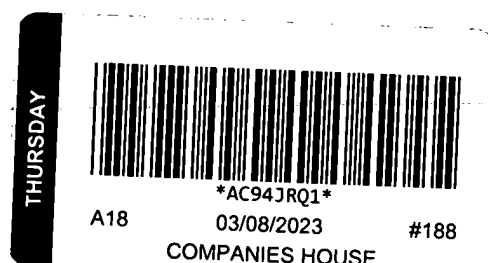


Company registration number: 03475849 (England and Wales)

APTITUDE SOFTWARE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022



APTITUDE SOFTWARE LIMITED

COMPANY INFORMATION

Directors	P Wood J Suddards M Johns
Company secretary	A Campbell (appointed 8 June 2023)
Company registration number	03475849
Registered office	8 th Floor, 138 Cheapside London England EC2V 6BJ
Independent auditor	RSM UK Audit LLP 25 Farringdon Street London EC4A 4AB

APTITUDE SOFTWARE LIMITED

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APTITUDE SOFTWARE LIMITED

STRATEGIC REPORT

for the year ended 31 December 2022

Principal activities

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

Financial Highlights

Year ended 31 December	2022 £000	2021 £000	% Change
Revenue	36,944	34,244	+8%
- Recurring revenue	23,863	21,308	+12%
- Non-Recurring revenue	13,081	12,936	+1%
Operating profit before non-underlying items	5,125	7,794	-34%
Statutory operating profit	4,735	7,227	-34%

Business review

Narrative provided in the sections below talks to the Aptitude Group as a whole inclusive of the parent company. This is due to the fact that the Company represents a material contributor to the performance of the Group.

Overview

Aptitude has made good strategic progress in the year, particularly with Fynapse, the new platform at the heart of the Group's plans for finance digitalization. Launched in March 2022, Fynapse provides clients with next generation digital finance capabilities, while its open architecture allows partners to build practices using Fynapse's core capabilities and cloud native technologies, providing competitive differentiation.

Highlights since the launch of the platform include:

- the signing of a global partnership agreement with Microsoft to deeply integrate Fynapse with Microsoft Dynamics 365 Finance and to market together the combined solution
- the successful delivery of Fynapse to Aptitude's charter client in the US telco market and their subsequent entry into a multi-year subscription agreement
- strong positive interest in this new higher margin offering from existing clients, prospects and partners

This excellent progress provides confidence that, going forward, Fynapse will lead to an acceleration in the growth of Annual Recurring Revenue and enhanced gross margins for the Group.

APTITUDE SOFTWARE LIMITED

STRATEGIC REPORT (CONTINUED)

for the year ended 31 December 2022

Overview (continued)

Aptitude has also completed the full integration of the MPP Global business which was acquired in October 2021. eSuite, the platform brought into the Group with the acquisition, together with our long-standing revenue management platforms provide the Group with strong capability to address the growth driver of subscription management. Several new business successes in the year, together with the benefits arising from the integration, provide confidence that sustained growth can be achieved with this product set to meet growing market demand.

The technology partnership with Microsoft represents a very exciting opportunity for the Group and has the potential to provide a material acceleration in the adoption of Fynapse. With the Group continuing to invest in its high-quality partner network, several new clients have been secured directly by partners in each of the Group's two strategic growth drivers.

Business strength

The Directors are reassured that the Company generated consistent profit before tax through its multi-year ARR model whilst the Aptitude Software Group is financially robust benefitting from a cash balance at 31 December 2022 of £29.2 million (2021: £29.1 million) and net funds of £15.9 million (2021: £16.1 million). Additionally, the Group is cash generative and profitable, reporting Adjusted Operating Profit in 2022 of £7.5 million. This financial strength should provide confidence to our clients, prospects, shareholders and employees. Whilst the Company is only carrying a cash balance of £1.2 million, the Group continues to support both the Company and all other Group entities.

The Group and Company also benefits from its recurring revenue business model of annual licence and subscription fees as opposed to one-off initial or perpetual licences. These recurring revenues, representing over 60% of total revenue, are resilient given the nature of the Group's enterprise applications which are typically heavily integrated and central to clients' mission-critical long-term financial reporting processes, underpinned by minimum contractual terms of up to six years at inception.

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

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

Implementation services

Aptitude provides implementation services to its clients, with the scale of such services depending on the nature of the application, the size of the opportunity and the balance of responsibilities between Aptitude and its partners. The Group's services are provided by a pool of highly skilled individuals, providing deep domain and technical expertise which is highly valued by our clients and provides a differentiator compared to our competitors. Demand for implementation services from the Group's on-going projects has been strong in 2022, with clients frequently requesting additional services.

The business continues to expand the enablement of its partner network to facilitate their ability to implement Aptitude's product suite reliably and efficiently. Whilst this enablement will lead to a greater proportion of services being provided by partners, it remains important to maintain a high-quality delivery capability to ensure that the Group can continue to support its partners and provide its expertise to our largest clients who wish to receive our services directly.

APTITUDE SOFTWARE LIMITED

STRATEGIC REPORT (CONTINUED)

for the year ended 31 December 2022

Future outlook

The Group remains focused on delivery against three go-to-market pillars: finance digitalization, subscription management and partner execution, supported by our ongoing focus on people excellence and financial confidence. Within finance digitalization we are focused on securing new Fynapse clients, the development of the strategically promising Microsoft partnership and the upcoming go-live of Fynapse's charter client. Within subscription management, key activities will centre on executing on a number of exciting opportunities with our existing product set and unlocking volume subscriptions in our 2022 new clients. Underpinning this, our wider partner relationships will continue to deepen as we add further partners to support and market our solutions. Supplementing these pillars, we will continue to invest in our people, seeking to retain and grow our teams capabilities, with an ethos of diversity and inclusion.

Future viability and scenario exercise

A scenario testing exercise has been performed for the three years 2023, 2024 and 2025, and considered this appropriate given the period aligns with its planning time horizon in respect of its three-year strategic plan, and is suitable given the nature and investment cycle of a technology business. Cash flows over this period have a relatively high degree of predictability, as the business continues to grow its software revenues. Projections beyond this period become less reliable given the inherent uncertainty of technology and market developments, supplemented by the uncertainties surrounding the global economy. The Directors have no reason to believe the Company would not be viable over a longer period. However, due to this uncertainty, the Directors consider a three-year period to be appropriate in forming a reasonable expectation.

Scenario models are reviewed by the Directors and are a foundation for the Group's strategic plan. The financial forecasts contained in the plan make certain assumptions about the uptake of new annual licences and subscriptions and the performance of other core revenue streams. As part of the assessment the Group stress tests the plan using various scenarios. To achieve this, management reviewed the principal risks and considered which might threaten the Group's viability. In identifying these principal risks, the Group concluded that the current level of future contracted revenue, totalling £91.4 million at 31 December 2022, would require being supplemented by £20.5 million of revenue realised from either new business opportunities or generated from the base across the three year period which is well below planned levels. Across each of the scenarios tested, the Group has also not factored in any structural changes to its cost base being made to ensure it remains viable. It was therefore determined that none of the individual risks would in isolation compromise the Group's viability, and so several different severe scenarios were considered where the principal risks arose in combination.

After reviewing the Company's forecasts and projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Financial Performance

Revenue

Recurring Revenues

Recurring revenues recognised in 2022 increased by 12% to £23.9 million (2021: £21.3 million). Recurring revenues now represent 65% of overall revenue (2021: 62%). It is a key part of the Company's strategy to increase this percentage whilst maximising the growth rate of Aptitude's ARR, a strategy which in due course will lead to growth in operating margin given the margin differential between recurring and non-recurring revenues despite the accompanying infrastructure and servicing costs.

Non-Recurring Revenues

Services revenue totalled £13.1 million for the year ended 31 December 2022 (2021: £12.9 million). Demand for implementation services from the Group's on-going projects has been strong in 2022, with clients frequently requesting additional services.

APTITUDE SOFTWARE LIMITED

STRATEGIC REPORT (CONTINUED)

for the year ended 31 December 2022

Operating Profit and Margins

Operating profit before non-underlying items for the period decreased by 36% to £5.3 million (2021: £8.2 million). As with many technology businesses, the Group has experienced increased inflationary pressures within its cost base. Whilst the majority of client contracts allow for inflationary increases to be applied to recurring fees, there are a number of exceptions to this. There is an ongoing project to move those clients onto the Group's standard inflationary clauses where possible. Furthermore, services' day rates typically can only be increased after the initial implementation for a client has concluded. Overall elevated inflation does not benefit the Group and is one of the contributing factors to the need to carefully manage investment levels across the business whilst ensuring momentum is maintained on the Group's strategic priorities.

Balance sheet

The Company has a strong balance sheet with net assets at 31 December 2022 of £25.7 million (2021: £20.3 million), including cash at 31 December 2022 of £1.2 million (2021: £0.7 million). Trade receivables (net) have decreased to £3.3 million due to the timing of receipt of annual licence fee and subscription invoices issued in the final months of the year (2021: £4.9 million). The Company's deferred income at 31 December 2022 reduced to £17.7 million (2021: £19.8 million) due to a number of factors. One of the key reasons for the reduction is that for a small number of material new business contracts signed in the final weeks of 2022 (and therefore included in Annual Recurring Revenue at the year-end) invoices were not issued until 2023. An additional contributory reason for the reduction in deferred income is due to multi-year advance payments of Annual Licence Fees by a small number of clients in prior years, resulting in reduced deferred income from these clients at 31 December 2022. No multi-year advance payments were received in 2022.

Conflict in Ukraine

The Group is continuing to closely monitor the situation in Ukraine. The business has no facilities or dependencies in the country, but in view of its mainland Europe operations, business contingency planning has been undertaken to mitigate any potential disruption to the Group's operations that might result should there be an escalation of the conflict into other European countries.

Principal Risks and Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The principal risks and uncertainties, in the context of the Aptitude Software Group as a whole, of which this Company is part, are set out on pages 22-24 of Aptitude Software Group plc's annual report which does not form part of this report.

Key Performance Indicators

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

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

Detailed discussion and analysis on the KPIs affecting the Group as a whole has been provided within the Aptitude Software Group plc 2022 Annual Report and Financial Statements.

APTITUDE SOFTWARE LIMITED

STRATEGIC REPORT SECTION 172 STATEMENT

for the year ended 31 December 2022

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

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

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

Workforce engagement

The Directors and Group's Board are fully committed to ensuring that the opinions of employees across all regions and business areas are regularly sought and factored into its decision-making process. The Group has put in place extensive measures to engage with its employees which are set out on page 19 of Aptitude Software Group plc's annual report. Through these engagement activities the Board is able to gather opinions and ideas from the wider workforce, identify any communication gaps or common areas of concern and address these through the Group's activities.

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

Shareholder engagement

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

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

During 2022 the Group consulted specifically with its major investors on its 2022 remuneration strategy and responded in full to any queries that arose during this process. No significant concerns were raised by investors during this process.

APTITUDE SOFTWARE LIMITED

STRATEGIC REPORT SECTION 172 STATEMENT (CONTINUED)

for the year ended 31 December 2022

Client engagement

The Group is proactive in engaging directly with its clients to monitor and continually improve its service delivery and client satisfaction levels. The Board receives monthly reports on client related matters, including support ticket levels, services delivery and project status reports, which enable it to identify any trends or any areas requiring specific oversight or investment. In the event that any concerns are raised by clients, the Group ensures that these are addressed swiftly and that proactive engagement occurs to ensure ongoing high standards of service delivery.

The Group seeks direct engagement with clients through regular Client Advisory Boards in each region and these directly inform its product development and innovation strategies. The Group also holds CFO Forums for prospective and existing clients to actively engage in wide-ranging discussions around pertinent issues and publishes its Digital CFO magazine offering expert commentary around similar issues. Feedback received from clients through these forums and through regular day to day interaction with the Group's client-facing teams were used to inform the Board's decision making process during the year in relation to product strategy, investment priorities and service delivery models.

Strategic partner engagement

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

During the year, the Group identified a new strategic partnership opportunity with Microsoft in respect of Fynapse and Microsoft Dynamics 365 Finance, and this partnership was formalised in December 2022. Regular two way engagement between Aptitude and Microsoft was undertaken during 2022 to shape this partnership arrangement, for the benefit of both organisations' stakeholders.

Supplier engagement

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

Engagement with the wider community

The Board ensures that the decisions made are responsible and ethical by taking into consideration the wider society external to the organisation. The Group is committed to contributing towards the community in which it operates as a business. The Group operates a charitable donation scheme whereby it will match the funds raised by employees for specific charities (on a £ for £ basis) up to £500 per event. The Group also supports or organises regular activities to increase awareness and raise funds for its chosen charities both in the United Kingdom and internationally. The Group's charitable activities are co-ordinated by its regional social committees and employees are actively encouraged to partake in them at a regional level. A key focus for us in 2022 was to support the people of Ukraine where we helped to raise funds and donated to a number of charities, as well as supporting employees in Poland to host Ukrainian nationals in their homes.

APTITUDE SOFTWARE LIMITED
STRATEGIC REPORT SECTION 172 STATEMENT (CONTINUED)
for the year ended 31 December 2022

Engagement with the wider community (continued)

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

The environment

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

The Board is committed to providing stakeholders with an increasing amount of transparency on its environmental credentials and reports on both its scope 1 and scope 2 carbon emissions. The Group is pleased to report that it has again seen a significant year on year reduction in its carbon emissions this year alongside a number of proactive measures that incrementally reduce its energy consumption. In 2023, the Group intends to undertake a scope 3 footprint analysis and to set science based targets to achieve a net zero position by 2050. Further details are set out on pages 31 to 37 of Aptitude Software Group plc's annual report.

Maintaining a reputation for high standards of business conduct

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

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

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

Ensuring that members of the Company are treated fairly

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

Michael Johns, as a Director of the Company, approves all the Statements contained within the Strategic Report for and on behalf of the Board of Directors.



Michael Johns
Director
28 June 2023

APTITUDE SOFTWARE LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2022

The Directors of Aptitude Software Limited present their Directors' report and the audited financial statements of the Company for the year ended 31 December 2022.

Results and Dividends

The results of the Company are set out in the financial statements and notes that appear on pages 15 to 47.

No dividend is proposed in respect of the year ended 31 December 2022 (2021: £nil).

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

Directors

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

P Wood
J Suddards
M Johns (appointed 17 May 2023)

Future developments

The future outlook is given in the Strategic Report.

Financial risk management policy

The principal risk and uncertainties of the Company are set out on pages 22-24 of Aptitude Software Group plc's annual report.

Overseas branches

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

Qualifying third party indemnity provision

The Company has purchased and maintained throughout the year Directors' and officers' liability insurance in respect of itself and its Directors. The Directors are entitled to the benefit of an indemnity under article 18 of the Company's articles of association. Pursuant to this article, the Company has granted indemnities for the benefit of current and future Directors of, and the Company Secretary of the Company in respect of liabilities which may attach to them in their capacity as Directors of, or Company Secretary of, the Company to the extent permitted by law and also committing to maintain Directors' and officers' insurance cover. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2022 and continue in force, in relation to certain losses and liabilities which the Directors (or Company Secretary) may incur to third parties in the course of acting as Directors (or Company Secretary).

APTITUDE SOFTWARE LIMITED

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 December 2022

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report and 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The financial statements are required by law and United Kingdom Generally Accepted Accounting Practice to present fairly the financial position and performance of the company. The Companies Act 2006 provides in relation to such financial statements that reference in the relevant part of that Act to financial statement giving a true and fair view are referenced to their achieving a fair presentation.

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 those 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Employee Engagement

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

Responsibility for Environmental, Social and Governance matters

Environmental, social and governance ("ESG") activities for the Company are dealt with at a Group level. All members of the Board, together with senior management and the Company Secretary, take an active role in shaping and monitoring the Group's ESG activities and it is appropriate that this responsibility is shared collectively.

However, to ensure that ESG matters are given thorough consideration by the Board on an ongoing basis and approached in a co-ordinated manner, the Board has designated an individual Board member with responsibility for the oversight of the Group's ESG activities, to ensure that ESG considerations are fully embedded in the Group's operations, Board processes and strategic direction. This was Philip Wood throughout the year ended 31 December 2022. In view of Philip Wood's pending departure from the business in July 2023, Sara Dickinson, Non-Executive Director and Chair of the Audit Committee, has now taken on this responsibility.

APTITUDE SOFTWARE LIMITED
DIRECTORS' REPORT (CONTINUED)
for the year ended 31 December 2022

Environmental Policy

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

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

Directors' confirmations

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

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

Independent auditors

A resolution regarding the reappointment of RSM by shareholders was confirmed at the 2022 Annual General Meeting.

On behalf of the Board



Michael Johns
Director
28 June 2023

APTITUDE SOFTWARE LIMITED

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

Opinion

We have audited the financial statements of Aptitude Software Limited (the 'company') for the year ended 31 December 2022 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including 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 state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

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 our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

APTITUDE SOFTWARE LIMITED

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

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 9, 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

APTITUDE SOFTWARE LIMITED

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

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the company operates in and how the company is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures, we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 101, the Companies Act 2006 and tax compliance regulations. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included: reviewing financial statement disclosures and testing to supporting documentation; completion of disclosure checklists to identify areas of non-compliance; inspecting correspondence with tax authorities and internal/external tax advisors; consultation with a tax specialist regarding the approach taken to the audit of tax; and consideration of whether any matters identified during the audit require reporting to an appropriate authority outside the entity. We have not identified any indirect laws and regulation that would have a significant impact on the financial statements.

The audit engagement team identified the risk of management override of controls, revenue recognition and the treatment of development costs as the areas where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to:

- Testing the appropriateness of journal entries and other adjustments;
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias;
- Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- Obtaining an understanding of the process and controls around revenue recognition;
- Reviewing the Company's revenue recognition policy, including supporting accounting papers, to assess whether performance obligations have been appropriately identified and recognised in line with IFRS 15;
- Reviewing management's paper considering the application of IAS 38 and the treatment used by the Group;
- Interviewing relevant personnel to understand the nature of development activities undertaken during the year and challenging management on the justification for noncapitalisation; and
- Auditing the disclosures within the financial statements of these areas.

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

APTITUDE SOFTWARE LIMITED

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

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.

RSM UK Audit LLP

Graham Ricketts (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
United Kingdom
EC4A 4AB
28 June 2023

APTITUDE SOFTWARE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2022

		Year ended 31 Dec 2022	Year ended 31 Dec 2021
	Note(s)	£000	£000
Revenue	1,2	36,944	34,244
Operating costs	3	(31,660)	(26,010)
Operating profit before non-underlying items		5,284	8,234
Non-underlying items	3	(159)	(440)
Operating profit		5,125	7,794
Income from shares in group undertakings	5	369	830
Finance costs	6	(106)	(74)
Profit before income tax		5,388	8,550
Income tax (expense)/credit	7	(653)	(1,323)
Profit for the financial year		4,735	7,227
Other comprehensive (expense)/income			
Items that will or may be reclassified to profit or loss			
Cash flow hedges reclassified to income statement	18	187	-
Gain/(loss) on effective cash flow hedges	18	604	(193)
Deferred tax on cash flow hedges	11	(132)	-
Currency translation difference		-	18
Other comprehensive income/(expense) for the year, net of tax		659	(175)
Total comprehensive income for the year		5,394	7,052

The accounting policies and notes on pages 18 to 47 are an integral part of these financial statements.

APTITUDE SOFTWARE LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Note	As at 31 Dec 22 £000	As at 31 Dec 21 £000
ASSETS			
Non-current assets			
Property, plant and equipment including right-of-use assets	8	3,177	3,539
Goodwill	9	17,508	17,508
Investments in subsidiaries	10	9,058	9,058
Other long-term assets	12	732	828
Deferred income tax assets	11	117	148
		30,592	31,081
Current assets			
Trade and other receivables	13	20,717	19,746
Financial assets			
– derivative financial instruments	18	527	-
Current tax asset		74	-
Cash and cash equivalents	14	1,217	717
		22,535	20,463
Total assets		53,127	51,544
LIABILITIES			
Current liabilities			
Financial liabilities			
– derivative financial instruments	18	-	(264)
Trade and other payables	15	(24,663)	(27,322)
Current tax liability		-	(821)
Capital lease obligations	16	(264)	(81)
		(24,927)	(28,488)
Net current liabilities		(2,392)	(8,025)
Non-current liabilities			
Provisions	17	(27)	(120)
Capital lease obligations	16	(2,344)	(2,625)
Deferred tax liabilities		(132)	-
		(2,503)	(2,745)
NET ASSETS		25,697	20,311
SHAREHOLDERS' EQUITY			
Share capital	19	2,500	2,500
Other reserves	20	395	(264)
Retained earnings		22,802	18,075
TOTAL EQUITY		25,697	20,311

The accounting policies and notes on pages 18 to 47 are an integral part of these financial statements. The financial statements on pages 15 to 17 were authorised for issue by the Board of Directors on 28 June 2023 and were signed on its behalf by:



Michael Johns
Director

APTITUDE SOFTWARE LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022

	Note	Share Capital	Foreign exchange reserve	Retained earnings	Other reserves	Total equity
		£000	£000	£000	£000	£000
Balance at 1 January 2021		2,500	(18)	10,059	(71)	12,470
Comprehensive income/(expense)						
Profit for the year		-	-	7,227	-	7,227
Cash flow hedges						
– net fair value loss in the year	21	-	-	-	(193)	(193)
Exchange rate adjustments		-	18	-	-	18
Total comprehensive income for the year		-	18	7,227	(193)	7,052
Share options – value of employee service		-	-	467	-	467
Deferred tax on share options	12	-	-	59	-	59
Corporation tax on share options		-	-	263	-	263
Total contributions by and distributions to owners of the company recognised directly in equity		-	-	789	-	789
Balance at 31 December 2021		2,500	-	18,075	(264)	20,311
Comprehensive income /(expense)						
Profit for the year		-	-	4,735	-	4,735
Cash flow hedges reclassified to income statement		-	-	-	187	187
Gain on effective cash flow hedges	18	-	-	-	604	604
Deferred tax on cash flow hedges	21	-	-	-	(132)	(132)
Total comprehensive income for the year		-	-	4,735	659	5,394
Share options – value of employee service		-	-	398	-	398
Deferred tax on share options	12	-	-	(139)	-	(139)
Corporation tax on share options		-	-	(267)	-	(267)
Balance at 31 December 2022		2,500	-	22,802	395	25,697

The accounting policies and notes on pages 18 to 47 are an integral part of these financial statements.

APTITUDE SOFTWARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022

Accounting Policies

General Information

The Company is a private company limited by shares and incorporated and domiciled in England and Wales. The financial statements were authorised for issue by the Board of Directors on 28 June 2023.

Summary of significant accounting policies

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

Basis of preparation

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

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

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

Going Concern

After reviewing the Company's forecasts and projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Directors have prepared forecasts for going concern until 31 December 2025 which show that the Company will have sufficient cash to operate and meet their operating liabilities as and when they fall due for a period of at least 12 months from the date of approval of these financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Information used to make this decision is detailed below.

A scenario testing exercise was performed at a Group level for the period covered by the going concern forecast, including considering management's base case forecast and an extreme downside scenario where no new customers were won, which is far more pessimistic than the current climate may suggest. In all scenarios Aptitude Software remains cash generative in the years under review. Financial performance in 2023 is not expected to be materially different from current year forecasts due to the long-range revenue visibility achieved through the recurring revenue business model. These recurring revenues, representing over 60% of total revenue, are resilient given the nature of the Group's enterprise applications which are typically heavily integrated and central to clients' mission-critical long-term financial reporting and subscription management processes, underpinned by minimum contractual terms of up to six years at inception.

APTITUDE SOFTWARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2022

Going Concern (continued)

The Directors are reassured that the Group is financially robust benefitting from a cash balance at 31 December 2022 of £29.2 million and net funds of £15.9 million. Additionally, the Group is cash generative and profitable, reporting Adjusted Operating Profit in the year of £7.5 million.

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

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

Changes in Accounting policy and disclosures

(a) New standards, interpretations and amendments effective from 1 January 2022

The Company has applied the following new standards, amendments and interpretations for the first time for their annual reporting period commencing 1 January 2022:

- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from Single Transaction
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies
- Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
- Amendments to IFRS 16: Leases – Lease Liability in a Sale and Leaseback
- Amendments to IFRS 10 and IAS 28: Consolidated Financial Statements and Investments in Associates and Joint Ventures

The adoption of these standards did not have a material impact on the Company's financial statements.

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

None of the new standards, amendments and interpretations, which are effective for periods beginning after 1 January 2023 and which have not been adopted early, are expected to have a significant effect on the financial statements of the Company.

Financial reporting standard 101- reduced disclosure exemptions

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

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

APTITUDE SOFTWARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2022

Revenue recognition

Revenue comprises the transaction price, being the amount of consideration the Company expects to be entitled to in exchange for transferring promised goods or services to a customer in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Company derives its revenues from the following categories:-

- software based activity relating to the Group's intellectual property (comprising software licences, maintenance, support, software subscription fees, financial transactions, usage fees along with funded development and related consultancy); and
- general consultancy services.

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

Software based activity

Software licences, software subscription and maintenance fees

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

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

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

Assessment of performance obligations

On inception of each contract, the Company assesses whether ongoing contractual obligations, charged as software maintenance, represent a separately distinct performance obligation and promise from either the licence or subscription fees. If not distinct, the software licence and maintenance fees form part of a combined performance obligation. If the licence/subscription is distinct it is recognised separately from the other performance obligations at the time of the delivery of the licenced software.

In assessing whether a licence is distinct from the software maintenance, the Company considers the scope of maintenance services being provided which extends to the significant continuing requirement to:

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

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

APTITUDE SOFTWARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2022

Revenue recognition (continued)

How the combined performance obligation is recognised

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

Method of revenue recognition in respect of the performance obligations

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

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

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

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

Revenue recognition constraint

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

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

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

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Revenue recognition (continued)

Entry into auto-renewal periods during the optimisation period

Where a client's initial contract term is shorter than the optimisation period assessed by management, the client will enter auto renewal periods. Per IFRS 15, the Company has concluded that the entry into each auto renewal period represents a new contract due to the customer having no material right under the terms of the contract to enter into these renewal period.

Consequently, an assessment of whether the licence and maintenance services still represent a combined performance obligation is performed.

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

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

Entry into auto-renewal periods post optimisation period

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

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

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

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

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

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

Product specific consultancy (implementation services)

Consultancy services which relate to a project which includes the Company's software is contracted for on either a time and materials basis or fixed priced basis and represents a distinct performance obligation from the software licence, software subscription and maintenance fees. Time and materials consultancy is recognised in the period it is performed in. Fixed price or shared risk work is recognised on a percentage completion basis of the remaining unbilled milestones. The percentage completed is determined with reference to effort incurred to date and effort required to complete the development or consultancy. This method, used to calculate revenue recognition, is appropriate on the basis that the services are transferred to the customer as the development or consultancy work occurs.

APTITUDE SOFTWARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2022

Revenue recognition (continued)

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

Solution management services

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

Support fees

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

Commissions

Software sales commission costs meet the definition under IFRS 15 of incremental costs of obtaining a contract. As a result, an asset is recognised at inception of the contract for the total value of commissions payable which will typically be amortised across the optimisation period, this being the period assessed by management over which significant modification and optimisation is required in respect of each client.

Non-underlying items

Non-underlying items are significant items of income or expense which are disclosed and described separately in the accounts where it is necessary to do so in order to provide a better understanding of the financial performance of the Company. These items include post-acquisition restructuring costs.

Leasing

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involved the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset if either:
 - The Company has the right to operate the asset; or
 - The Company designed the asset in a way that predetermines how and for what purpose it will be used.

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Leasing (continued)

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

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

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

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

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

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

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

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

Short term lease and leases of low-value assets

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

Investments

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

Foreign currency

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

APTITUDE SOFTWARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2022

Property, plant and equipment

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

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

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

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

Goodwill

Goodwill represents the transfer of the trade and assets of Microgen Solutions Limited, Microgen Banking Systems Limited and Microgen Management Services. Goodwill is capitalised on the balance sheet and is subject to an annual impairment test. The carrying value of goodwill is cost less accumulated impairment. Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combinations in which the goodwill arose. Impairment reviews are carried out by the Board at least annually. Impairments to goodwill are charged to the income statement in the period in which they arise.

Impairment of non-financial assets

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

Intangible assets

Research and Development ("R&D")

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Cash and cash equivalents

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

Share-based payments

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

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

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

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

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

Interest income and expense

Interest is recognised using the effective interest method.

Pensions

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

Current and deferred income tax

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

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

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Trade receivables

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

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

Trade payables

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

Share capital

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

Provisions

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

Dividend distribution

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

Dividend income

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

Tax incentive schemes

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

Derivative financial instruments and hedging activities

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

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Derivative financial instruments and hedging activities (continued)

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

Financial Risk Management

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

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

(a) Market risk – Foreign exchange

The Company's major foreign exchange exposures are to the Polish Zloty, US Dollar, Canadian Dollar and Singapore Dollar. Company policy in this area is to eliminate foreign currency cash flows between the Aptitude Group companies once the size and timing of transactions can be predicted with sufficient certainty. Since April 2007 this has been achieved by hedging Polish Zloty cash outflows 12 months in advance by using forward foreign currency contracts. These have the effect of fixing the sterling amount of Polish Zlotys to be paid in the future. The average remaining life of the forward exchange contracts at 31 December 2022 was 6 months (2021: 6 months).

(b) Market risk – Interest rate

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

(c) Credit risk

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

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

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been Grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The gross trade receivables amount included within the loss allowance calculation has been adjusted for elements which carry no expected credit loss; these being the upfront Annual Licence Fees and amounts covered by the Company's credit insurance. On that basis, the loss allowance as at 31 December 2022 for the Company was determined as follows for trade receivables:

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Financial Risk Management (continued)

	Not past due £000	Less than one month overdue £000	One to two months overdue £000	Two to three months overdue £000	More than three months overdue £000	Total £000
Expected loss rate	1%	5%	10%	15%	20%	
Net carrying amount - trade receivables*	1,116	546	121	23	11	1,817
Amounts subject to expected loss allowance rate	1,116	546	121	23	11	1,817
Loss allowance	11	27	13	3	2	56
Total expected loss allowance	11	27	13	3	2	56

*Net carrying amount excludes the value of Annual Licence Fees and amounts covered by credit insurance.

Where the Company holds intercompany loan amounts due from fellow group subsidiaries, IFRS 9 requires the measurement of expected credit losses. These loans were determined to be stage 1 intercompany loans for the purposes of the IFRS 9 impairment model and consequently a twelve-month expected credit loss was calculated. On that basis, the loss allowance as at 31 December 2022 for the Company was calculated as being nil (2021: nil).

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

(d) Liquidity risk

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

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

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

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

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
At 31 December 2022			
Forward foreign exchange contracts			
- cash flow hedges			
Outflow	(13,045)	-	-
Inflow	13,572	-	-
	527	-	-

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Financial Risk Management (continued)

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
At 31 December 2021			
Forward foreign exchange contracts			
- cash flow hedges			
Outflow	(8,865)	-	-
Inflow	8,601	-	-
	<u>(264)</u>	<u>-</u>	<u>-</u>

Fair value estimation

Financial instruments not measured at fair value

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

Financial instruments measured at fair value

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

	Level 2	
	2022 £'000	2021 £'000
Financial Assets		
Derivative financial assets (designated hedge instruments)	527	-
	<u>527</u>	<u>-</u>
Financial Liabilities		
Derivative financial liabilities (designated hedge instruments)	-	264
	<u>-</u>	<u>264</u>

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

Capital risk management

The Company's capital is managed at a Group level and is considered to be the equity of the ultimate parent's shareholders and includes the Group's tangible and intangible fixed assets and cash balances. The Company and Group's objectives when managing capital are to safeguard the Company and Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. We manage the capital structure based on the economic conditions and the risk characteristics of the Company. The Group's Board regularly reviews both the Group and Company's capital structure and net funds position. No changes were made to our objectives and processes during 2022 (2021: none).

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Critical accounting judgements and estimates

Accounting Judgements

(a) Recognition of revenue

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

Assessment of performance obligations

For Annual Licence Fees, the Company determines for each contract whether ongoing contractual software maintenance and subscription fees represent a performance obligation that is distinct from the licence. For all existing contracts, it is determined that the ongoing contractual obligations form part of a combined performance obligation with the software licence. This is through the customer simultaneously receiving the benefit of accessing and utilising the software from inception of the contract across the period due to the need for the software to adapt over time to the changing needs and complexities of the regulatory environment.

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

How the combined performance obligation should be recognised

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

Revenue recognition constraint

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

Product specific consultancy deferral

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Accounting Judgements (continued)

(b) Impairment of goodwill

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

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

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

(c) Impairment of investments

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

(d) Development costs

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

Judgement is therefore required in determining the practice for capitalising development costs. The accounting policy for research and product development is detailed on page 24 and in the current year there are no development expenses that have been capitalised (2021: nil). The total product management, research and development expenditure in the period is £2.6 million (2021: £2.2 million).

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

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

Accounting estimates

(a) Recognition of revenue

Method of recognising revenue

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

The estimation of the development activity, principally the number of hours anticipated to be incurred, impacts all customer contracts and therefore as at 31 December 2022, the deferred income balance of £17.7 million (2021: £19.8 million) and accrued income balance £0.1 million (2021: £0.1 million) have been calculated pursuant to estimates. Sensitivity analysis was performed with management considering the impact of a reasonable proportional movement in the estimated development effort and determined that in all cases the impact on the assets and liabilities presented across both periods was not material.

Product specific consultancy deferral

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

(b) Taxation

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

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

1. Revenue

(a) Geographical segments

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

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

	Sales revenue by origin		Sales revenue by destination	
	Year ended 31 Dec 2022	Year ended 31 Dec 2021	Year ended 31 Dec 2022	Year ended 31 Dec 2021
	£000	£000	£000	£000
United Kingdom	32,509	30,570	9,672	9,962
Rest of World	<u>4,435</u>	<u>3,674</u>	<u>27,272</u>	<u>24,282</u>
	<u><u>36,944</u></u>	<u><u>34,244</u></u>	<u><u>36,944</u></u>	<u><u>34,244</u></u>

2 Revenue from contracts with customers

(a) Disaggregation of revenue from contracts with customers

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

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

(b) Assets and liabilities related to contracts with customers

The Company has recognised assets and liabilities relating to contracts with customers. These amounts are classified as accrued and deferred income respectively for the purposes of this report and are displayed within notes 13 and 15 of this report.

(i) Significant movements in accrued and deferred income

Contract assets saw a marginal increase of £42,000 to £120,000 as at 31 December 2022 as a result of the timing difference between when work is completed and invoiced.

Contract liabilities saw a decrease of £2,145,000 to £17,690,000 as at 31 December 2022, principally due to multi-year advance payments of Annual Licence Fees by a small number of clients in prior years, resulting in reduced deferred income from these clients at 31 December 2022. No multi-year advance payments were received in 2022.

Revenue recognised in relation to deferred income

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

	Year ended 31 Dec 2022 £000	Year ended 31 Dec 2021 £000
Revenue recognised that was included in the deferred income balance at 31 December of the previous period	<u><u>16,934</u></u>	<u><u>14,757</u></u>

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

2 Revenue from contracts with customers (continued)

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

(ii) Assets recognised from costs to fulfil a contract

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

	31 Dec 2022	31 Dec 2021
	£000	£000
Asset recognised from costs incurred to fulfil a contract at 31 December	732	828
Amortisation recognised as cost of providing services during the year	<u>352</u>	<u>449</u>

3 Operating profit

The following items are included in operating costs:

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
	£000	£000
Underlying operating costs		
Employee benefit expense (note 4)	15,216	14,617
Depreciation (note 8)	513	685
Other operating costs	<u>15,931</u>	<u>10,707</u>
	<u>33,660</u>	<u>26,009</u>
Non-underlying operating costs:		
Acquisition and associated reorganisation costs	<u>159</u>	<u>440</u>
	<u>159</u>	<u>440</u>
	<u>31,819</u>	<u>26,449</u>

Profit from operations has been arrived at after charging:

	Year ended 31 Dec 2022	Year ended 31 Dec 2021
	£000	£000
Net foreign exchange loss/(gain)	3,533	(772)
Product management, research and development costs	2,640	2,213
Depreciation of property, plant and equipment (note 8)	513	685
Repairs and maintenance expenditure on property, plant and equipment	<u>139</u>	<u>160</u>

For 2022 the audit fee for the Company was borne by the ultimate parent company, Aptitude Software Group plc. A full breakdown of audit fees is disclosed in the financial statements of Aptitude Software Group plc which are publicly available.

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

4 Employees and Directors

	Year ended 31 Dec 2022 £000	Year ended 31 Dec 2021 £000
Employee benefit expense during the year		
Wages and salaries	12,631	12,231
Social security costs	1,609	1,359
Other pension costs	618	560
Share based payment costs on share options	358	467
	<u>15,216</u>	<u>14,617</u>

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

	Year ended 31 Dec 2022 Number	Year ended 31 Dec 2021 Number
By location:		
United Kingdom	104	94
Rest of World	11	8
	<u>115</u>	<u>102</u>

Headcount at 31 December 2022 was 128 (2021: 102).

	Year ended 31 Dec 2022 £000	Year ended 31 Dec 2021 £000
Directors		
Short-term employee benefits	508	445
Post employment benefits	17	15
Share based payment costs on share options	116	39
	<u>641</u>	<u>499</u>

Average monthly number of Directors on the payroll was 1 (2021: 1). Headcount at 31 December 2022 was 1 (2021: 1).

During the year the highest paid Director received aggregate emoluments of £508,000 (2021: £445,000) excluding long term incentive awards. The value of the Company contributions paid to a money purchase scheme in respect of the highest paid Director amounted to £17,000 (2021: £15,000).

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

5 Income from shares in group undertakings

	Year ended 31 Dec 2022 £000	Year ended 31 Dec 2021 £000
Dividends received from group undertakings	369	830
	<u>369</u>	<u>830</u>

6 Finance costs

	Year ended 31 Dec 2022 £000	Year ended 31 Dec 2021 £000
Interest payable on capital lease obligations	(106)	(74)
	<u>(106)</u>	<u>(74)</u>

7 Income tax expense

	Year ended 31 Dec 2022 £000	Year ended 31 Dec 2021 £000
Analysis of charge in the year		
Current tax:		
- tax charge on underlying items	(524)	(1,018)
- tax charge on non-underlying items	(30)	-
- adjustment to tax in respect of prior periods on underlying items	(220)	(151)
Total current tax	<u>(774)</u>	<u>(1,169)</u>
Deferred tax (note 12):		
- tax credit/(charge) on underlying items	120	(111)
- adjustment to tax in respect of prior periods on underlying items	1	(43)
Total deferred tax	<u>121</u>	<u>(154)</u>
Income tax expense	<u>(653)</u>	<u>(1,323)</u>

UK corporation tax is calculated at 19.00% (2021: 19.00%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

UK corporation tax rates substantively enacted as part of the March 2021 Bill included an increase of the rate to 25.00% from 1 April 2023 with a retention of the current rate of 19.00% for years starting April 2020 to April 2022.

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

7 Income tax expense (continued)

The tax for the year is lower than (2021: lower than) the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%). The differences are explained below:

Profit before tax	<u>5,388</u>	<u>8,550</u>
Tax at the UK corporation tax rate of 19% (2019: 19%)	(1,024)	(1,625)
Effects of:		
Adjustment to tax in respect of prior periods	(219)	(194)
Adjustment in respect of foreign tax rates	(22)	(25)
Expenses not deductible for tax purposes	(36)	(84)
Non-taxable income	-	158
Other	19	14
Research and development tax relief	206	371
Change in future tax rates	15	-
Group relief	<u>408</u>	<u>62</u>
Total taxation	<u>(653)</u>	<u>(1,323)</u>

The total tax charge of £653,000 (2021: £1,323,000) on Company profit before tax represents 12.12% (2021: 15.47%) of the Company profit before tax of £5,388,000 (2021: £8,550,000).

8 Property, plant and equipment including right-of-use assets

	Right-of-use assets £000	Leasehold improvements £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Cost					
At 1 January 2022	5,542	512	1,398	293	7,745
Additions	-	-	93	58	151
Disposals	<u>(2,549)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,549)</u>
At 31 December 2022	<u>2,993</u>	<u>512</u>	<u>1,491</u>	<u>351</u>	<u>5,347</u>
Accumulated depreciation					
At 1 January 2022	2,913	-	1,098	195	4,206
Charge for the year (note 3)	322	53	110	28	513
Disposals	<u>(2,549)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,549)</u>
At 31 December 2022	<u>686</u>	<u>53</u>	<u>1,208</u>	<u>223</u>	<u>2,170</u>
Net book amount					
At 31 December 2022	<u>2,307</u>	<u>459</u>	<u>283</u>	<u>128</u>	<u>3,177</u>

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

8 Property, plant and equipment including right-of-use assets (continued)

	Right-of-use assets £000	Leasehold improvements £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Cost					
At 1 January 2021	2,938	-	1,147	194	4,279
Additions	2,604	512	251	99	3,466
At 31 December 2021	<u>5,542</u>	<u>512</u>	<u>1,398</u>	<u>293</u>	<u>7,745</u>
Accumulated depreciation					
At 1 January 2021	2,439	-	933	149	3,521
Charge for the year (note 3)	474	-	165	46	685
At 31 December 2021	<u>2,913</u>	<u>-</u>	<u>1,098</u>	<u>195</u>	<u>4,206</u>
Net book amount					
At 31 December 2021	<u>2,629</u>	<u>512</u>	<u>300</u>	<u>98</u>	<u>3,539</u>

9 Goodwill

	31 Dec 2022 £000	31 Dec 2021 £000
Cost		
At 1 January and 31 December	<u>17,508</u>	<u>17,508</u>
Net book amount		
At 31 December	<u>17,508</u>	<u>17,508</u>

Goodwill represents the transfer of the trade and assets of Microgen Solutions Limited, Microgen Banking Systems Limited and Microgen Management Services. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

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

For the purposes of performing the goodwill impairment review, the Group have utilised the Board approved plans for the three-year period to 31 December 2025 followed by anticipated growth in operating profit of 10% per annum for the period 2026-2027. The growth rates applied were based on the Group's assessment of the future opportunities within the market.

The terminal growth rates for the period after 2027 are no greater than 2.25% (2021: 2.25%) per annum. The utilisation of deferred tax losses to offset the tax payable has not been considered. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate applied to the CGUs was 13.1% (2021: 13.1%).

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

10 Investments in subsidiaries

	2022 £000	2021 £000
Cost		
At 1 January	9,058	9,058
At 31 December	9,058	9,058
Net book amount		
At 31 December	9,058	9,058

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

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

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

Principal subsidiaries	Country	Activity
Aptitude Software (Canada) Limited	Canada	Employment and Company Services
Aptitude Software Inc	USA	Software and Services
Aptitude RevStream Inc*	USA	Software and Services
Aptitude Software (Poland) sp. z.o.o	Poland	Research and development services

* Indirectly held by Aptitude Software Limited

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

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

Subsidiary	Registered office
Aptitude Software (Canada) Limited	1500 Royal Centre, 1055 West Georgia Street, PO Box 1117, Vancouver, British Columbia
Aptitude Software Inc.	CT Corporation System, 111 8 th Avenue, New York 10011
Aptitude RevStream Inc.	100 Marine Parkway, Suite 210, Redwood City, CA 94065
Aptitude Software (Poland) sp. z.o.o	Muchoborska 6, 54-424 Wrocław, Poland

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

11 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% for all balances unless recoverable before 1 April 2023 (2021: 19% for balances expected to be recovered within 12 months and 25% for all subsequent periods).

	2022 £000	2021 £000
Deferred tax		
- Deferred tax assets	117	148
- Deferred tax liabilities	(132)	-
Deferred tax liability	<u>(15)</u>	<u>148</u>

	2022 £000	2021 £000
Net deferred tax		
At 1 January	148	236
Total credit/(charge) to income statement for the year	106	(154)
(Charge)/credit to equity	(139)	59
Charge to other comprehensive income (note 20)	(132)	-
Changes in tax rate	2	7
At 31 December	<u>(15)</u>	<u>148</u>

	Accelerated capital allowances £000	Short term timing differences £000	Share based payments £000	Total £000
Deferred tax asset				
At 1 January 2021	41	138	93	272
Total (charge)/credit to income statement for the year	(41)	17	4	(19)
Credit to equity	-	-	59	59
Change in tax rate	-	29	9	38
At 31 December 2021	-	184	165	350
Total (charge)/credit to income statement for the year	-	(28)	80	52
Credit/(charge) to equity	-	-	(139)	(139)
Change in tax rate	-	23	10	33
At 31 December 2022	<u>-</u>	<u>179</u>	<u>116</u>	<u>296</u>
Amounts offset against deferred tax liability	-	(179)	-	(179)
Net deferred tax asset at 31 December 2022	<u>-</u>	<u>-</u>	<u>116</u>	<u>117</u>

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

11 Deferred tax (continued)

Deferred tax liability	Other timing differences £000	Cash flow hedges £000	Total £000
At 1 January 2021	(36)	-	(36)
Total (charge)/credit to income statement for the year	(135)	-	(135)
Change in tax rate	(31)	-	(31)
At 31 December 2021	(202)	-	(202)
Total (charge)/credit to income statement for the year	54	-	54
Charge to other comprehensive income	-	(132)	(132)
Change in tax rate	(31)	-	(31)
At 31 December 2022	(179)	(132)	(311)
Amounts offset against deferred tax asset	179	-	179
Net deferred tax liability at 31 December 2022	-	(132)	(132)

12 Other long-term assets

	31 Dec 2022 £000	31 Dec 2021 £000
Prepaid commission costs	732	828

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

13 Trade and other receivables

	Company £000	Company £000
Trade receivables	3,299	4,924
Less: provision for impairment of receivables	(56)	(21)
Trade receivables - net	3,243	4,903
Amounts owed by group undertakings	16,697	14,198
Other receivables	-	151
Prepayments	657	416
Accrued income	120	78
	20,717	19,746

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

Within the trade receivables balance of £3,299,000 (2021: £4,924,000) there are balances totaling £1,888,000 (2021: £643,000) which, at 31 December 2022, were overdue for payment. £1,868,000 of this balance (2021: £643,000) has been collected at 28 June 2023 (2021: 27 June 2022).

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

13 Trade and other receivables (continued)

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

	31 Dec 2022	31 Dec 2021
	£000	£000
At 1 January	21	-
Charged to income statement	35	21
At 31 December	<u>56</u>	<u>21</u>

Movements in the provision for impaired trade receivables have been included in the income statement under other operating costs. No amounts were written off as unrecoverable to the income statement during the year (2021: £nil). Non-trade receivables do not contain any impaired assets.

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

14 Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	31 Dec 2022	31 Dec 2021
	£000	£000
Sterling	-	2
Polish Zloty	15	8
US Dollar	1,149	686
Canadian Dollar	53	21
Cash at bank and in hand	<u>1,217</u>	<u>717</u>

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

15 Trade and other payables

	31 Dec 2022	31 Dec 2021
	£000	£000
Trade payables	293	892
Amounts owed to group undertakings	2,706	2,861
Other tax and social security payable	789	527
Other payables	325	-
Accruals	2,860	3,207
Deferred income	17,690	19,835
	<u>24,663</u>	<u>27,322</u>

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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16 Capital lease obligations

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

	31 Dec 2022 £000	31 Dec 2021 £000
Amounts payable under capital lease arrangements:		
Within one year	363	186
Within two to five years	1,451	1,451
After five years	1,266	1,647
Total	3,080	3,284
Less: future finance charges	(472)	(578)
Present value of lease obligations	2,608	2,706
Less: Amount due for settlement within 12 months (shown under current liabilities)	(264)	(81)
As at 31 December	2,344	2,625

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

	31 Dec 2022 £000	31 Dec 2021 £000
Within one year	264	81
Within two to five years	1,165	1,121
After five years	1,179	1,504
	2,608	2,706

17 Provisions

	31 Dec 2022 £000	31 Dec 2021 £000
Company		
At 1 January	120	260
Charged to income statement	(93)	(140)
At 31 December	27	120

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

	31 Dec 2022 £000	31 Dec 2021 £000
Non-current	27	120
	27	120

The Company provision of £27,000 (2021: £120,000) relates to the cost of the dilapidations in respect of its occupied leasehold premises.

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

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

18 Financial instruments

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

	31 Dec 2022		31 Dec 2021	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Company				
Forward exchange contracts - cash flow hedges	527	-	-	264
Total derivatives designated as hedging instruments	<u>527</u>	<u>-</u>	<u>-</u>	<u>264</u>

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

Currency derivatives

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

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

	2022 £000	2021 £000
Forward foreign exchange contracts - Polish Zloty	<u>13,045</u>	<u>8,865</u>

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

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

At 31 December 2022, the fair value of the Company's currency derivatives is estimated to be an asset of approximately £527,000, (2021: £264,000 of liabilities), based on quoted market values.

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

The ineffectiveness recognised in the income statement for the year ending 31 December 2022 was £43,000 (2021: £nil). The amount recycled to the income statement in respect of contracts that matured in 2022 was a loss of £187,000 (2021: £nil).

The effective fair value gain from hedging recognised in other comprehensive income during the year ending 31 December 2022 was £604,000 (2021: expense of £193,000).

APTITUDE SOFTWARE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 December 2022

19 Share capital

	Number	2022 £000	Number	2021 £000
Issued and fully paid:				
Ordinary shares of 1p each				
At 1 January	250,000,000	2,500	250,000,000	2,500
At 31 December	<u>250,000,000</u>	<u>2,500</u>	<u>250,000,000</u>	<u>2,500</u>

20 Other reserves

Other reserves	Derivatives hedge reserve £000
At 1 January 2021	(71)
Cash flow hedges	
- net fair value losses in the year	(193)
At 31 December 2021	<u>(264)</u>
Cash flow hedges	
Cash flow hedges reclassified to income statement	187
Gain on cash flow hedges	604
Deferred tax on cash flow hedges	(132)
At 31 December 2022	<u>395</u>

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21 Retirement benefit schemes

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

The total expense recognised in the income statement of £618,000 (2021: £560,000) represents contributions payable to these plans by the Company at rates specified in the rules of the plans. As at 31 December 2022, contributions of £17,000 (2021: £15,000) due in respect of the 2022 reporting year had not been paid over to the plans and were included within accruals. The amounts were paid subsequent to the balance sheet date.

22 Share based payments

A proportion of the Company's employees had been granted share options by the ultimate parent undertaking, Aptitude Software Group plc through its various Share Plans and consequently, the Company has recognised an expense which represents the equity-settled share-based payment transactions. Full details of the Group's various share plans are disclosed in note 30 of Aptitude Software Group plc's 2022 Annual Report and Financial Statements.

The Company recognised total expenses of £398,000 (2021: £467,000) related to equity-settled share-based payment transactions during the year. After deferred tax, the total charge in the income statement was £318,000 (2021: £395,000). There was a deferred tax charge of £139,000 (2021: credit of £59,000) and a corporation tax charge of £267,000 (2021: credit of £263,000) taken directly to equity.

23 Financial commitments, guarantees and contingent liabilities

The Company entered into a cross guarantee on 14 October 2021 in respect of the loan agreement between the ultimate parent undertaking Aptitude Software Group plc and Bank of Ireland consisting of a £10 million term loan in addition to a revolving credit facility of £10 million. At 31 December 2022 Aptitude Software Group plc had a total loan balance of £9.60 million (2021: £10.00 million) in respect of this facility.

24 Immediate and ultimate parent undertaking

The immediate and ultimate parent undertaking and controlling party is Aptitude Software Group plc, a company incorporated in England. Aptitude Software Group plc is also the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements. The financial statements of Aptitude Software Group plc are available from 8th Floor, 138 Cheapside, London EC2V 6BJ and on the Company's website www.aptitudesoftware.com.