IFRS 3 Business Combinations goodwill is not amortised and the Company does not amortise acquired intangibles relating to intellectual property rights given their indefinite life. Consequently, the Company does not amortise goodwill or indefinite lived intangible assets, but reviews them for impairment on an annual basis or whenever there are indicators of impairment. The Company is therefore invoking a ‘true and fair view override’ to overcome the prohibition on the non amortisation of goodwill and intangible assets in the Companies Act. Had the Company amortised goodwill and indefinite lived intangible assets, a period of 20 years would have been chosen as the useful life.

The Directors have assessed the Company's cash flow forecasts for the period to 31 December 2023 and have a reasonable expectation that the Company has adequate resources to continue in operational existence. In reaching this conclusion, the Directors have given due regard to the following:

The Company made a profit for the year ended 30 September 2022 of £91,807,000 and at 30 September 2022 had net current assets of £61,626,000 including cash and cash equivalents of

2. Accounting policies (continued)

2.1 Basis of preparation of financial statements (continued)

£1,086,000 and amounts deposited with Sage Group Treasury of £77,870,000 which is repayable on demand.

The Directors also reviewed the results of reverse stress testing performed to provide an illustration of the level of churn and deterioration in new customer acquisition which would be required to exhuaust the Company's liquidity. The probability of these factors occurring is deemed to be remote given the resilient nature of the Company's subscription business model, robust balance sheet and continued strong cash conversion.

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

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
c. Paragraph 118(e) of IAS 38 Intangible Assets; 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

2. Accounting policies (continued)

2.2 Financial reporting standard 101 - reduced disclosure exemptions (continued)

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 income statement.

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.

Typically, the products and services qualify as separate performance obligations and the portion of the contractual fee allocated to them is recognised separately. However, certain on-premise subscription contracts, which combine the delivery of on-premise software and maintenance and support services, require unbundling. Sage native cloud services usually do not require unbundling as the terms usually do not provide the customer with a right to terminate the hosting contract and take possession of the software.

When selling goods or services, in certain instances, customers pay a non-refundable contract sign-up fee when they enter into a new initial contract for a software product, and no equivalent fee is payable on subsequent renewals. The Company applies judgement in determining whether such sign-up fees provide a material right to the customer that the customer would not receive without entering into that contract. In applying this judgement, the Company considers whether the options entitle the customer to a discount that exceeds the discount that would normally be granted for the respective goods or services if they were to be sold without the option. Where this is the case, the non-refundable contract sign-up fee is treated as a separate performance obligation.

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

2. Accounting policies (continued)

2.4 Revenue (continued)

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.

– Licences for standard on-premise software products are typically delivered by providing the customer with access to download the software. The licence period starts when such access is granted. Licence revenue is recognised at a point in time or over time depending on whether the Company delivers software with significant standalone functionality or software which is dependent on updates for ongoing functionality. The Company recognises revenue for these licences which have significant standalone functionality at the point in time when the customer has access to and thus control over the software. For licences which are dependent on updates for ongoing functionality, the Company recognises revenue based on time elapsed and thus rateably over the term of the contract. Typically, this includes our payroll and tax compliance software.
– 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.
– Non-refundable contract sign-up fees that qualify as separate performance obligations are recognised as revenue over the anticipated period of benefit to the customer of seven years, which takes account of the likelihood of the customer renewing the contract.

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 Sage’s customer. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage'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 Sage.

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

2. Accounting policies (continued)

2.4 Revenue (continued)

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 Sage bears the price, inventory and performance risks associated with the transaction.

Practical expedients

As the majority of contracts have a term of one year or less, any financing component is not considered when determining the transaction price.

2.5 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 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 income statement 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 and vehicles. 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 income statement on a straight-line basis as an operating expense presented within selling and administrative expenses. Where rent payments are prepaid or accrued, their balances

2. Accounting policies (continued)

2.5 Leases (continued)

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 various office and warehouse properties and vehicles, plant and equipment under non-cancellable lease agreements. Leases of properties have a range of lease terms, up to a maximum of 15 years. Other leases are generally for lease terms of 3 or 4 years. Property leases include various contractual terms, most commonly variable lease payments and termination and extension options.

2.6 Finance income

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

2.7 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.

2.8 Taxation

The taxation expense for the year represents the sum of current tax payable and deferred tax. The expense is recognised in the income statement and 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 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. Accounting policies (continued)

2.9 Investments

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

2.10 Goodwill

Goodwill is carried at cost less accumulated impairment losses.

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised.

Goodwill is allocated to CGUs expected to benefit from the synergies of the combination and the allocation represents the lowest level at which goodwill is monitored.

2.11 Other intangible assets

Intangible assets arising on business combinations are recognised initially at cost, which is their fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment losses. The main intangible assets recognised are intellectual property rights and computer software.

Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives.

The estimated useful lives are as follows:

Intellectual property rights	Indefinite
Computer software	4 years

Other intangible assets that are acquired by the Company are stated at cost, which is the asset's purchase price and any directly attributable costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses if applicable. Software assets are amortised on a straight-line basis over their estimated useful lives.

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:

Freehold buildings Up to 50 years
Plant and machinery 2 to 7 years
Motor vehicles 4 years
Fixtures and fittings 2 to 7 years
Right of use assets Shorter of lease term and useful life

Freehold land is not depreciated.

2. Accounting policies (continued)

2.13 Impairment of property, plant and equipment and intangible assets

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 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 amortisation periods range from five to eight years depending on the type of commission arrangement. Amortisation of the capitalised costs of obtaining customer contracts is reported within selling and administrative expenses.

2.15 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 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.

Financial assets and financial liabilities are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial assets.

2.16 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.

2.17 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

2. Accounting policies (continued)

2.17 Trade and other receivables (continued)

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.

2.18 Trade and other payables

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

2.19 Provisions

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.

2.20 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 revenue is unwound as related performance obligations are satisfied.

2.21 Post-employment benefits

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

2. Accounting policies (continued)

2.22 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.

2.23 Share based payments

The Sage Group plc. issues equity-settled share-based payments to certain employees. 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 on a straight-line basis over the vesting period, based on the Company'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 management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company also provides certain employees 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 its 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.

2.24 Dividends

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

2.25 Research and development

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

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.

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

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 investments

Determining whether investments are impaired requires an estimate of the value-in-use or assessment of the assets and liabilities in the investment group. Where an estimate of the value-in-use is used, the key assumptions applied in the calculation relate to the future performance expectations of the business – average medium-term revenue growth, long term operating margin and long-term growth rate – as well as the discount rate to be applied in the calculation.

3. Judgments in applying accounting policies (continued)

The carrying value of investments at 30 September 2022 was £52,150,000 (2020: £53,607,000) and an impairment loss of £1,770,000 was recognised during the year (2021: £nil).

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 £103,637,000 (2021: £108,256,000) and no impairment loss has been recognised in the year (2021: £nil).

4. Revenue

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

	2022 **£000**	2021 £000
Software subscription revenue	**326,505**	315,268
Other recurring revenue	**20,368**	22,989
Other revenue	**4,704**	8,094
	351,577	346,351

Analysis of revenue by country of destination:

	2022 **£000**	2021 £000
United Kingdom	**350,866**	345,201
Rest of Europe	**285**	734
Rest of the world	**426**	416
	351,577	346,351

5. Operating profit

The operating profit is stated after charging:

	2022	2021
	£000	£000
Research & development charged as an expense	**33,559**	31,704
Customer acquisition amortisation expense	**4,329**	3,553
Depreciation of property plant and equipment	**9,687**	14,471
Amortisation of intangibles	**92**	622
Lease expenses for low value assets and short term-leases	**181**	151
Loss on disposal of property, plant and equipment	**140**	38
Auditors' remuneration - audit of the financial statements	**718**	635

The Company has taken the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of its parent The Sage Group plc.

6. Employees

Staff costs, including Directors' remuneration, were as follows:

	2022	2021
	£000	£000
Wages and salaries	**97,898**	94,157
Social security costs	**11,739**	10,737
Cost of defined contribution scheme	**6,075**	5,681
Equity-settled share based payments	**2,729**	2,161
	118,441	112,736

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

	2022	2021
	No.	*No.*
Research and development	**405**	402
Field sales	**272**	340
Sales support/customer service	**663**	660
Training	**47**	64
Marketing	**168**	165
Finance	**102**	104
IT	**57**	75
Administration	**76**	79
	1,790	1,889

7. Directors' remuneration

The Directors’ aggregate remuneration in respect of qualifying services were:

	2022 **£000**	2021 £000
Directors' emoluments	**1,174**	775
Company contributions to defined contribution pension schemes	**79**	68
	1,253	843

Retirement benefits under defined contribution schemes are accruing to two Directors of the Company.

During the year no share options were exercised (2021: nil). One director received shares in respect of long-term incentive schemes (2021: 1).

8. 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 employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions of £6,075,000 (2021: £5,681,000) in respect to the current year are included in the statement of comprehensive income. Contributions of £1,050,000 (2021: £930,000) were outstanding at the balance sheet date.

9. Finance income

	2022 **£000**	2021 £000
Interest receivable from group companies	**230**	1,270
	230	1,270

10. Finance costs

	2022 £000	2021 £000
Bank interest payable	**583**	695
Interest payable to group undertakings	**51**	724
Other loan interest payable	**10**	3
Net foreign exchange losses	**574**	122
Interest charge on lease liabilities	**475**	179
	1,693	1,723

11. Taxation

	2022 £000	2021 £000
Corporation tax		
Current tax on profits for the year	**145**	16,859
Adjustments in respect of previous periods	**(3,900)**	(2,435)
Total current tax	**(3,755)**	14,424
Deferred tax		
Origination and reversal of timing differences	**(969)**	(535)
Adjustment in respoect of prior periods	**1,274**	1,548
Total deferred tax	**305**	1,013
Taxation on profit on ordinary activities	**(3,450)**	15,437

11. Taxation (continued)

Factors affecting tax charge for the year

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

	2022	2021
	£000	£000
Profit on ordinary activities before tax	**88,514**	102,522
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	**16,818**	19,479
Effects of:		
Expenses not deductible for tax purposes	**(498)**	1,738
Adjustments to tax charge in respect of prior periods	**(2,626)**	(888)
Patent box adjustment	**(4,097)**	(3,744)
Group relief utilised not paid	**(12,879)**	(1,148)
Impact of tax law changes	**(168)**	-
Total tax (credit)/charge for the year	**(3,450)**	15,437

Factors that may affect future tax charges

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

12. Investments

Investments represent shares held in subsidiary undertakings

	£000
Cost	
At 1 October 2021	**53,607**
Additions	**313**
At 30 September 2022	**53,920**
Impairment	
Charge for the period	**1,770**
At 30 September 2022	**1,770**
Net book value	
At 30 September 2022	**52,150**
At 30 September 2021	53,607

On 13 May 2022, the Company made an investment of £313,000 in ACCPAC UK Limited followed by immediate impairment due to the liquidation of ACCPAC UK Ltd entity.

An impairment loss of £1,770,000 has been recognised during the year (2021: £nil). £1,457,000 of the impairment recognised relates to the Company's investment in Protx Limited, £313,000 relates to the Company's investment in ACCPAC UK Limited.

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
TAS Software Limited *(in liquidation)	3 Field Court, Grays Inn, London, WC1R 5EF	Ordinary	100%
Multisoft Financial Systems Limited *(in liquidation)	3 Field Court, Grays Inn, London, WC1R 5EF	Ordinary	100%
Sage Management Limited *(in liquidation)	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom	Ordinary	100%
ACCPAC UK Limited *(in liquidation)	3 Field Court, Grays Inn, London, WC1R 5EF	Ordinary	100%
Sage Hibernia Investments No.1 Limited *	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom	Ordinary	100%

12. Investments (continued)

Subsidiary undertakings (continued)

Name	Registered office	Class of shares	Holding
Sage Hibernia Investments No.2 Limited *	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom	Ordinary	100%
Protx Group Limited *	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom	Ordinary	100%
KCS Global Holdings Limited *(in liquidation)	3 Field Court, Grays Inn, London, WC1R 5EF	Ordinary & Preference	100%
Snowdrop Systems Ltd *	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom	Ordinary	100%
Sage CRM Solutions Limited *(in liquiidation)	3 Field Court, Grays Inn, London, WC1R 5EF	Ordinary	100%
IntelligentApps Holdings Ltd *	2 Bayside Executive Park, West Bay Street & Blake Road, Nassau, Bahamas	Ordinary	100%
Snowdrop Systems Pty Limited	Level 17, 100 Barangaroo Avenue, Barangaroo, NSW 2000, Australia	Ordinary	100%
Protx Limited (in liquidation)	3 Field Court, Grays Inn, London, WC1R 5EF	Ordinary	100%
Tonwomp Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland	Ordinary	100%
TAS Software Ltd	Number One, Central Park, Leopardstown, Dublin 18, Ireland	Ordinary	100%
Sage Hibernia Ltd	Number One, Central Park, Leopardstown, Dublin 18, Ireland	Ordinary	100%
Sage Technologies Ltd	Number One, Central Park, Leopardstown, Dublin 18, Ireland	Ordinary	100%
eWare GmbH	Untere Weidenstr, 5, c/o RAe Becker & Koll., 81543, Munchen, Germany	Ordinary	100%

* Direct subsidiary

13. Goodwill

	2022 £000
Cost	
At 1 October 2021	**95,479**
At 30 September 2022	**95,479**
Net book value	
At 30 September 2022	**95,479**
At 30 September 2021	95,479
	95,479

Goodwill represents the excess of acquisition cost of an acquired company over the fair value of assets acquired and liabilities assumed.

Goodwill impairment

The cash generating unit (CGU) for the the purpose of testing impairment of goodwill has been assessed as the Company. The recoverable amount of the CGU is determined as the higher of fair value less cost to sell and the value-in-use. In determining value-in-use, estimated future cash flows are discounted to their present value.

The 2023 budget and the approved plan for the three years following the current financial year form the basis for the cash flow projections for the CGU. Beyond the three year plan these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value-in-use calculations are the average medium-term revenue growth rate of 11.4% (2021: 11.5%) and the long-term growth rate of net operating cash flows of 1.2% (2021: 2.1%).

The Company uses a discount rate based on the Weighted Average Cost of Capital (WACC), applying UK government yield bonds and tax rates. The discount rate applied represents a post-tax rate that reflects the market assessment of the time value of money and the risks specific to the Company. The discount rate applied was 7.8% (2021: 7.7%).

The Company performed its annual test for impairment as at 30 June 2022 and the recoverable amount exceeded the carrying value.

A sensitivity analysis was also performed, and the Directors believe that no reasonably possible change in any of the key assumptions would cause the carrying value to exceed its recoverable amount.

14. Other intangible assets

	Computer software £000	Other £000	Total £000
Cost			
At 1 October 2021	**6,463**	**397**	**6,860**
Additions - external	**33**	**-**	**33**
Disposals	**(5,481)**	**-**	**(5,481)**
At 30 September 2022	**1,015**	**397**	**1,412**
Amortisation			
At 1 October 2021	**6,239**	**-**	**6,239**
Charge for the year on owned assets	**92**	**-**	**92**
On disposals	**(5,481)**	**-**	**(5,481)**
At 30 September 2022	**850**	**-**	**850**
Net book value			
At 30 September 2022	**165**	**397**	**562**
At 30 September 2021	224	397	621

Other represents intellectual property rights.

The amortisation charge in the year has been recognised through selling and administrative expenses.

15. Property plant and equipment

	Plant and equipment £000	Fixtures and fittings £000	Assets under construction £000	Right of use leasehold property £000	Total £000
Cost					
At 1 October 2021	**62,938**	**6,081**	**632**	**26,917**	**96,568**
Additions	**1,591**	**26**	**362**	**-**	**1,979**
Disposals	**(18,589)**	**-**	**(263)**	**-**	**(18,852)**
Transfers between classes	**324**	**44**	**(368)**	**-**	**-**
At 30 September 2022	**46,264**	**6,151**	**363**	**26,917**	**79,695**
Depreciation					
At 1 October 2021	**28,642**	**2,294**	**-**	**1,055**	**31,991**
Charge for the year on owned assets	**5,982**	**675**	**-**	**-**	**6,657**
Charge for the year on right-of-use assets	**-**	**-**	**-**	**3,030**	**3,030**
Disposals	**(18,392)**	**-**	**-**	**-**	**(18,392)**
At 30 September 2022	**16,232**	**2,969**	**-**	**4,085**	**23,286**
Net book value					
At 30 September 2022	**30,032**	**3,182**	**363**	**22,832**	**56,409**
At 30 September 2021	34,296	3,787	632	25,862	64,577

The total cash outflow for leases in the period was £2,500,000 (2021: £1,051,000).

16. Deferred taxation

Deferred tax assets as at 30 September 2022 were as follows:

	2022 **£000**	*2021* £000
At beginning of year	**2,437**	3,450
Charged to profit or loss	**(305)**	(1,013)
At end of year	**2,132**	2,437

The movements in deferred tax assets and liabilities (after the offsetting of balances within the same jurisdiction as permitted by IAS 12, "Income Taxes") during the year are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets categorised as "other deferred tax" of £172,000 (2021: £939,000) includes various sundry balances in relation to temporary differences on accounting provisions/accruals.
The deferred tax asset is made up as follows:

	2022 **£000**	2021 £000
Fixed assets	**1,093**	934
Share based payments	**867**	564
Other	**172**	939
	2,132	2,437

17. Trade and other receivables

	2022 £000	2021 £000
Trade receivables	**49,780**	50,205
Less: provision for impairment of receivables	**(2,315)**	(4,881)
Trade receivables - net	**47,465**	45,324
Amounts owed by group undertakings	**103,637**	108,256
Other debtors	**1,228**	1,154
Prepayments and accrued income	**4,136**	2,711
Corporation tax receivable	**28,877**	21,023
	185,343	178,468

Amounts owed by group undertakings are unsecured and are repayable on demand. Interest, where appropriate, is received at a treasury rate advised by The Sage Group plc.

18. Trade and other payables

	2022 £000	2021 £000
Bank overdrafts	**12**	14
Trade payables	**5,818**	7,745
Amounts owed to group undertakings	**10,970**	28,514
Other taxation and social security	**27,042**	24,908
Other creditors	**1,492**	1,812
Accruals	**7,632**	11,351
	52,966	74,344

Amounts owed to group undertakings are unsecured and are repayable on demand. Interest, where appropriate, is charged at a treasury rate advised by The Sage Group plc.

19. Trade and other receivables - non-current

	2022 £000	2021 £000
Customer acquisition costs	**14,019**	12,659
	14,019	12,659

20. Provisions

	Building £000	Restructuring £000	Total £000
At 1 October 2021	**6,808**	**3,108**	**9,916**
Charged to profit or loss	**-**	**(703)**	**(703)**
Utilised in year	**-**	**(2,324)**	**(2,324)**
At 30 September 2022	**6,808**	**81**	**6,889**

Building provisions relate to estimated costs for dilapidation of leased properties. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination. The total balance outstanding at year end of £6,808,000 is classed as non-current and is expected to be fully utilised by 31 December 2034.

Restructuring provisions relate to redudancy costs. The total balance outstanding at year end of £81,000 is classed as current and is expected to be fully utilised within the next financial period.

21. Deferred income

The aging profile of deferred income is as follows:

	2022 £000	2021 £000
Within 1 year	**69,543**	69,061
1-2 years	**1,660**	1,687
2-5 years	**1,844**	3,118
> 5 years	**27**	90
	73,074	73,956

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

22. Leases

The maturity profile of the undiscounted contractual amount of the Company's lease liabilities at 30 September was as follows:

	2022 **£000**	2021 £000
< 1 year	**2,500**	2,498
2 - 5 years	**11,754**	11,708
> 5 years	**12,842**	15,488
	27,096	29,694

23. Ordinary shares

	2022 **£000**	2021 £000
Allotted, called up and fully paid		
48,685,270 (2021 - 48,685,270) Ordinary shares of £1.00 each	**48,685**	48,685
27,000,000 (2021 - 27,000,000) Preference shares of £1.00 each	**27,000**	27,000
	75,685	75,685

Preference shares have attached to them priority dividend and capital distribution (including winding up) rights ahead of the ordinary shares; they do not confer any voting rights or rights of redemption.

24. 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%, 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.

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.

25. 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 of the Company consider that the carry amounts of the financial assets and financial liabilities recognised in the financial statements approximate their fair values.

26. 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 The Sage Group plc., C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ.