Registered number: 06221457

SAGE PEOPLE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

Introduction

The Directors of Sage People Limited (the “Directors”) present their Strategic Report on Sage People Limited (the “Company") for the year ended 30 September 2020. 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"). This is set out within the The Sage Group plc. Annual Report and Accounts for the year ended 30 September 2020 (the “FY20 Annual Report and Accounts”), which does not form part of this report. The business has a clearly defined strategy to respond to the changes taking place in technology and in the markets in which it operates in a way that leverages the strengths of the business model and delivers organic revenue and margin growth.

Principal activity

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

Around half of the revenue is from customers headquartered outside the UK, with end users in over 130 countries.

Fair review of business

The Company incurred a loss on ordinary activities before taxation of £9,407,000 (2019: £4,393,000) on a turnover of £24,291,000 (2019: £23,759,000).

Please see the Directors' Report for consideration around the impact of COVID-19.

Future developments

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

Principal risks and uncertainties

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

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

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

- Understanding Customer Needs
- Execution of Product Strategy
- Innovation
- Route to Market
- Customer Success
- Third Party Reliance

- People and Performance
- Culture
- Cyber Security & Data Privacy
- Data Strategy
- Live Services Management

The background, management and mitigation process are disclosed in the The Sage Group plc. FY20 Annual Report and Accounts.

Financial instruments

Financial risk management

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

Credit risk

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

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

Interest rate risk

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

Key performance indicators

The directors of The Sage Group plc. manage and measure the Group's operations on a regional and segmental basis. For this reason, the Directors believe that analysis using key performance indicators 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 FY20 Annual Report and Accounts.

Section 172(1) statement

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

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

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

Sage is the global market leader for technology that provides small and medium businesses with the visibility, flexibility and efficiency to manage finances, operations and people. Working alongside its partners, Sage is trusted by millions of customers worldwide to deliver the best cloud technology and support. Sage's years of experience mean that colleagues and partners understand how to serve its customers and communities through the good as well as the more challenging times. Sage's purpose is to transform the way people think and work so their organisations can thrive, and its vision is to become a great SaaS company for all its stakeholders.

The Company, as part of Sage, looks to operate within and support this culture. The Directors are responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company and Sage 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, the community, the environment 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 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 2020 the Directors approved, amongst others, the following decisions: the transfer of the Company's contracts with the customers in the US and Canada to its affiliate Sage Intacct, Inc., another member of Sage, to reflect Sage's new operating model under which sales of Sage's native cloud solutions in the US are consolidated under Intacct, the appointment of additional directors to broaden the skills and experience of the Company's board and the approval of the Company's annual report and accounts for the year ended 30 September 2019.

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 Sage, including the Company, has a wide range of stakeholders that it needs to have regard to when fulfilling their duties. For each matter which comes before the Directors, stakeholders who may be affected are identified and their interests are carefully considered as part of the decision-making process. The Directors are committed to effective engagement with all stakeholders of the Company and acknowledge that, as part of Sage, engagement activities are mostly carried out at Group level. 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 FY20 Annual Report and Accounts.

Investors
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. The Company's ultimate parent is The Sage Group plc. and effective engagement with Sage's investors is maintained at Group level. You can read more about Sage's engagement with investors on page 95 of the FY20 Annual Report and Accounts available on Sage's website at sage.com.

Colleagues
The Directors recognise that colleagues are a key resource of the Company and Sage more widely. They are dedicated to creating, selling, and supporting solutions that free Sage's customers from the burden of administration so that their businesses can thrive. Engagement with the Company's employees during the year ended 30 September 2020 were integrated into Sage colleagues' engagement activities and included, amongst other things, Sage TV broadcasts, presentations of strategy, quarterly performance updates and pulse surveys. Significant focus was placed on ensuring colleagues were moved safely to a working from home environment due to the Covid-19 pandemic, that morale was being maintained and colleagues kept connected. The Directors value diversity in all its forms and endeavour to promote an inclusive culture amongst colleagues. You can read more about Sage's engagement with colleagues on pages 94 to 96 of the FY20 Annual Report and Accounts available on Sage's website at sage.com.

Customers
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 and Sage. They are the small and medium-sized businesses which are the growth engine of the economy, and the professionals who rely on Sage to help them deliver a great service to their clients, whatever their size. As the Covid-19 pandemic developed, the impact on customers has been kept under constant review and actions were taken at Group level to support customers with payment holidays and deferrals and to provide information and support on accessing government assistance. You can read more about Sage's engagement with customers on page 97 of the FY20 Annual Report and Accounts available on Sage's website at sage.com.

Partners
The Company has no partners itself. The Directors are cognisant that partners are crucial to Sage's success and effective engagement is maintained at Group level. You can read more about Sage's engagement with partners on page 98 of the FY20 Annual Report and Accounts available on Sage's website at sage.com.

Communities and the Environment
The Directors recognise that Sage is committed to managing the Group's use of resources proactively to minimise environmental impact and continues to review and develop the Group's corporate sustainability strategy. Sage's culture and commitment to doing business the right way is notably demonstrated through the work of the Sage Foundation, which combines charitable giving and supporting colleague engagement with non-profit organisations delivering change. You can read more about Sage's engagement with communities and its impact on the environment on pages 98 and 99 of the FY20 Annual Report and Accounts available on Sage's website at sage.com.

In addition to the above stakeholders, it is recognised that other groups of stakeholders could also be relevant to the Company's and Sage'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 for instance are significant to the Company and Sage, and therefore the Company seeks to develop and foster business relationships with them to maximise value and efficiency. Sage implements a thorough supplier onboarding process and procurement lifecycle through Sage's governance model. Sage has also developed a 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.

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

DocuSigned by:
Jon Kirkup
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Jonathan Kirkup
Director

Date: 17 December 2020

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

The Directors present their report and the financial statements for the year ended 30 September 2020.

Dividends

The Directors do not recommend payment of a dividend (2019: nil).

Research and development activities

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

Directors

The Directors who served during the year were:

Victoria Louise Bradin
Christopher Ewen (appointed 12 March 2020)
Sabby Gill (appointed 12 March 2020, resigned 30 September 2020)
Sarah Jane Rolls (resigned 30 September 2020)
Julia McDonough (resigned 1 March 2020)

Jonathan Kirkup and Paul Struthers were appointed as Directors of the Company on 23 October 2020.

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 2020, 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.

Engagement with colleagues

Sage 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 2020 are provided on pages 1 to 4 of the Strategic Report of the Company as the Directors consider them to be of strategic importance with further information on pages 94 and 96 of the FY20 Annual Report and Accounts available on Sage’s website at sage.com.

Engagement with suppliers, customers and others

Details of engagement with stakeholders including suppliers, customers and others in a business relationship with Sage and information on how the Directors have had regard to their interests and the effect of that regard on principal decisions taken during FY20 are provided on pages 1 to 4 of the Strategic Report of the Company as the Directors consider them to be of strategic importance with further information on pages 97 to 99 of the FY20 Annual Report and Accounts available on Sage’s website at sage.com.

COVID-19

Early in the COVID-19 crisis, the Group moved decisively to protect the health and wellbeing of our colleagues, and to provide continued support to our customers and partners. While the pandemic continues to create uncertainty for small and medium businesses, moderating the Group's growth in the short-term, our consistent focus on customer success has supported our performance to date.

At the same time, the pace of digital transformation among small and medium businesses is increasing, and delivering Sage Business Cloud innovations as scheduled throughout the year has positioned the Group well to support customers as they adopt new digital solutions. In FY21, the Group's planned investment in Sage Business Cloud and particularly in cloud native solutions, together with continued focus on embedding SaaS capability and culture, are expected to drive further progress on our journey to becoming a great SaaS company.

Going concern

The Directors have considered the going concern assumption in preparing the financial statements, which included consideration of COVID-19 impacts on the Company. The Company incurred a loss for the year ended 30 September 2020 of £9,431,000 and had net liabilities of £17,318,000 at 30 September 2020. The Directors remain satisfied that the going concern basis of preparation is appropriate. However, as the COVID-19 pandemic currently continues, the Company's ultimate parent, The Sage Group plc., has provided the Company a letter of support for a period of 12 months from the date of this report, to enable the Company to meet its liabilities as and when they become due, as a means to provide the Directors with further confidence that the going concern basis of preparation is appropriate.

Post balance sheet events

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

Disclosure of information to the auditor

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

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

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

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

DocuSigned by:
Jon Kirkup
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Jonathan Kirkup
Director

Date: 17 December 2020

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

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 AUDITORS' REPORT TO THE MEMBERS OF SAGE PEOPLE LIMITED

Opinion
We have audited the financial statements of Sage People Limited for the year ended 30 September 2020 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 September 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

Other information
The other information comprises the information included in the Strategic Report and Directors' Report set out on pages 1 to 6, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of 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 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 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 7, 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.

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.

Ernst & Young LLP

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

17 December 2020

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Note	**2020 £000**	2019 £000
Revenue	4	**24,291**	23,759
Cost of sales		**(6,899)**	(4,941)
Gross profit		**17,392**	18,818
Selling and administrative expenses		**(29,353)**	(23,495)
Profit on disposal of customer contracts		**2,340**	-
Operating loss	5	**(9,621)**	(4,677)
Finance income	8	**536**	328
Finance costs	9	**(322)**	(44)
Loss before income tax		**(9,407)**	(4,393)
Income tax credit/(expense)	10	**(24)**	(2)
Loss for the financial year		**(9,431)**	(4,395)
Total comprehensive income for the year		**(9,431)**	(4,395)

The notes on pages 14 to 34 form part of these financial statements.

SAGE PEOPLE LIMITED
REGISTERED NUMBER: 06221457

BALANCE SHEET
AS AT 30 SEPTEMBER 2020

	Note	2020 £000	2019 £000
Non current assets			
Investments	11	**-**	-
Property, plant and equipment	12	**331**	336
Customer acquisition costs		**2,157**	1,933
		2,488	2,269
Current assets			
Trade and other receivables	13	**40,712**	46,427
Cash and cash equivalents		**338**	4,694
		41,050	51,121
Total assets		**43,538**	53,390
Current liabilities			
Trade and other payables	14	**(45,879)**	(42,969)
Provisions	15	**(169)**	-
Deferred income	16	**(14,671)**	(18,271)
Lease liabilities		**(137)**	-
		(60,856)	(61,240)
Non current liabilites			
Deferred income	16	**-**	(139)
		-	(139)
Total liabilities		**(60,856)**	(61,379)
Net liabilities		**(17,318)**	(7,989)
Shareholders equity			
Ordinary shares	17	**6**	6
Share premium	17	**17,937**	17,937
Other reserves	17	**11,581**	11,581
Retained earnings	17	**(46,842)**	(37,513)
		(17,318)	(7,989)

BALANCE SHEET (CONTINUED)
AS AT 30 SEPTEMBER 2020

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

DocuSigned by:
Jon Kirkup
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Jonathan Kirkup
Director
Date: 17 December 2020

The notes on pages 14 to 34 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Ordinary shares £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 October 2018	**6**	**17,937**	**11,581**	**(34,338)**	**(4,814)**
Adjustment on initial application of IFRS 15 net of tax	-	-	-	1,165	1,165
At 1 October 2018 as adjusted	**6**	**17,937**	**11,581**	**(33,173)**	**(3,649)**
Loss for the year	-	-	-	(4,395)	(4,395)
Employee share option scheme	-	-	-	55	55
Total comprehensive income for the year	-	-	-	(4,340)	(4,340)
At 1 October 2019	**6**	**17,937**	**11,581**	**(37,513)**	**(7,989)**
Adjustment on initial application of IFRS 16 net of tax (Note 2.3)	-	-	-	(31)	(31)
At 1 October 2019 as adjusted	**6**	**17,937**	**11,581**	**(37,544)**	**(8,020)**
Loss for the year	-	-	-	(9,431)	(9,431)
Share based payments	-	-	-	133	133
Total comprehensive income for the year	-	-	-	(9,298)	(9,298)
At 30 September 2020	**6**	**17,937**	**11,581**	**(46,842)**	**(17,318)**

The notes on pages 14 to 34 form part of these financial statements.

1. General information

Sage People Limited (the "Company") is a company incorporated and domiciled in England, it is a private company limited by shares and the Company's registered address is North Park, Newcastle upon Tyne, NE13 9AA.

2. Accounting policies

2.1 Basis of preparation of financial statements

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where the FRS 101 disclosure exemptions have been taken.
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 Financial Reporting Standards and are available to the public and may be obtained from the address given in note 20.

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. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Great British Pounds, which is the Company's functional and presentation currency. All amounts are presented in Great British Pounds (GBP) and are rounded to the nearest £'000.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The financial statements are prepared on a going concern basis and in accordance with the Companies Act 2006.

The Directors have considered the going concern assumption in preparing the financial statements, which included consideration of COVID-19 impacts on the Company. The Company incurred a loss for the year ended 30 September 2020 of £9,431,000 and had net liabilities of £17,318,000 at 30 September 2020. The Directors remain satisfied that the going concern basis of preparation is appropriate. However, as the COVID-19 pandemic currently continues, the Company's ultimate parent, The Sage Group plc., has provided the Company a letter of support for a period of 12 months from the date of this report, to enable the Company to meet its liabilities as and when they become due, as a means to provide the Directors with further confidence that the going concern basis of

2. Accounting policies (continued)

2.1 Basis of preparation of financial statements (continued)

preparation is appropriate.

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 has applied the exemptions available under FRS 101 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 presentated separately for lease liabilities and other liabilities, and in total.
• Disclosures in respect of capital management, as required by paragraphs 134 to 136 of IAS 1 Presentation of financial statements;
• The effects of new but not yet effective IFRSs, as required by paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors;
• Disclosures in respect of the compensation of Key Management Personnel, as required by paragraph 17 of IAS 24 Related Party Disclosures; and
• Disclosures of transactions with a management entity that provides key management personnel services to the Company, as required by paragraph 17 of IAS 24 Related Party Disclosures;
• The requirements of paragraphs 130(f)(ii), 130(f)(iii) 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

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

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

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

2. Accounting policies (continued)

2.3 Impact of new international reporting standards, amendments and interpretations

IFRS 16

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 October 2019.

The following tables summarise the impacts of adopting new reporting standards on the Company's financial statements.

Balance Sheet (extract)

	30 September 2019 As originally presented £000	IFRS 16 £000	1 October 2019 Adjusted balance £000
Non current assets			
Property plant and equipment	336	366	702
Customer acquisition costs	1,933	-	1,933
Deferred tax assets	-	7	7
	2,269	373	2,642
Current assets			
Trade and other receivables	46,427	-	46,427
Cash and cash equivalents	4,694	-	4,694
	51,121	-	51,121
Total assets	53,390	373	53,763
Trade and other payables - current	(42,969)	-	(42,969)
Deferred income - current	(18,271)	-	(18,271)
Lease liabilities - current	-	(404)	(404)
Deferred income - non-current	(139)	-	(139)
Net liabilities	(7,989)	(31)	(8,020)
Equity attributable to the owners of the parent			
Ordinary shares	6	-	6
Share premium	17,937	-	17,937

2. Accounting policies (continued)

2.3 Impact of new international reporting standards, amendments and interpretations (continued)

Balance Sheet (extract) (continued)

	30 September 2019 As originally presented £000	IFRS 16 £000	1 October 2019 Adjusted balance £000
Other reserves	11,581	-	11,581
Retained earnings	(37,513)	(31)	(37,544)
	(7,989)	(31)	(8,020)

On transition to IFRS 16, the Company has measured its lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR). The standard permitted a choice on initial adoption of measuring lease assets either as if IFRS 16 had been applied since lease commencement but discounted using the IBR at 1 October 2019, or at an amount equal to the lease liability at 1 October 2019 adjusted for accrued or prepaid lease payments. The assets for the Company's property leases have been measured as if IFRS 16 had always been in place.

The Company has made use of the following practical expedients available when the modified retrospective approach is applied to accounting for the transition to IFRS 16:

• For all leases, the Company has excluded from the measurement of the right-of-use asset initial direct costs incurred when obtaining the lease; and
• The Company has relied on its existing onerous lease assessments under IAS 37 to impair right-of-use assets instead of performing a new impairment assessment for those assets.

Key judgements made in calculating the transition impact include determining the lease term for property leases with extension or termination options. An extension period or a period beyond a termination option were included in the lease term only if the lease was reasonably certain to be extended or not terminated. This was assessed by taking account mainly of the time remaining before the option was exercisable; any economic disadvantages or benefits to exercise such as penalties or low rent payments; and operational plans for the location. In most cases, this resulted in lease terms being assumed to end at the next break date until an operational decision to extend or terminate, unless termination would incur penalties.

The main estimate made on transition was in determining the incremental borrowing rates used as discount rates for property leases. The incremental borrowing rate is the rate of interest that the Company would have to pay in order to borrow funds to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, over a similar term and with a similar security. The incremental borrowing rate applied to each lease was determined based on the UK risk-free rate adjusted to reflect the credit risk of the Company and the lease term remaining at 1 October 2019.

2. Accounting policies (continued)

2.4 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.

2.5 Revenue

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

Identification of performance obligations

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

Determination of transaction price and standalone selling prices

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

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

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

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

2. Accounting policies (continued)

2.5 Revenue (continued)

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. This is usually assessed based on whether the business partner has responsibility for payment and takes on the risks and rewards of the product 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 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

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

2.6 Cost of sales

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

2.7 Leases

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

2. Accounting policies (continued)

2.7 Leases (continued)

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. When IFRS 16 is applied for the first time, the standard permits certain departures from these policies as practical expedients.

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. 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 are reported under prepayments and accruals respectively. The low value exemption has been applied to most of the Company’s leases of IT and other office equipment.

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

2.8 Finance income

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

2.9 Finance costs

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

2.10 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 and its fellow group undertakings are able to relieve their tax losses by surrendering

2. Accounting policies (continued)

2.10 Taxation (continued)

them to other group companies, within the UK corporation tax group, where capacity to utilise these losses exists.

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

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

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

2.11 Investments

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

2.12 Property, plant and equipment

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

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

An item of property, plant and equipment is reviewed for impairment whenever events indicate that its carrying value may not be recoverable.

2. Accounting policies (continued)

2.13 Trade and other receivables

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

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

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

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

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

2.14 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.

2.15 Trade and other payables

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

2.16 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 period is determined at seven years. Amortisation of the capitalised costs of obtaining customer contracts is reported within selling and administrative expenses.

2. Accounting policies (continued)

2.17 Provisions for liabilities

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

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

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

2.18 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.

2.19 Post-employment benefits

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

2.20 Financial instruments

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

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

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.

2.21 Equity

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

2.22 Share based payments

The Sage Group plc. issues equity-settled share-based payments to certain employees. 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-

2. Accounting policies (continued)

2.22 Share based payments (continued)

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.

At the end of each reporting period, the entity revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.23 Dividends

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

2.24 Research and development

Research and development expenditures are recognised as an expense in the year in which they are incurred.

2.25 Borrowing costs

All borrowing costs are recognised in profit or loss in the year in which they are incurred.

3. Judgements in applying accounting policies

The following are the key 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 Group. The key criteria in this determination is whether the business partner has taken control of the product, which is usually assessed based on whether the business partner has responsibility for payment and takes on the risks and rewards of the product from Sage. Where the business partner is a customer of Sage, discounts are recognised as a deduction from revenue. Where the business partner is not a customer of Sage and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment.

3. Judgments in applying accounting policies (continued)

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 Group 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 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 Group 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. 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 amounts owed by group undertakings

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 2020 was £28,873,000 (2019: £31,144,000) and no impairment loss has been recognised (2019: £nil).

4. Revenue

	2020 £000	2019 £000
Revenue	**24,291**	23,759
	24,291	23,759

Analysis of turnover by country of destination:

	2020 £000	2019 £000
United Kingdom	**12,929**	13,333
Rest of Europe	**4,225**	4,349
Rest of the world	**7,137**	6,077
	24,291	23,759

5. Operating loss

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

	2020 £000	2019 £000
Research and development expense	**8,101**	6,121
Research and development tax (credit)	**(133)**	(337)
Depreciation of property plant and equipment	**368**	145
Net foreign exchange (gains)	**(110)**	(80)
Auditor's remuneration - audit services	**30**	30
Operating lease costs	**101**	314

During the period, the Company recognised profit of £2,340,000 relating to the transfer of the Company's contracts with the customers in the US and Canada to its affiliate Sage Intacct, Inc.

6. Employees

Staff costs were as follows:

	2020	2019
	£000	£000
Wages and salaries	**14,002**	14,406
Social security costs	**1,538**	1,416
Other pension costs	**886**	739
Equity-settled share-based payments	**133**	55
	16,559	16,616

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

	2020	2019
	No.	*No.*
Research and development	**92**	71
Field sales	**35**	39
Sales support/customer service	**41**	62
Training	**3**	4
Marketing	**11**	15
Finance	**5**	3
IT	**-**	1
Administration	**16**	2
	203	197

The directors did not receive any emoluments during the year in respect of their services to the Company (2019: £nil).

7. Post-employment benefits

The majority of the Company's employees are members of defined contribution schemes. The Company pays contributions into separate funds on behalf of the employees and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions of £886,000 (2019: £739,000) in respect to the current year are included in the income statement. Contributions of £141,000 (2019: £115,000) are outstanding at the balance sheet date.

8. Finance income

	2020 £000	2019 £000
Interest receivable from group companies	**536**	328
	536	328

9. Finance costs

	2020 £000	2019 £000
Bank fees	**8**	1
Net foreign exchange losses	**311**	43
Interest charge on lease liabilities	**3**	-
	322	44

10. Taxation

	2020 £000	2019 £000
Corporation tax		
Current tax on profits for the year	**16**	-
Adjustments in respect of previous periods	**8**	2
Total current tax	**24**	2
Deferred tax		
Total deferred tax	**-**	-
Taxation on profit on ordinary activities	**24**	2

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £000	2019 £000
Loss on ordinary activities before tax	**(9,408)**	(4,393)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	**(1,787)**	(835)
Effects of:		
Expenses not deductible for tax purposes	**59**	7
Other timing differences	**8**	180
Prior year adjustment	**8**	2
Imputed interest	**5**	-
Withholding tax	**16**	-
Group relief surrendered for no payment	**1,715**	648
Total tax (credit)/charge for the year	**24**	2

Factors that may affect future tax charges

The Company has a potential deferred tax asset relating to short-term and fixed asset timing differences as well as historic losses of £1,627,521 (2019: £1,456,381).

On 11 March 2020 the government substantively enacted the future rate of corporation tax in the UK to remain at 19% from 1 April 2020 as well as financial year beginning 1 April 2021.

11. Investments

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

Name	Registered office	Class of shares	Holding
Sage People, Inc.	271, 17th Street NW, Suite 1100, Atlanta, Georgia, 30363, United States	Ordinary	100 %

12. Property, plant and equipment

	Leasehold improvements £000	Computer equipment £000	Fixtures and fittings £000	Right-of-use asset - Buildings £000	Total £000
Cost or valuation					
At 1 October 2019	**29**	**347**	**299**	**-**	**675**
Impact of change in accounting policy	**-**	**-**	**-**	**366**	**366**
At 1 October 2019 (adjusted balance)	**29**	**347**	**299**	**366**	**1,041**
Additions	**-**	**-**	**7**	**-**	**7**
Disposals	**-**	**(10)**	**-**	**-**	**(10)**
At 30 September 2020	**29**	**337**	**306**	**366**	**1,038**
Depreciation					
At 1 October 2019	**15**	**253**	**71**	**-**	**339**
Charge for the year on owned assets	**10**	**60**	**43**	**-**	**113**
Charge for the year on right-of-use assets	**-**	**-**	**-**	**255**	**255**
At 30 September 2020	**25**	**313**	**114**	**255**	**707**
Net book value					
At 30 September 2020	**4**	**24**	**192**	**111**	**331**
At 30 September 2019	14	94	228	-	336

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

The total cash outflow for leases in the period was £270,000.

13. Trade and other receivables

	2020 £000	2019 £000
Trade receivables	**12,333**	15,491
Less: provision for impairment of receivables	**(1,208)**	(1,047)
Trade receivables - net	**11,125**	14,444
Amounts owed by group undertakings	**28,873**	31,144
Other debtors	**2**	18
Prepayments and accrued income	**456**	282
Corporation tax receivable	**-**	50
Contract assets	**256**	489
	40,712	46,427

14. Trade and other payables

	2020 £000	2019 £000
Trade payables	**496**	300
Amounts owed to group undertakings	**41,472**	38,423
Accruals	**2,867**	2,867
Other taxation and social security	**710**	1,074
Other creditors	**334**	305
	45,879	42,969

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

15. Provisions

	Restructuring £000
Charged to profit or loss	**169**
At 30 September 2020	**169**

Restructuring provisions relate to redudancy costs. The total balance outstanding at year end of £169,000 is classed as current and is expected to be fully utilised within the next financial period.

16. Deferred income

In all material respects current deferred income at 1 October 2019 was recognised as revenue during the year. Other than business-as-usual movements there were no significant changes in contract liability balances during the year.

17. Equity

	2020 £000	2019 £000
Allotted, called up and fully paid		
6,203,532 (2019 - 6,203,532) Ordinary shares of £0.001 each	**6**	6

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

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

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

18. Share-based payments

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

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to executive directors and senior executives across the Group after the preliminary declaration of the annual results. Under the Performance Share Plan 2,146,687 (2019: 3,690,288) awards were made during the year.

Awards from 2016-2018

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted one half on the achievement of a revenue growth target and one half on the achievement of a TSR target. The revenue growth target is subject to two underpin performance conditions relating to EPS growth and organic revenue growth.

The revenue growth target is based on the Group's compound annual recurring revenue growth. Where the Group's annual recurring revenue growth is between 8% and 10% or 10% and 12%, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro rata basis between 10% and 40% or between 40% and 50% respectively. Notwithstanding the extent to which the revenue performance condition has been satisfied, the revenue tranche will not be released and will lapse on the Board's determination that (i) the compound growth of the Group's underlying EPS over the performance period is less than 8% per annum; or (ii) the compound growth of the Group's organic revenue over the performance period is less than 6% per annum.

The performance target relating to TSR measures share price performance against a designated comparator group. Where the Group's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 10% and 40% and where the Group's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 40% and 50%.

The comparator group for awards granted from 2016 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards from 2019

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 TSR target.

The revenue growth target is based on the Group's compound annualised recurring revenue growth. Where the Group's annualised recurring revenue growth is between prescribed targets 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 the Group's 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 the Group's 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 from 2019 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.

The Sage Group Restricted Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which 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 4,424,901 (2019: 5,258,827) 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 657-736p.

The Sage Group Savings-related Share Option Plan

The Group operates an approved savings related share option scheme for UK employees. The fair value is expensed over the service period of three, five or seven years on the assumption that 5% of options will lapse over the service period as employees leave the Group. In the year, 2,924,638 (2019: 1,002,584) options were granted under the terms of the Save and Share Plan.

As the consolidated financial statements of The Sage Group plc. include the equivalent disclosures, the

Company has taken the exemption under FRS 101 available in respect of certain disclosures required by IFRS 2 Share-based Payments.

19. Financial instruments

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

Fair value measurement of financial assets and financial liabilities

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

20. Immediate and ultimate parent company

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

The ultimate parent undertaking and ultimate controlling party is The Sage Group plc. a company registered in England and Wales. The Sage Group plc. is the largest and smallest group to consolidate these financial statements. Copies of the group financial statements can be obtained from the registered office at The Sage Group plc., North Park, Newcastle upon Tyne, NE13 9AA.